



FY2024 audit plan

The PwC audit

For when trust matters

Report to the **Committee on Compliance and Audit**



This report and the information that it contains is intended solely for the information and use of those charged with governance and, if appropriate, management, and is not intended to be, and should not be used by anyone other than these specified parties.





April 9, 2024

Dear Members of the Committee on Compliance and Audit:

An audit is fundamentally about trust, as it can help enhance confidence in an entity's information. Driven by a quality-first mindset, our people deliver an innovative audit that focuses on sharper risk assessment, effective and efficient execution and insights. We continue to be inspired by the higher ideals of our profession, particularly independence and objectivity, and our legacy of bringing increased confidence to the financial statements.

Building on audit quality towards greater trust

We have an unwavering commitment to audit quality because a high quality audit is foundational and more important than ever before. In addition, as companies respond to rising expectations on a broader set of topics such as Climate and AI, among others, the need for confidence is increasing. To meet this moment, we are investing in and evolving our audit procedures, technology, and professionals.

The pace of development in standards and technology, combined with increasing stakeholders' expectations, is transforming how entities are evaluated and how we perform our audits. As such, we are continually investing in market-leading technology (including AI), deep industry expertise and technical acumen to reimagine your audit experience.

This report was prepared based on meetings with and insights from management, consideration of University's operating environment, and our risk assessment procedures, including considerations of any year-to-date activities. As in past years, our audit approach will remain responsive to the University's environment and any macroeconomic influences. Any significant changes to our audit plan will be shared and discussed with the Committee on Compliance and Audit at a future meeting.

Discussion of our audit plan helps to ensure our PwC engagement team members understand what matters to you. Together, we can agree on mutual audit needs and expectations, enabling us to provide you with the highest level of service, audit quality, and value. Additionally, the information included within this report allows the Committee to understand the judgments we have made in planning and scoping our audit procedures. We remain committed to candid discussions with the Committee and management, delivering a quality audit, as well as providing an independent point of view. We welcome your feedback throughout the audit.

We are excited to continue to bring you The PwC Audit. Thank you for your continued trust in and support of us as your auditors. If you have any questions or wish to discuss any other matters prior to our meeting, please do not hesitate to contact me at will.cobb@pwc.com.

Very truly yours,

Will Cobb
Engagement Partner

cc: Nathan Brostrom, Executive VP – Chief Financial Officer

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Our approach





Audit objectives

Our primary objectives are to:

- Perform audits in accordance with auditing standards generally accepted in the United States of America and, as applicable, *Government Auditing Standards* (GAGAS), to obtain reasonable assurance the financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and are free from material misstatement whether caused by error or fraud,
- Render opinions on the financial statements as of June 30, 2024 and for the year then ending, and
- Perform an audit of the University's compliance with federal award requirements in accordance with OMB Uniform Guidance.

Our audits do not relieve management of its responsibilities with regard to the financial statements.

An audit of financial statements includes obtaining an understanding of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting.

Our audit deliverables

- Opinion on the financial statements of the University, the aggregate discretely presented component units and the aggregate remaining fund information
- Opinions for each of the five individual Medical Centers' financial statements,
- Opinions pertaining to the UC Retirement System, including an opinion on the financial statements of the University's combined defined benefit plans and an opinion on the financial statements of the University of California Retirement Savings Program (UCRSP)
- Opinion on the University of California Retirement Plan's schedule of cash contributions
- Report on the University's compliance with laws, regulations, and provisions of contracts and grant agreements and on our consideration of its internal control over financial reporting
- Report on the University's compliance with requirements applicable to federal grants and contracts in accordance with OMB Uniform Guidance

Other services/comments

- Procedures in connection with periodic bond offerings, as applicable
- We continue to work with University management to expand its use of small business service providers for external audit and attest services. To the extent that other accountants contribute to or complete any of the above audit deliverables, we will update the Committee.

