Office of the Auditor General

REPORT OF THE

OFFICE OF THE AUDITOR GENERAL

TO THE

JOINT LEGISLATIVE AUDIT COMMITTEE

715.5

REVIEW OF THE MANAGEMENT OF THE UNIVERSITY OF CALIFORNIA'S PRIVATE SUPPORT PROGRAM

JUNE 1978

Joint Legislative Audit Committee

OFFICE OF THE AUDITOR GENERAL

California Legislature

MIKE CULLEN
CHAIRMAN

June 28, 1978

The Honorable Speaker of the Assembly
The Honorable President pro Tempore
of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the fifth in a series of reports by the Auditor General relating to the operations and activities of the University of California. This latest report comments on the management of gifts, bequests, pledges and grants which total over $600 million since 1955.

Application of better internal controls is recommended. The testy response of Academic Vice President Donald C. Swain reflects several areas of disagreement in the audit findings.

By copy of this letter, the Department is requested to advise the Joint Legislative Audit Committee within sixty days of the status of implementation of the recommendations of the Auditor General that are within the statutory authority of the Department.

The auditors are Kurt R. Sjoberg, Audit Manager, and Gary S. Ross.

Respectfully submitted,

MIKE CULLEN
Chairman

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SUMMARY

During fiscal year 1976-77 the Regents of the University of California received a total of $58.2 million in voluntary support, 54 percent of which was for research-related activities.

As of June 30, 1977 the University had endowment and similar funds amounting to $320 million which were earning approximately $20 million representing a yield of 5.3 percent.

We reviewed the University's adherence to its own policies and procedures in matters relating to private support. We also analyzed the adequacy of operational controls over various segments of the University's private support program. The final audit result deals with the University's regulation of affiliated fund-raising organizations.

We found that:

- Some research funded by private support violated university regulations related to investigations of a purely commercial nature and avoided established research review and indirect cost application processes (see page 10)

- The review of the private support program revealed a lack of control in certain activities which are either an integral part of the private support program or are directly affected by it. These areas included poor handling of UC checks at one campus, failure to inventory and properly dispose of gifted or bequeathed personal property, use of donations for purposes not clearly established by the donor, and lack of any UC audit of these areas (see page 15)

- The University has inadequately controlled the operations of affiliated fund-raising organizations. As a result, at least one such entity, which has operated on the Los Angeles campus in various forms since 1945, has engaged in activities resulting in the diversion of significant sums of money for noncharitable purposes, cancellation of its tax-exempt status and its ultimate suspension for failure to file as a taxable corporation (see page 25).

We recommend that the University examine the appropriateness of commercial research activities, the application of indirect cost rates and review processes and restrictive conditions on publication of results. We also recommend that the University improve its cash handling, inventory control, sales or disposal of unneeded personal property and adherence to donors instructions. In addition, the University should add private support activities to its internal audit program. Our final recommendation suggests substantive changes in the University's policies and procedures pertaining to operations of affiliated fund-raising organizations.

INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee, we have reviewed the University of California's policies, procedures and practices pertaining to the management of its private support program. Private support includes gifts, bequests, pledges and grants from all nongovernment sources.

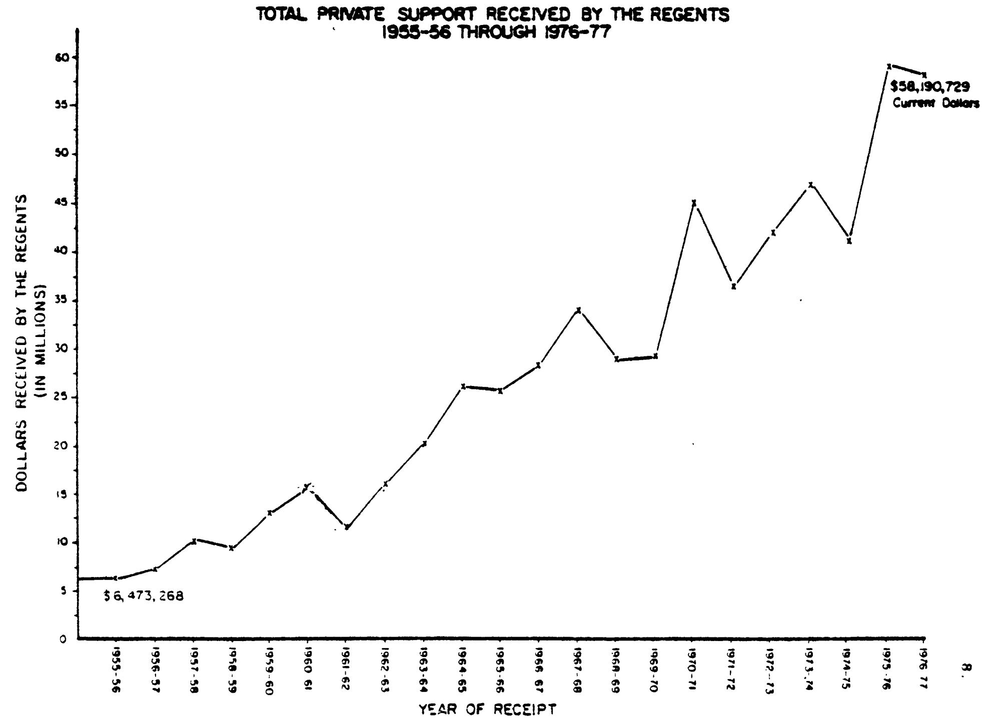
This report, the fifth in a series* dealing with operations and activities of the University of California, analyzes the University's performance in the management and utilization of property acquired by private donations.

