

Date of Hearing: April 17, 2018

ASSEMBLY COMMITTEE ON HIGHER EDUCATION

Jose Medina, Chair

AB 2505 (Santiago) – As Amended April 9, 2018

SUBJECT: California State University: budget oversight policies

SUMMARY: Requires the Office of the Chancellor of the California State University (CSU) to require each CSU campus to develop and implement budget oversight policies, as specified, and require periodic audits. Specifically, **this bill:**

- 1) Requires the Office of the Chancellor of the CSU to require each CSU campus to develop and implement budget oversight policies, which shall include, but not be limited to, periodic comparisons of the campus' budget to its actual spending levels.
- 2) Requires each CSU campus to, on or before January 15, 2019, submit to the chancellor's office a summary report of its expenditures of state appropriations received for the 2017–18 academic year.
- 3) Requires the chancellor's office to, on or before March 31, 2019, submit a statewide report to the Legislature and the Department of Finance based on these campus reports.
- 4) Requires the California State Auditor to,
 - a) Audit, on or before December 30, 2019, the CSU budget for the 2017–18 fiscal year, as specified;
 - b) Include, as part of the audit, a performance review of all complaints of discrimination, harassment, and retaliation connected to California State University executive orders 1096 and 1097, as the orders read on January 1, 2018, for the 2012–13 to 2017–18, inclusive, academic years, and the time it took the California State University to complete investigations of, and issue reports on, the complaints;
 - c) Audit, on or before December 30, 2022, and every 3 years thereafter, the California State University's budget for the fiscal year preceding each audit, as-specified; and,
 - d) Report the findings of each audit conducted pursuant to the bill's provisions to the chairs of the Assembly and Senate budget committees and to the appropriate budget subcommittee chairs that oversee state funding of the California State University on or before March 31 of the year preceding the audit.

EXISTING LAW:

- 1) Establishes the CSU, under the administration of the Board of Trustees of the CSU, as one of the 3 segments of public postsecondary education in California. (Education Code (EDC) Section 66600)
- 2) Existing law requires the trustees to appoint a chief executive officer, known as the Chancellor of the CSU. (EDC Section 66602)

FISCAL EFFECT: Unknown.

COMMENTS: *Need for the bill.* According to the author, "...the State Auditor recently found that campuses do not adequately oversee their budgets. Specifically, campuses do not have written policies requiring periodic comparisons of spending levels to budget limits, and most campuses did not retain documentation demonstrating that they consistently performed such comparisons, which precludes accountability and transparency."

"AB 2505 will increase transparency in the spending of state funding by the California State University at the system level and by each campus. AB 2505 will ask the CSU to report to the Legislature on its budgeting practices in specific areas and it will require regular financial audits. The report and financial audit called for in AB 2505 will help identify potential ways to reduce the CSU's cost structure system-wide and at the campus by campus level to ensure that state funding is being on student success measures; appropriate hiring practices; and increasing enrollment."

Background. The California State Auditor (CSA) published Report 2016-122, titled "California State University - Stronger Oversight Is Needed for Hiring and Compensating Management Personnel and for Monitoring Campus Budgets," in April of 2017. The report, the result of a request to the CSA by the Joint Legislative Audit Committee (JLAC), looked at the levels of growth in the number of CSU) management personnel, the oversight and accountability of CSU's budget, and increases in the compensation of CSU executives.

The report generally found that the growth in the number and compensation of management personnel significantly outpaced those of other employee types, including non-faculty support staff. The CSA also found that the six campuses visited for the audit could not justify the growth in the number of new management personnel and one campus granted raises to management personnel that were not supported by current written performance appraisals, as required by CSU policy. Specifically, California Polytechnic State University, San Luis Obispo, increased the pay for at least 70 management personnel in 2016 who either had no written performance evaluations on file or who had outdated evaluations on file.

The CSA also observed that campuses did not have written policies regarding the periodic comparison of spending levels to budget limits and most campuses did not retain documentation demonstrating that they consistently performed such reviews. Because of the absence of policies and the general lack of documentation for these reviews, the CSA questioned whether CSU's budget monitoring provides sufficient assurance that campuses actually adhere to their spending plans. Although the CSA did not identify instances of a campus exceeding its budget, they noted that when campuses do not have written budget monitoring policies and processes and do not document their periodic budget reviews, they reduce assurance that they spend state funding efficiently and appropriately, and they unnecessarily increase the risk that they may overspend their budgets.