Note: The University's affiliated foundations, including campus foundations, and Fiat Lux Risk and Insurance Company ("Fiat Lux") have separate audits of their financial statements and the auditors reporting on those organizations are directed to their respective audit committees. Accordingly, this Audit Plan is not focused on the specifics of these entities. However, to the extent audit matters arise from those locations that warrant the attention of the Committee, we will ensure those matters are communicated.



Risk assessment results

Significant risk (*pervasive*)

Management override of controls

Planned audit response

We consider the incentives, pressures, and opportunities for management to commit fraud. We evaluate the design of internal controls as well as perform substantive tests of details for significant risk areas including testing journal entries, understanding and testing any significant unusual transactions, and evaluating estimates and assumptions utilized by management that could have a material impact on the financial statements. We will incorporate elements of unpredictability into our audit and conduct fraud inquiries of numerous individuals throughout the University. This pervasive inherent risk applies to all of our University financial statement audits.

Medical Centers Significant risk (*valuation*)

Risk of fraud in revenue recognition – Net patient accounts receivable is over/understated due to management's judgment in recording material out-of-model adjustments (patient A/R)

Planned audit response

In response to the risk associated with the estimates and assumptions made related to the valuation of collectability for unpaid revenue, we evaluate each medical center location's process and model utilized in order to design specific targeted procedures to address the assumptions that could have a material impact on the financial statements. Audit procedures considered include testing management's model, performing historical cash collection look-back analysis, testing of cash collections after the end of the year, and detailed testing of patient file records. This significant risk (as defined above) applies to the stand-alone financial statements of each of the University's medical centers, but not to the University's financial statements taken as a whole.

Additional note: Our risk assessment process is continuous throughout the audit process. Several of the Medical Centers have or will be completing acquisitions in fiscal 2024. Such transactions are evaluated to determine the applicable accounting model, the potential impact on the University financial reporting entity (including the identification and classification of component units, if any) and the basis of accounting to be applied at the acquisition date. Such transactions often give rise to risks regarding the valuation of certain acquired assets or assumed liabilities, including property, plant, and equipment. To the extent that we determine our risk assessment gives rise to significant or elevated risks of material misstatement, we will update the Committee at a future date.



Risk assessment results

Other areas of focus

In addition to the significant risks identified on the previous page, we have identified the areas below that are not considered significant or elevated risks but are areas of focus during the audit due to materiality of the balance or complexity/judgment involved in the accounting. Such audit areas are subject to material accounting policies and/or judgments and are considerations as we develop our current year audit approach.

- Accounting and reporting for actuarially determined estimates (defined benefit plan and retiree health benefit obligations).
- Determination of which entities are to be included as component units under GASB reporting guidelines due to their significance and the nature of the University's relationship with the entities.
- Valuation of alternative investments.
- Capitalization of fixed assets, particularly related to construction activity.
- Notes and bonds payable liabilities.
- Presentation and disclosure of the financial statements.
- Treatment of related party transactions with the University, as applicable to the separately-issued financial statements of the medical centers and benefit plans.

Uniform Guidance reporting and compliance risk

Although not considered a significant risk from a financial reporting standpoint, we also focus our audit procedures on regulatory compliance, including with federal grants, and continued focus on compliance processes and controls over the University's federally sponsored programs. These procedures are performed in connection with our OMB Uniform Guidance audit. The responsibilities surrounding the federal monies received bring about reputational risk and potential regulatory ramifications were there to be non-compliance with federal regulations.



Scoping

Our audit strategy is based on a top-down, risk-based audit approach. Fundamental to our audit approach is an understanding of

The size and complexity of the business and its environment

The design and implementation of entity-level controls (ELCs) and information technology general controls (ITGCs)

Management's process for evaluating internal control over financial reporting.

We identify significant accounts and disclosures and relevant assertions considering quantitative and qualitative factors, based on whether there is a reasonable possibility the account could contain a misstatement that, individually or when aggregated with others, could have a material effect on the financial statements.

