



Approved

COMMITTEE ON COMPLIANCE AND AUDIT

March 29, 2012

TO THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

1. **APPROVAL OF THE SCOPE OF THE EXTERNAL AUDIT FOR THE YEAR ENDING JUNE 30, 2012**

The Committee recommends that the scope of the external audit of the University for the year ending June 30, 2012, which includes the following reports, be approved:

- A. University of California system
- B. Annual financial reports for each of the University of California Medical Centers
- C. University of California Retirement Plan, including the PERS-VERIP Plan, University Retirement Savings Program, including the Defined Contribution, 403(b) and 457(b) Plans
- D. National Collegiate Athletic Association (NCAA) audit procedures
- E. Federal grants and contracts (A-133) audit

2. **APPROVAL OF EXTERNAL AUDIT PLAN FOR THE YEAR ENDING JUNE 30, 2012**

The Committee recommends that the external audit plan of the University for the year ending June 30, 2012, as shown in Attachment 1, and the fees shown in Attachments 2 and 3, be approved.

Audit Reports and Services

Audit Scope

PricewaterhouseCoopers has adopted a consistent approach for our audit procedures. We scope our work to perform an audit of the various financial statements. Overall we must achieve sufficient coverage to express an opinion on the University's consolidated financial statements as a result of our audit conducted in accordance with GAAS and GAS as well as on the individual Medical Center and employee benefit plan and related trust financial statements.

A-133 Reporting

Additional procedures are required for performing an audit of compliance with requirements applicable to each major federal program in accordance with GAS. At the time of preparing this report, we have identified two major programs (research and development and student financial aid) that will be subject to our OMB Circular A-133 audit for the year ending June 30, 2012. We expect that one or two additional programs requiring audit as part of the 2012 A133 work will be identified as part of the preparation of the 2012 Schedule of Expenditures and Federal Awards. Should additional major programs be identified that are required to be audited as part of the 2012 A-133 audit, we will alert the Committee of this.

PwC Services to the University

In addition to our audits, we provide advice on emerging accounting and reporting issues and provide certain other services including those listed below. Prior to commencing any services, we are required to obtain preapproval from the Committee or the Committee's designee pursuant to the University's preapproval policy for its independent auditor.

<p>Audit Opinions</p>	<ul style="list-style-type: none"> ■ Report on the consolidated financial statements of the University of California ■ Reports on the financial statements of each of the five Medical Centers ■ Report on the University of California Retirement System ■ Reports in accordance with OMB Circular A-133, including: <ul style="list-style-type: none"> - Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> - Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance
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Internal Control Observations	<ul style="list-style-type: none"> ■ Report to the Committee on control and process deficiencies and observations, including material weaknesses and significant deficiencies (Regents Letter) ■ Reports to the campus Chancellors on control and process deficiencies and observations (Chancellor Letters)
Agreed-Upon Procedures	<ul style="list-style-type: none"> ■ Agreed-upon Procedures related to the sale of Mortgage Origination Program and Supplemental Home Loan Program loans ■ Agreed-upon Procedures related to the 415(m) plans ■ Agreed-upon Procedures on Intercollegiate Athletic Departments (NCAA requirements) for six campuses
Other Services	<ul style="list-style-type: none"> ■ Reviews in connection with bond offerings ■ Accounting consultations and other assistance associated with emerging accounting and reporting issues and complex transactions
Committee Reporting	<ul style="list-style-type: none"> ■ Audit and communications plan ■ Results of audits and required communications

**PricewaterhouseCoopers
Audit Fees**

	<u>Actual 2010</u>	<u>Actual 2011</u>	<u>2012</u>
Core Audit, including expenses			
UC	\$ 3,992,000	\$ 3,619,000	\$ 3,619,000
National Laboratories	<u>69,400</u>	<u>62,000</u>	<u>62,000</u>
	4,061,400	3,681,000 ⁽²⁾	3,681,000
Required Scope Changes:			
Recurring - see detail below	50,000	-	(58,100) ⁽¹⁾
3.5% increase			126,800 ⁽³⁾
Sub-total Core Audit Cost	<u>4,111,400</u>	<u>3,681,000</u>	<u>3,749,700</u>
Expanded Scope at the National Laboratory (Berkeley)	132,600	-	-
Total Audit Cost	<u>\$ 4,244,000</u>	<u>\$ 3,681,000</u>	<u>\$ 3,749,700</u>

⁽¹⁾ Ongoing scope changes originating in each year are included in the Core Audit costs for the following year. They are:

<u>Scope changes</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
New GASB pronouncements	\$ 50,000		
Changes in audit scope			(58,100) ⁽⁴⁾
	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ (58,100)</u>

⁽²⁾ For FY11 PwC has agreed to reduce fees by net of 10% over the FY10 fees. After applying the 5% fee increase originally approved by the Regents for FY11, fees were reduced by 15%, resulting in a net reduction of approximately 10% as compared to FY10.

⁽³⁾ For FY12, UC agreed to increase the fees by 3.5% over the FY11 fees.

⁽⁴⁾ Reduction in fee due to report changes made by University of California for the benefit plan reports. Additionally, the bond audit report is no longer required.

PricewaterhouseCoopers
Audit and Consulting Fees ⁽¹⁾
2010 and 2011

Year	Core Audit	Other Audits	Audit Related	Consulting	Ratio of Consulting to Core Audit	Ratio of Consulting to Core Audit, other Audit and Audit Related Services
2010	4,111,400 ⁽¹⁾	920,509 ⁽²⁾	896,659 ⁽³⁾	160,738 ⁽⁵⁾	4%	3%
2011	3,681,000 ⁽¹⁾	851,431 ⁽²⁾	309,969 ⁽⁴⁾	47,537 ⁽⁵⁾	1%	1%

⁽¹⁾ Fees are generally allocated to the fiscal year under audit for audit services and to the year performed for consulting projects, if any. Ongoing scope changes originating in each year are included in the core audit costs for the following years.

⁽²⁾ Primarily fees related to auditing the campus foundations and ASUCLA.

⁽³⁾ Relates primarily to tax compliance, LBNL expanded procedures, UCSF compliance attestation engagement, West Village leasing consultation, UCSF MC IT cost review and UCI MC Eclipsys implementation assessment.

⁽⁴⁾ Relates primarily to tax compliance, CFIA audits, and agreed upon procedures

⁽⁵⁾ Relates to Payroll Assessment/Activity Analysis Survey.