

# University of California

## Although the University Maintains Extensive Financial Records, It Should Provide Additional Information to Improve Public Understanding of Its Operations

### REPORT NUMBER 2010-105, ISSUED JULY 2011

The report concludes that the University of California (university) budgeted widely varying amounts to its 10 campuses. For fiscal year 2009–10, the per-student budget amount ranged from \$12,309 for the Santa Barbara campus to \$55,186 for the San Francisco campus. Although the university identified four factors that it believes contributed to the differing budget amounts, it did not quantify their effects. The university can also improve the transparency of its financial operations. Despite the university's recent efforts to improve the transparency of its budget process, it should take additional steps to increase the ability of stakeholders to better hold the university accountable for how it distributes public funding to various campuses, and to reduce the risk that the allocation process may be perceived as inequitable. Further, although the university publishes annually a report of the campuses' financial schedules, it could provide other information including beginning and ending balances for individual funds and could publish consistent information for its auxiliary enterprises. We further reported that the Office of the President needs to more precisely track about \$1 billion of expenses annually that it currently tracks in a single accounting code—Miscellaneous Services—and that a recent change in university policy allows campuses to subsidize auxiliary enterprises with funding from other sources, despite the intent that they be self-supporting. Finally, we discovered two instances when the university designated \$23 million in student funding to pay for capital projects on the Los Angeles campus that were not authorized by the student referendum establishing the fee.

In the report, the California State Auditor (state auditor) made the following recommendations to the university. The state auditor's determination regarding the current status of recommendations is based on the university's response to the state auditor as of July 2012.

#### **Recommendation 2.1—See pages 31—38 of the audit report for information on the related finding.**

To address the variations in per-student funding of its campuses, the university should complete its reexamination of the base budgets to the campuses and implement appropriate changes to its budget process. As part of its reexamination of the base budget, it should:

- Identify the amount of general funds and tuition budget revenues that each campus receives for specific types of students (such as undergraduate, graduate, and health sciences) and explain any differences in the amount provided per student among the campuses.
- Consider factors such as specific research and public service programs at each campus, the higher level of funding provided to health sciences students, historical funding methods that favored graduate students, historical and anticipated future variations in enrollment growth funding, and any other factors applied consistently across campuses.
- After accounting for the factors mentioned earlier, address any remaining variations in campus funding over a specified period of time.
- Make the results of its reexamination and any related implementation plan available to stakeholders, including the general public.

***University's Action: Partially implemented.***

The university stated that it established a systemwide workgroup consisting of chancellors and other campus leadership, faculty representatives, and leadership from the Office of the President to examine variations in funding across the system. It also indicated that this workgroup reviewed the base budgets and considered alternatives for adjusting distribution formulas, but did not attempt to quantify the existing variation. The workgroup completed its work and forwarded its findings to the university president for his consideration. The university stated that other constituencies are also reviewing the documents. According to the university, the core principles and recommendations offered by the workgroup create a framework that will form the basis of allocations of State General Funds going forward. It further stated that the framework calls for allocations of state funds to be based on a per-student calculation. The workgroup recommended a six-year timeframe for implementation. The university posted the workgroup's results on the Office of the President's Web site.

**Recommendation 2.2.a—See pages 38—40 of the audit report for information on the related finding.**

To help improve accountability in the university's budget process, and to help minimize the risk of unfair damage to its reputation, the university should take additional steps to increase the transparency of its budget process. Specifically, the Office of the President should continue to implement the proposed revisions to its budget process.

***University's Action: Fully implemented.***

The university stated that it has implemented proposed revisions to its budget process for fiscal year 2011–12. Specifically, it stated that these changes resulted in individual campuses retaining all student tuition and fee revenue, all research indirect cost recovery funds, and all other campus-generated funds.

**Recommendation 2.2.b—See pages 38—40 of the audit report for information on the related finding.**

To help improve accountability in the university's budget process, and to help minimize the risk of unfair damage to its reputation, the university should take additional steps to increase the transparency of its budget process. Specifically, the Office of the President should update its budget manual to reflect current practices and make its revised budget manual, including relevant formulas and other methodologies for determining budget amounts, available on its Web site.