We determine the materiality level for the financial statements as a whole for purposes of (1) identifying and assessing risks of material misstatement and (2) for determining the nature, timing and extent of audit procedures.

We consider quantitative and qualitative factors, as well as metrics used by the users of the financial statements. Materiality was preliminarily determined based on total assets and total revenues..

In an audit of the financial statements of an entity with operations in multiple locations and business units, we determine the extent to which audit procedures should be performed at selected locations and who will perform those procedures to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

Fraud and related-party items for discussion:

We are required to make certain inquiries of the Committee on Compliance and Audit related to fraud risks. In addition, as part of our overall response to fraud risk, we incorporate unpredictability into our audit by modifying the nature, timing, and extent of our procedures.

Fraud items for discussion:

- Programs and controls in place to mitigate the risk of fraud and error
- Specific concerns about the risk of error or fraud
- Any actual, alleged or suspected fraud
- Oversight of the University's assessment of fraud risks and mitigating controls
- Significant unusual transactions
- Understanding of the University's relationships and transactions with related parties
- Concerns regarding related-party relationships and transactions
- Violations or possible violations of law

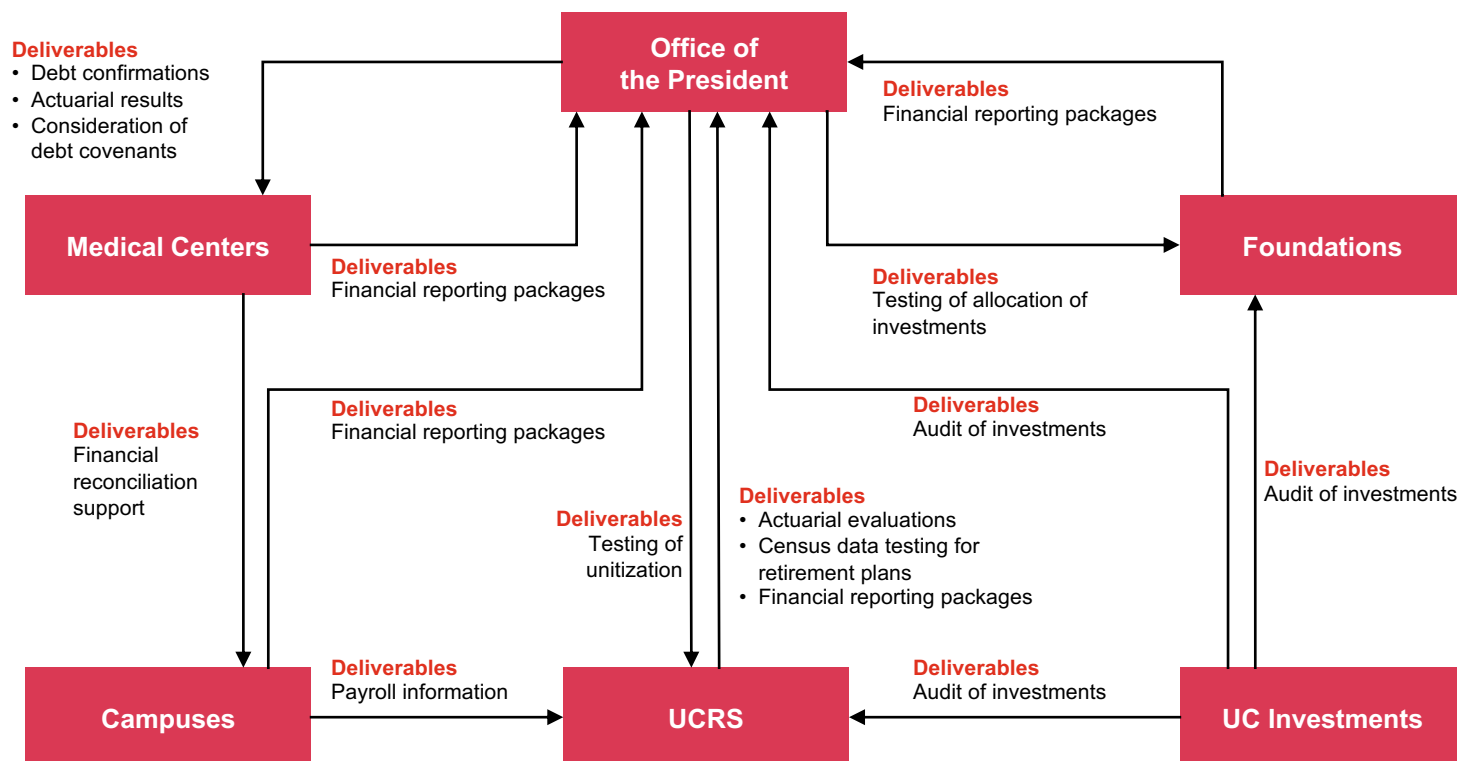
Multilocation audit scoping

PwC has adopted a consistent approach for our audit procedures at all University and University-related entities. We have developed standardized reporting templates and common audit programs and approaches to achieve consistency and effectiveness. As a result, our reporting structure allows for local teams who understand the unique aspect of each entity but who work within the framework of a common reporting structure.

We have taken the following steps to ensure the overall quality of the audit engagement:

- Prepared and communicated a centrally determined audit scope and plan.
- Established a framework for continuous communications throughout our engagement teams.
- Adherence to engagement timelines to achieve your reporting objectives.