During fiscal year 1976-77, the Regents of the University of California received a total of $58.2 million in voluntary support. This total represents the second largest amount of voluntary support in the University's history.

In the 22 fiscal years from 1955-56 to 1976-77 the University has received over $600 million in gifts. The overall trend in private support received by the University during the period has steadily

* Earlier reports are U.C. Davis Child-Rearing Practices and Academic Abilities Research Project (Letter Report 715.1), August 1977; The Patent and Royalty Program of the University of California (Report 715.2), October 1977; The Foundations' Expenditures Need Review and Control (Report 715.3), December 1977; University of California's Management of Real Estate (Report 715.4), February 1978.

increased; however, there have been several periods of regression as shown on the following graph:



Sources of gifts to the University include individuals, corporations, philanthropic foundations and associations. Corporate support during fiscal year 1976-77 increased 70 percent over the two prior periods.

The University classifies private support according to the purpose stipulated by the donor. Six categories of private support have been established, and all donations received are classified accordingly. The following table summarizes private support at the University for the past two years.

Categories of Private Support	1975-76 $ Amount	% of Total	1976-77 $ Amount	% of Total
Research	$26,747,724	44.8	$31,461,301	54.1
Student Aid	4,239,717	7.1	4,307,504	7.4
Instruction	3,963,239	6.7	3,846,696	6.6
Libraries & Collections	2,178,002	3.7	2,090,524	3.6
Special & Misc.	12,333,947	20.7	9,661,811	16.6
Campus Improvement	10,101,428	17.0	6,822,893	11.7
	$59,464,057	100.0	$58,190,729	100.0

For fiscal year 1976-77 the research category of private support increased 17.6 percent while student aid increased approximately two percent. There is a total decrease of 2.1 percent in combined private support over the previous year because all other categories declined.

The form of private support received by the University during fiscal year 1976-77 has shifted away from pledges to cash. The number of cash donations doubled for 1975-76 to 1976-77 while the number of pledges received declined by more than 50 percent. As of June 30, 1977 the University held $23,965,000 in uncollected pledges. It is not practical to estimate the net realizable value of such pledges. A table of private support received classified by type for the past two fiscal years follows:

Type of Support	1975-76	1976-77
Cash	$18,315,378	$32,181,372
Securities	7,131,237	3,159,891
Real property	926,300	1,391,567
Nonmonetary	2,646,015	3,516,916
Pledges	30,445,127	17,940,983
Total	$59,464,057	$58,190,729

Endowment and similar funds amounted to $320 million as of June 30, 1977. Of this total, $95 million represents true endowments where funds are invested and the income is utilized for the purposes specified by donors. The balance of $225 million represents funds functioning as endowments which are established by the Regents. Unlike actual endowments, both principal and interest in these funds are expendable. The income earned on endowment and similar funds for the year ended June 30, 1977 totaled almost $20 million, representing a yield of 5.3 percent based on the average market value of the investments.

The By-Laws of the Regents of the University of California assign responsibility for certain gift and endowment-related activities to four of the six Regents' standing committees. The committee responsibilities are:

Committee on Educational Policy

Recommends policies relating to securing gifts and endowments for the University and the acceptance, use and allocation of such gifts and endowments.

Considers and recommends policies relating to organized efforts to solicit grants, pledges and gifts for any university purpose from multiple sources such as individuals, firms, foundations and organizations.

Committee on Finance

Reviews policies pertaining to the acceptance, use and allocation of gifts of real estate. It also recommends action on the disbursements of contingent funds.