***University's Action: Partially implemented.***

The university stated that the Office of the President is developing a new budget manual describing current budget practices. It also indicated that the work is still underway, but due to budget cuts and staff shortages, completion likely will be delayed a year beyond its scheduled July 2012 completion date. The university stated that it will publish the manual on its Web site when it is completed.

**Recommendation 2.2.c—See pages 38—40 of the audit report for information on the related finding.**

To help improve accountability in the university's budget process, and to help minimize the risk of unfair damage to its reputation, the university should take additional steps to increase the transparency of its budget process. Specifically, the Office of the President should continue its efforts to increase the transparency of its budget process beyond campus administrators to all stakeholders, including students, faculty, and the general public. For example, the Office of the President could make information related to its annual campus budget amounts, such as annual campus budget letters and related attachments, available on its Web site.

***University's Action: Pending.***

The university stated that it implemented changes to its budget process that result in individual campuses retaining campus-generated revenues, including all student tuition and fee revenue, indirect cost recovery funds from research, and other sources. According to the university, this change will increase the transparency of its budget. It also stated that it is reviewing the information about budget allocations currently available on its Web site, as well as other financial information made available on systemwide and campus Web sites.

**Recommendation 3.1—See pages 49—51 of the audit report for information on the related finding.**

To increase the transparency of university funds, the Office of the President should make available annually financial information regarding its funds, including beginning and ending balances; revenues, expenses, and transfers; and the impact of these transactions on the balances from year to year.

***University's Action: Pending.***

The university stated that it continues to analyze data and explore alternatives to consistently report unspent balances that are carried over to future years. It expects to include this information in its fiscal year 2012–13 reports.

**Recommendation 3.2—See pages 52—55 of the audit report for information on the related finding.**

To ensure that the campus financial information published by the Office of the President can be better evaluated by interested stakeholders, the university should disclose instances in which campuses subsidize auxiliary enterprises with revenues from other funding sources and should disclose the sources of that funding.

***University's Action: Partially implemented.***

The university stated that after gathering and analyzing data for fiscal year 2010–11, it identified \$1.4 million in campus unrestricted funds used to support auxiliary organizations. Two of the organizations were recently closed. The university also stated that it plans to continue to monitor this information annually. However, the university's response did not address disclosure to interested stakeholders nor identify the source of the funds used to subsidize auxiliary organizations.

**Recommendation 3.3—See pages 51 and 52 of the audit report for information on the related finding.**

To improve the transparency of its expenses, the university should identify more specific categories for expenses that are recorded under the Miscellaneous Services accounting code and should implement object codes that account for these expenses in more detail.

***University's Action: Partially implemented.***

The university stated that each campus implemented procedures for fiscal year 2011–12. It also indicated that it expects miscellaneous services will decrease by 90 percent over the next two fiscal years as other more appropriate accounts are used to report the expenses.

**Recommendation 3.4—See pages 55—57 of the audit report for information on the related finding.**

To ensure that campuses do not inappropriately use revenues generated from student fees imposed by referenda, the university should ensure that it, the regents, and the campuses do not expand the uses for such revenues beyond those stated in the referenda.

*University's Action: No action taken.*

➤ The university does not agree with this recommendation. The university maintains that the Regents of the University of California (regents) and, by delegation, the university president retain authority to modify the terms of collection and uses of revenue for all campus-based fees, including those established by campus-based referenda. It also stated that it will request approval at a future regents meeting for changes to the policy to clarify its position.

Further, the university indicated that it is collaborating with campuses on efforts to avoid the need for the Office of the President to change referenda language. When student referenda for campus-based fees are in the planning stages on the campus level, campuses frequently send draft referenda language to the Office of the President before printing the final language on student ballots. The language is circulated among budget and capital resources, general counsel, and student affairs staff within the Office of the President for review and comment. Staff work with the campuses to clarify any potentially confusing language in the referenda, and to ensure that referenda language is specific to the capital project(s) in question and to avoid leaving the door open to funding unnamed capital projects in the future.

Finally, the university pointed out that the Office of the President may not want to restrict campus flexibility in the future. It stated that campuses benefit from flexibility in their fund sources, future funding needs cannot always be anticipated, and it can be difficult to capture all potential uses of revenue generated from compulsory campus-based student fees.