The multi-location engagement team is aligned to the University's geographical organization and mirrors the management control structure of the University. This structure, coupled with centralized engagement management, leverages the expertise of our local professionals who can respond directly to questions at each location. The following depicts the organization and flow of information among the different component audit teams.





Scoping results

Entity/Business unit	Financial statement scoping
Office of the President and UC Investments	Audit procedures are performed as necessary at these locations in order to issue an opinion on the financial statements of the University. We also take into consideration in our audit scope for these locations the requirements of the medical centers' audits, the UCRS audits and the audits of the affiliated foundations. For example, the investment work we perform related to UC investments is tailored to be able to support the needs of these various standalone reports.
Medical Centers and UCRS	As described throughout this document, we perform audits of the financial statements for each of the five University medical centers, and the University retirement system, which consists of multiple benefit plans.
Campuses	We perform specific audit procedures at the campus locations as needed to achieve sufficient coverage to express an opinion on the University's financial statements. We are in the process of determining which locations will be in scope in the current year.
Foundations	The audits of the campus foundations are performed by separate foundation audit teams. However, as the aggregate financial statements of the campus foundations are presented discretely in the University's financial statements, we coordinate with and rely upon the work performed by the campus foundation teams.

Considerations for scoping accounts or disclosures include:

- Size and composition of the account;
- Susceptibility to misstatement due to errors or fraud;
- Volume of activity, complexity and homogeneity;
- Nature of the account or disclosure;
- Changes from prior period in account or disclosure characteristics;
- Accounting and reporting complexities;
- Exposure to losses in the account;
- Possibility of significant contingent liabilities;
- Existence of related party transactions;
- Complexity, subjectivity and/or uncertainty related to accounting estimates