The CSA also noted that state law exempts CSU from many budget oversight mechanisms applicable to other state agencies and requires CSU to periodically submit certain reports to the Legislature regarding its performance.

CSA report recommendations. The CSA recommended that that the Legislature should require CSU to submit an annual report that provides information on specific activities that CSU engaged in during the previous year to meet the State's goals for student success.

The several recommendations were also made specifically to the CSU Chancellor's Office, and a 60 day update was submitted to the JLAC and Assembly Higher Education Committees in August of 2017. The update shows that the CSU Chancellor's Office is taking action on all system-wide recommendations.

AB 2505 requires the Office of the Chancellor of the CSU to require each CSU campus to develop and implement budget oversight policies, which shall include, but not be limited to, periodic comparisons of the campus' budget to its actual spending levels, and submit a report to the Legislature and the Department of Finance on or before March 31, 2019.

Arguments in support. The California Faculty Association, the sponsor of AB 2505, writes that, "...the State grants the CSU significant budget discretion and flexibility. Unlike other state departments and agencies, the CSU is exempt from the authority of the director of the Department of Finance (DOF) to adjust budget allocations to reflect net savings, from being subject to DOF's authority to determine how unused amounts allocated to CSU in the prior year will be used in the current year, and from budgeting for specific employee positions."

"AB 2505 will increase transparency of the spending of state funding by the CSU at the systemwide level and on a campus by campus basis. AB 2505 will ask the CSU to report to the Legislature on its budgeting practices in specific areas and will also require ongoing financial audits...the report and audit called for in AB 2505 will help identify potential ways to reduce the CSU's cost structure systemwide and at the individual campus level to ensure state funding is being spent on student success measures; appropriate hiring practices; and increasing enrollment.

Arguments in opposition. The CSU is opposed to this legislation, and writes that "...this bill is unnecessary as the Legislature already has significant oversight of the CSU's budget and our use of state resources via the annual budget process. Through that process, and in response to specific Budget Act requirements, the CSU submits more than 20 mandated reports to the Legislature each year. For example, the Budget Act of 2017 required that the CSU submit a report in January 2018 on the use of funds to improve student success and close achievement gaps. The Budget Act also required, and we have provided, a Faculty Employment Report describing the CSU's plan to increase faculty diversity. For 30 years the CSU has annually provided a "Report on Faculty Recruitment and Retention Survey" highlighting the hiring of faculty, each campuses' tenure density, and the gender and ethnicity of our faculty. This bill would create duplicative reporting that ironically, would require that campuses redirect resources that could be used to support our instructional mission to hire management and administrative staff to comply with its requirements."

CSU also writes that "...given the findings of the audit and the CSU's responsiveness to the auditor's recommendations, it is unclear why AB 2505 is necessary. Moreover, the Legislature has the ability to utilize the JLAC process to identify and prioritize those areas of greatest concern for purposes of audit, ensuring the ability of the Legislature to revisit this issue if necessary. Statutorily mandating ongoing audits of the CSU by the State Auditor is costly and unnecessary."

Committee staff notes that, while campus reports are required to demonstrate how money received from state appropriations improves student success, the statewide report established in this bill makes no mention of student success goals – as recommended in the CSA audit.

Committee staff recommends, and the author has agreed, to add 89291(a)(1)(E) to the provisions of this legislation, to read:

(E) Data on how the California State University has used moneys received from state appropriations for the 2017–18 academic year to improve student success.

Committee staff also notes that the March 31, 2019 report is a one-time report. The CSA recommended that the Legislature should require CSU to submit an annual report. Moving forward, *the author may wish to consider explicitly* requiring the CSU to report to the Legislature on an annual basis regarding how funding is used to move towards student success.

Audits. AB 2505 requires the CSA to perform two different kinds of audits, a one-time performance audit and a financial to be conducted on or before December 30, 2022, and every three years thereafter. Performance audits typically fall under the purview of JLAC, and Joint Rule 37.4.(a) establishes that the “...Joint Legislative Audit Committee shall establish priorities and assign all work to be done by the Bureau of State Audits.”

Committee staff recommends, and the author has agreed, to strike Section 89291(b)(1) from the provisions this legislation.

REGISTERED SUPPORT / OPPOSITION:

Support

California Faculty Association

Opposition

California State University

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