Committee on Grounds and Buildings

Recommends action on naming university buildings, streets, roads and other facilities. Facilities are sometimes named for substantial donors.

Committee on Investments

Manages investments of the University including those acquired as a result of gifts or endowments.

The University of California is subject only to such legislative control as may be necessary to ensure compliance with the terms of the endowments of the University and the security of its funds. In addition, the Legislature may also control the submission, approval and enforcement of budgets and the filing of claims for all state agencies including the University of California. Under authority of a 1976 constitutional amendment, the Legislature was authorized to prescribe competitive bidding procedures for sales of university real property and has enacted Chapter 7 (commencing with Section 92660) of Part 57 of the Education Code.

Scope of Review

The University's private support program for fiscal year 1976–77 comprised over 1,600 endowment funds and 21,300 gifts throughout the University system. The time and personnel requirements to perform a statistically valid audit of such a large program was not justified. As an alternative, we tested for system weaknesses without attempting to project the magnitude or frequency of problem areas. The private support program areas selected for review include:

- Adherence to university policies and procedures
- Adequacy of operational controls
- Regulation of affiliated fund-raising organizations.

AUDIT RESULTS

GIFT-SPONSORED RESEARCH ACTIVITIES VIOLATE ESTABLISHED UNIVERSITY POLICY

The University performs research for public and private sponsors as a result of gifts, grants, contracts and agreements. Private support for research totaled over $30 million in fiscal year 1976-77. Some research funded by private support violated university regulations related to investigations of a purely commercial nature. Gift-sponsored research also avoids established research review processes and the application of indirect costs. Specifically, our audit of research activities funded partially or totally through gifts revealed the following:

In Violation of University Policy, Gifts for Research Include Payments to Perform Specific Research Tasks of a Commercial or Proprietary Interest to a Donor

University Regulation No. 4 (revised) contains the following statement in Section II-2, paragraph 2, regarding research of a commercial character:

> University laboratories, bureaus and facilities are not to be used for tests, studies, or investigations of a purely commercial character, such as mineral assays, determination of properties of materials, the performance efficiencies of machines, analyses of soils, water, insecticides, fertilizers, feeds, fuels, and other materials, statistical calculations, etc., except when it is shown conclusively that satisfactory facilities for such services do not exist elsewhere. Those requiring such tests or services should apply to business firms or to such public agencies as the State Division of Mines, the State Department of Agriculture, or the State Food and Drug Laboratory, etc.

The University regularly performs research on proprietary (brand name) agricultural chemicals and pharmaceutical products as a result of donations from manufacturers of the products involved. The gift documents sometimes contain research specifications including methodology and delivery dates for research results. Some gifts appear to result from proposals submitted to the manufacturer from university research staff.

The following excerpt is from a gift transmittal letter received by the University from a manufacturer of electronic tomato sorting machines: "We have decided to support the research on testing and determining the optical reflectance properties of canning tomato defects." University Regulation No. 4 mentioned earlier prohibits "determination of...the performance efficiencies of machines" and "investigations of a purely commercial nature." We found no evidence that UC surveyed the private sector or public agencies to determine whether satisfactory facilites exist outside the University to perform the research activities requested by donors as required by Regulation No. 4.

Gift-Sponsored Research Is Not Subject to the Review Processes Required for Research Performed Under a Contract or Grant

The review processes and controls established by the Campus Contracts and Grants Office for other forms of extramurally-sponsored research (contracts, government grants and agreements) are not applied to gift-sponsored research because gifts are processed through the Campus Development Office.

These controls and review processes affect such areas as personnel policies, travel expenditures, extra compensation, use of consultants, equipment acquisition and viability of the research program.

As a result of our audit, all gift-sponsored research at the Davis campus is now subjected to the same review process applied to other forms of extramurally sponsored research.

Agreements with Donors of Research Gifts Inhibit the University's Freedom to Publish Results

University Regulation No. 4 (II-5) states, "All such research shall be conducted so as to be as generally useful as possible. To this end, the right of publication is reserved by the University." The contracts and grants manual states in II-3-C:

> Rights to Results of Extramural Projects or Programs. It is long-standing University policy that freedom to publish or disseminate results is a major criterion of the appropriateness of a sponsored project, and particularly of a research project.

Our review of 20 gift-funded research projects indicates that the University is not enforcing their right to publish test or research results. For example, a donor's letter awarding a gift to the Agricultural Engineering Department of the UC Davis campus stipulated:

> We understand that the research goals and the methodology would follow the specifications outlined in the letter of August 8, 1977 and the final test results including the analysis will be reported to us by the end of October 1977. Further, in regards to any publication, the research results would be published in the normal time sequence, about late 1979.