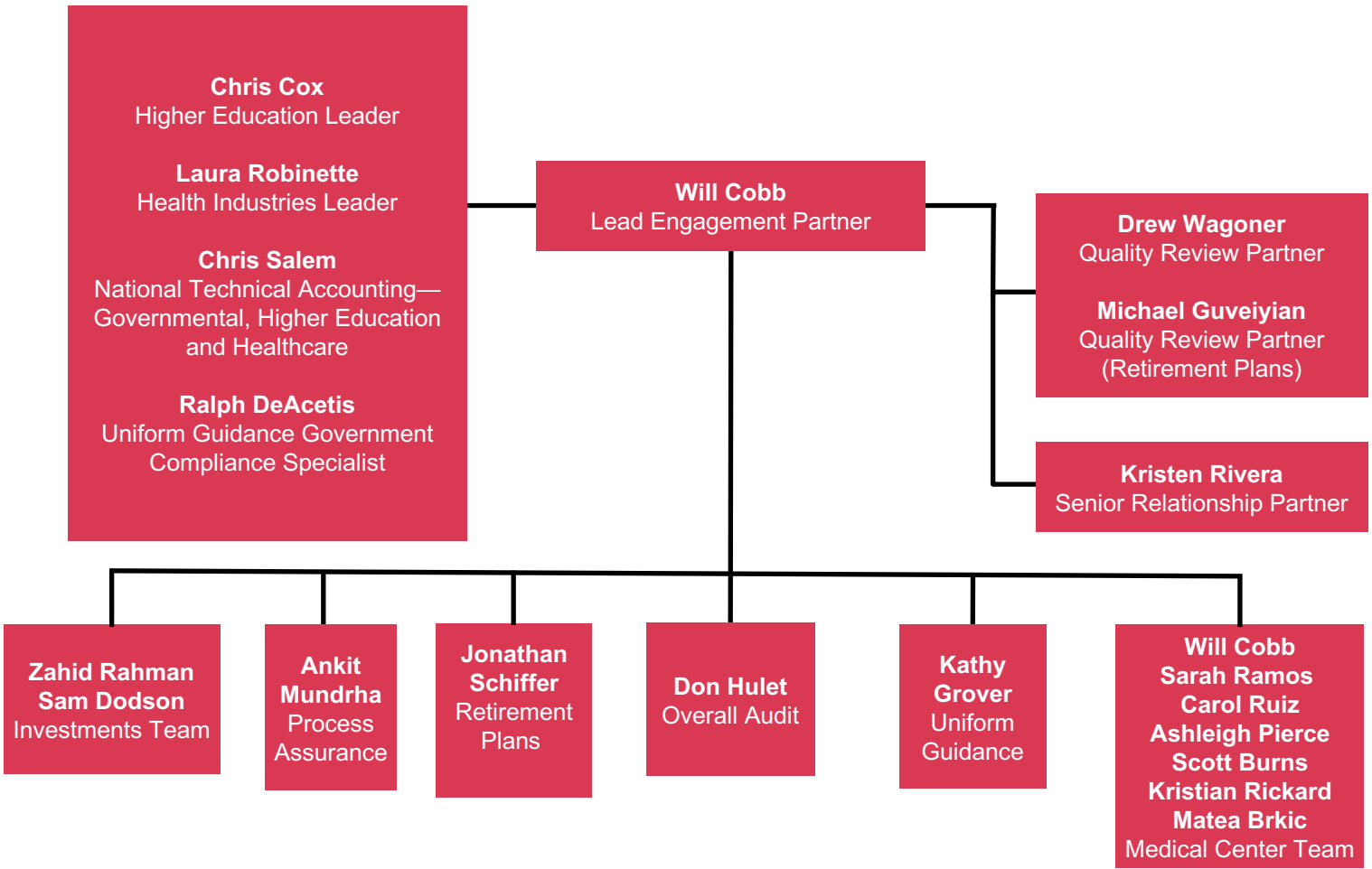


Our team and how we will deliver



Your audit team

Inspired. Inspiring. People you can count on to make a difference.



