

Report 2010-105 Recommendation 1 Responses

Report 2010-105: University of California: Although the University Maintains Extensive Financial Records, It Should Provide Additional Information to Improve Public Understanding of Its Operations (Release Date: July 2011)

Recommendation #1 To: University of California

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 above, 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.

Agency Response*

The implementation of rebenching of State funds is in its third year and is continuing on track as planned. We estimate that it will take six years in total to complete the rebenching effort based on certain expectations of future funding levels from the State.

- **Response Type†:** Annual Follow Up
- **Estimated Completion Date:** 6/30/2018
- **Response Date:** October 2014

California State Auditor's Assessment of Status: Not Fully Implemented

Agency Response*

As the University's July 26, 2012 response states, a systemwide work group consisting of Chancellors and other campus and Office of the President leadership, and faculty met for nearly a year to review the distribution of State funds across the system. It issued a set of recommendations that has been shared publicly; the basics of these recommendations were described in UC's response to BSA. These recommendations will be implemented over a multi-year period, the first phase of which was initiated in allocations associated with the 2012-13 fiscal year. It was the preference of the systemwide taskforce to use new and incremental State funding to achieve the rebenching of State funds. The length of time to complete this process depends entirely on the future of funding increases from the State.

- **Response Type†:** Annual Follow Up
- **Estimated Completion Date:** Indeterminate

- **Response Date:** October 2013

California State Auditor's Assessment of Status: Not Fully Implemented

Agency Response*

As the University's July 26, 2012 response states, a systemwide work group consisting of Chancellors and other campus and Office of the President leadership, and faculty met for nearly a year to review the distribution of State funds across the system. It issued a set of recommendations that has been shared publicly; the basics of these recommendations were described in UC's response to BSA. These recommendations will be implemented over a multi-year period, the first phase of which was initiated in allocations associated with the 2012-13 fiscal year. It was the preference of the systemwide taskforce to use new and incremental State funding to achieve the rebenching of State funds. The length of time to complete this process depends entirely on the future of funding increases from the State.

- **Response Type†:** Annual Follow Up
- **Estimated Completion Date:** Unknown
- **Response Date:** October 2012

California State Auditor's Assessment of Status: Not Fully Implemented

All Recommendations in 2010-105

†**Response Type** refers to the interval in which the auditee is providing the State Auditor with their status in implementing recommendations made in an audit report. Auditees must submit a response regarding their progress in implementing recommendations from our reports at three intervals from the release of the report: 60 days, six months, and one year or subsequent to one year.

*Agency responses received after June 2013 are posted verbatim.

Report 2010-105 Recommendation 3 Responses

Report 2010-105: University of California: Although the University Maintains Extensive Financial Records, It Should Provide Additional Information to Improve Public Understanding of Its Operations (Release Date: July 2011)

Recommendation #3 To: University of California

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.

Agency Response*

Work continues on the development of the new budget manual. While we have had ongoing communication to ensure our staff are following current process, formalizing this guidance in the updated budget manual has taken longer than expected. With the implementation of two new major processes for allocation of funds, the areas that need to be covered by the budget manual have expanded considerably. At the same time, the workload in the systemwide budget office has increased dramatically, in part due to ongoing requests from the State government. It is expected that a new budget manual will now be completed in time for the 2015-16 academic year.

- **Response Type†:** Annual Follow Up
- **Estimated Completion Date:** 8/1/2015
- **Response Date:** October 2014

California State Auditor's Assessment of Status: Not Fully Implemented

Agency Response*

See prior update plus the addition below:

We have been working to update the Budget Manual in a way that accurately reflects the major changes that have been made in the way money flows through the university and gets distributed. While we completed a first draft of the manual last spring, we realized it did not cover enough of the issues campuses would find useful. Therefore, we have found it necessary to solicit input from the campuses to help us craft a document that has pertinence and utility at this time when the relationship between campuses and OP has continued to evolve. To do this in a meaningful way, we found it necessary to form a workgroup with campus budget folks to help us work out what sort of manual would be suitable and useful given recent changes in university budgeting. We estimate this will take the full academic year to complete and hope to have a more useful manual in time for the 2014-15 academic year.

- **Response Type†:** Annual Follow Up
- **Estimated Completion Date:** 7/1/2014
- **Response Date:** October 2013

California State Auditor's Assessment of Status: Not Fully Implemented

Agency Response*

The University regards this commitment as a high priority. However, many aspects of the University's budget process have changed recently and the University anticipates that more changes could occur depending on the outcome of Proposition 30 on the November 2012 ballot. Because of this uncertainty, and the understaffing of the office responsible for this function, completion of a new budget manual has been delayed. The University intends to complete a new budget manual during the 2013-14 fiscal year.