The people + tech is our foundation

Centers of Excellence

Centralizing work, standardizing procedures, and leveraging specialized skill sets

Acceleration Centers

Diverse, global talent pools help deliver quality, client service excellence and operational efficiency








People-led innovation

Equipping our people with the upskilling and tools to personalize the audit experience



Specialists

The University operates in a highly complex environment, requiring additional expertise beyond traditional audit resources. During the course of our audits, we will utilize functional experts to evaluate key areas of your business risks—the valuation of pension and postemployment benefit obligations, valuation of certain investments, and third-party payer settlements. Drawing upon their best practice knowledge, our team will provide points of view related to your business, industry and regulatory compliance. These specialists also will ensure that we have the right resources to achieve our audit objectives. Accordingly, our PwC engagement team will include the following specialists who will work with our audit teams and management at your business units to assist us in executing our audit:

Area of expertise		Description
	Technical accounting	Analysis and review of technical accounting matters in government and higher education
	Financial services valuation	Assistance with valuation of investments and related disclosures
	Compensation and benefit plans	Review actuarial assumptions relating to valuation of benefit plan obligations
	Health reimbursements	Review third party account transactions subject to complex rules and interpretation
	Information technology	Assessment of design and implementation of IT and application controls
	Regulatory compliance	Review the University's Uniform Guidance report and provide perspective on federal agencies' monitoring and expectations of award recipients
	Real estate & property valuation	Assistance with the valuation and purchase price allocations related to certain Medical Center acquisition transactions.

Focusing on the right risks

Like your business strategy, our approach is not standard, but tailored to you. Starting with our risk assessment, we combine deep, dynamic, tech-enabled analysis with the digital skills, technical knowledge and professional judgment of our people to focus work on areas of relevant risk.



Timeline and communication plan

Planning

Meet with management to understand the University's activities and assess risk; and obtain update of operating plans and activities. Hold systemwide kick-off meetings.

Assess significant audit risks and materiality.

Complete preliminary scoping of accounts, processes and locations.

Meet with the Committee to discuss service plan.

Coordinate with PwC engagement teams and issue instructions for the audits of the University, medical centers, and retirement plan financial statements as well as Uniform Guidance testing procedures.

Completion

Issue financial statement audit opinions

Meet with the Committee to communicate results of year-end audit and any relevant internal control findings.

January – April

May - September

October - November

December - February

Execution

Ongoing consultations on significant issues and developments.

Perform understanding and testing of internal controls.

Evaluate nature, timing and extent of substantive procedures based on controls testing.

Perform interim and year end audit procedures for financial statement audits and initiate testing for Uniform Guidance audits.

Other reporting

Complete remainder of testing and issue report on Uniform Guidance compliance

Debrief on prior year financial statement audit and initiate preparations for next year's audit

Our time-tested issues resolution process:

- Issues don't wait. We welcome your calls anytime.
- Engagement Leader acts as the voice of the firm on all accounting matters, with access to subject matter specialists
- Regular communications, open dialogue, and transparency throughout the process



Our shared responsibility for independence

Compliance with the auditor independence rules continues to be a shared responsibility between a company's management and its independent auditor.

This shared responsibility includes monitoring certain areas to satisfy, as applicable, the independence requirements of the AICPA. For example:

- It is important for management to notify PwC in advance of the effective date, of changes in circumstances that may affect the population of potential entities with respect to which independence requirements apply (e.g. acquisitions/divestitures/equity investments or other transactions), as well as changes leading to new officers, directors, or beneficial owners not previously identified.
- If PwC is providing impermissible non-audit services to, or has other prohibited relationships with, an entity with respect to which independence requirements will apply (e.g., a prospective new affiliate pursuant to a merger or acquisition), such services and/or relationships will need to be identified and evaluated prior to the effective date of the transaction and actions will most likely be needed to cease or restructure the impermissible services and/or relationships.
- If a PwC partner or staff member is seeking or discussing potential employment with an audit client, this can have independence implications such that the individual would have to be removed from the engagement if providing services to the client.

We need to work together with management proactively to avoid relationships that might jeopardize our independence - that is our view and the expectation of our stakeholders.

The following PwC and management working practices have been discussed with management to support this communication on a timely basis such that PwC has sufficient time to complete the necessary independence assessment.

Actions	PwC	Management
Frequent inquiries with management	X	
Ongoing monitoring of affiliate listing and Regents' website	X	
Timely communication of any new officers, Regents or affiliates		X

Inside our independence processes:

Independence is the cornerstone of our profession. We're investing in our people and technology to ensure compliance with these rules through the following:

- **Continuous monitoring and training:**
 - Required independence training for all partners and staff
 - Global tracking of Authorizations for Services (AFS) through Salesforce
 - Global use of an independence monitoring system for personal affiliations used by all partners and staff
- **Tech-enabled compliance:** Independence confirmation system that automatically generates and sends confirmations to US partners and staff at the commencement of their work on an engagement.

In signing the engagement letter, the University agrees to inform PwC periodically about the identity of each affiliate/beneficial owner and to **notify PwC in advance regarding any expected addition or removal of an affiliate/beneficial owner.**



Other required communications

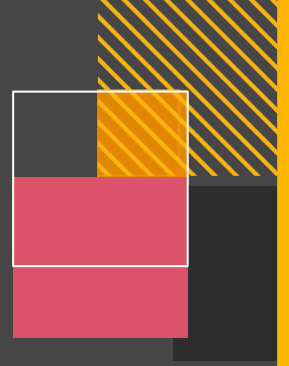


Other required communications

Matter to Report	Comments
Independence	<p>There were no relationships or other matters that occurred or were identified subsequent to the date of our most recent independence communication to the members of the Committee that might reasonably be thought to bear on independence.</p> <p>In accordance with the AICPA's Code of Professional Conduct, we are required to communicate a breach of external independence requirements to you as soon as possible or in line with a communication protocol that is confirmed in writing. As of the date of this report, we are not aware of any breach of external independence requirements.</p>
Significant issues discussed with management prior to appointment or retention	<p>There were no significant issues discussed with management in connection with the retention of PwC.</p>
Non-compliance with laws and regulations and illegal acts	<p>Other than matters previously disclosed to you by University management, we are not aware of any instances of non-compliance with laws and regulations.</p>
Other information included in the Annual Report	<p>We are required to communicate to you our responsibility with respect to other information, the procedures performed related to the other information, and the results.</p> <p>These standards require that we read other information, whether financial or nonfinancial, included in the University's annual report and consider whether a material inconsistency exists between the other information and the financial statements and to remain alert for indications that</p> <ul style="list-style-type: none">• A material inconsistency exists between the other information and the auditor's knowledge obtained in the audit, and/or• A material misstatement of fact exists, or the other information is otherwise misleading. <p>We assume no obligation to perform procedures to corroborate such other information as part of our audit.</p> <p>As of the date of this letter, management has informed us that they intend to issue other information. We will be required to obtain written acknowledgment from management as to the documents which comprise the annual report and the planned manner and timing of issuance of these documents.</p>
Obtain information relevant to the audit	<p>We will inquire of the Committee on Compliance and Audit about whether it is aware of matters relevant to the audit and about the risks of material misstatement.</p>



Appendices





Glossary

Elevated risk

A risk that requires additional audit consideration beyond what would be necessary for a normal risk, but it does not rise to the level of a significant risk because of the nature, the likely magnitude of the potential misstatements, or the likelihood of the risk occurring. Elevated risks frequently will be risks that we will discuss with management and the Committee of the entity, but that do not rise to the level of a significant risk.

Fraud

An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception that results in a misstatement in the financial statements that are the subject of an audit. Two types of intentional misstatements are relevant: misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

Risk assessment procedures

The procedures performed by the auditor to obtain information for identifying and assessing the risks of material misstatement in the financial statements whether due to fraud or error.

Normal risk

Relates to a range of situations, and may include routine transactions subject to systematic processing, as well as more complex transactions where judgment is required. Normal risks do not rise to the level of a significant risk because of either the magnitude of potential misstatements that could result from the risk or the likelihood of the risk occurring.

Significant risk

A risk of material misstatement that requires special audit consideration.



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