- **Response Type†:** Annual Follow Up
- **Estimated Completion Date:** FY13-14
- **Response Date:** October 2012

California State Auditor's Assessment of Status: Not Fully Implemented

All Recommendations in 2010-105

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Report 2010-105 Recommendation 8 Responses

Report 2010-105: University of California: Although the University Maintains Extensive Financial Records, It Should Provide Additional Information to Improve Public Understanding of Its Operations (Release Date: July 2011)

Recommendation #8 To: University of California

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.

Agency Response*

See prior response (over character limit for this form)

- **Response Type†:** Annual Follow Up
- **Response Date:** October 2013

California State Auditor's Assessment of Status: Will Not Implement

Agency Response*

The University's position was clearly stated in its original response to the audit and has not changed. We disagree with this recommendation and strongly dispute BSA's conclusion that revenue generated by a campus-based student fee on the Los Angeles campus (the SPARC fee) was inappropriately identified to fund two capital projects on the Los Angeles campus.

The University's Policy on Compulsory Campus-Based Student Fees (Policy) describes "Compulsory campus-based student fees [which] may only be established, increased, or renewed following a referendum in which students vote in favor of the compulsory fees, except as provided in Section 83.00 of these Policies." These fees and their terms are only effective after approval by The Regents or the President. Once a fee has been imposed by The Regents or the President, the terms of its collection and expenditure are binding throughout the life of the fee. Typically, these terms are the same as those contained in the referendum. However, the Board of Regents (and by delegated authority, the President) retains ultimate authority pursuant to its constitutional autonomy to impose or modify any and all student fees – including those established in response to campus-based referenda. Moreover, a referendum may contain errors, unworkable terms, unacceptable provisions, or ambiguities that The Regents (or the President) may correct when approving the fee. Although The Regents and the President do not take such actions lightly, modifications to fee terms are well within their authority.

After the SPARC fee was approved by The Regents for assessment on the Los Angeles campus, The Regents later approved the use of SPARC fee revenue for two capital projects not specifically named in the referendum passed by students. However, The Regents' approval of the SPARC fee stated that the revenue could be used for the facilities named in the referendum language "and similar needs of other student-fee supported activity and recreational facilities on the Los Angeles campus." Because the Regental approval of the SPARC fee included this language, using SPARC fee revenue for the South Campus Student Center project and the intended use of SPARC fee revenue for the Pauley Pavilion project is consistent with the purpose of the fee as defined by The Regents' action. In addition, a

student-majority advisory board created via the SPARC fee referendum, the Student Activities Center Board of Governors (SAC BOG), voted in favor of supporting the use of SPARC fee revenue to contribute towards the South Campus Student Center project.

The BSA also refers to a California court ruling as support for its finding that The Regents (and by delegated authority, the President) do not maintain authority to modify campus-based fees. For the purposes of this audit, the University assumes that the BSA refers to the California Court of Appeal ruling in *Kashmiri v. Regents of the University of California*.

That ruling, however, does not stand for the proposition that the BSA asserts. Rather the *Kashmiri* ruling is limited to its specific circumstances. The Court concluded that the University could not increase student fees (1) for a specific academic term once the University had issued student bills for that term and (2) if the University had explicitly advised students that certain professional degree fees would remain constant over a period of time. As such, the principles asserted in *Kashmiri* do not apply to the general terms of (including the use of funds generated by) the SPARC Fee or any other campus-based student fee.

Although the University disagrees with the BSA's recommendation and conclusion about the use of SPARC fee revenue on the Los Angeles campus, the University does plan to issue guidelines to further clarify that student referendum results are solely advisory to The Regents and the President.

In addition, UC's Office of the President (UCOP) and the campuses currently collaborate on efforts to avoid the need for changes from referenda language. When student referenda for campus-based fees are in the planning stages at the campus level, campuses frequently send draft referenda language to UCOP prior to printing final language on student ballots. The draft language is currently circulated among Budget and Capital Resources, General Counsel, and Student Affairs staff for review and comment. Staff work closely with the campuses to clarify any potentially confusing language in the referenda, including, in the case of capital project fees, ensuring that the financial planning for building projects has been sound.

UCOP staff work with the campuses to ensure that referendum 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. UCOP may not want to restrict campus flexibility in the future, however. 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 by compulsory campus-based student fees.

- **Response Type†:** Annual Follow Up
- **Response Date:** October 2012

California State Auditor's Assessment of Status: Will Not Implement

All Recommendations in 2010-105

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