The donor, a major manufacturer of components for farm machinery, requested and received a two-year delay between the time test results would be available to the donor and the time the same information would be made available for general dissemination.

Indirect Cost Rates Are Not Applied to Research Projects Sponsored by Donations

Regents By-Law 12.3(G) places the responsibility with the Committee on Finance to "consider and approve the fixing or amending of indirect cost rates, management fees, and overhead allowances applicable to extramurally sponsored programs...." In addition, Standing Order 100.4 (L) states, "the President is authorized to negotiate and approve indirect cost rates to be applied to contracts and grants under which the University conducts programs supported by extramural funds, provided that such negotiations shall be directed toward full recovery of indirect cost...."

During our review we found that the University does not apply indirect cost rates to gift-sponsored research and does not consistently apply them to private grants. This practice appears to violate Standing Order 100.4(L), which calls for the application of indirect cost rates to achieve the full recovery of indirect costs. Furthermore, the failure to fully recover all indirect costs on gift-sponsored research results in the subsidizing of such research activities by other users of university facilities.

CONCLUSION

Some gift-sponsored research violates the University's regulations concerning commercial research. In addition, gift-sponsored research activities do not comply with requirements established for extramurally-sponsored research projects.

RECOMMENDATION

We recommend that the Regents Committee on Educational Policy review the use of gifts for extramurally sponsored research. Specifically, it should consider the appropriateness of research of a commercial nature, the implementation of review processes for gifts involving research, the acceptance of restrictive conditions such as the right to publish research results and the application of indirect cost rates.

BENEFITS

Clear and concise policies and procedures regulating the solicitation and utilization of research donations will result in more effective control of private support.

OPERATIONAL CONTROLS ON CERTAIN ASPECTS OF THE UNIVERSITY'S PRIVATE SUPPORT PROGRAM NEED IMPROVEMENT

The private support program at the University of California yielded over $58.2 million, exclusive of endowment income, during fiscal year 1976-77. These funds represent a significant segment of the University's discretionary income, which is used to finance programs not supported by state or federal allocations. For example, a small portion of the unrestricted funds are allocated by the President each year to support the cost of housing and official entertainment for chancellors, laboratory directors and certain systemwide officers. A copy of the President's unrestricted funds budget for fiscal year 1977-78 is provided in Appendix A.

The review of the private support program revealed a lack of control in certain activities which are either an integral part of the private support program or are directly affected by it. These areas included the poor handing of UC checks at one campus, the failure to inventory and properly dispose of donated or bequeathed personal property, the use of donations for purposes not clearly established by the donor, and the lack of any UC audit of these areas.

Cashiering Procedures

We reviewed files at selected campus development offices to ensure that gifts received had been properly deposited with the cashier. Regents By-Law 12.3(k) states that the Regents Committee on Finance shall "open, maintain, and close bank accounts, both savings and commercial, in the name of the Corporation; prescribe the conditions under which deposits shall be made and funds shall be withdrawn...." Systemwide policies and procedures affecting the routine operation of the cashiering function as set forth in Business and Finance Bulletin BUS 49 V-B 2 states that "checks will be endorsed for deposit when received." In addition, each campus may issue more specific instructions on the proper deposit of funds received.

At the Los Angeles campus, due to a failure to follow proper cashiering practices, checks payable to the University for gift donations were being forwarded to an independent organization where they were either deposited to a non-university account or exchanged for a Regents' check payable to the organization. The depositing of checks payable to the University in a non-university account was accomplished through the use of a deposit stamp with the letters "UCLA" under the name of the organization. The organization involved is loosely affiliated with the University for fund-raising purposes, but it is a separate legal entity with its own bank accounts and Board of Directors, many of whom are University employees.

A limited review of the organization's bank records disclosed that a check payable to the "UCLA Cancer Center" for $83,334 had been deposited without being endorsed by the University. The organization was engaged in a fund-raising effort on behalf of the University; however, the contractual agreement between UC and the entity had been allowed to expire on June 30, 1976, which was five months prior to the erroneous bank deposit. The Treasurer of the Regents was briefed on the results of our analysis of bank records and in particular the deposit of checks payable to the University into non-university accounts. Any necessary corrective action would likely be taken by that office because, in a like occurrence in 1975, the proceeds of an estate were similarly misdirected. However, the University recovered the funds plus five percent interest.

We do not believe any impropriety or misappropriation of funds was intended; however, such practices violate the Regents' policy and banking regulations and therefore must cease. The organization has now entered into a new contractual agreement with UC and all collected funds are pledged to the University.

Inventory Control Procedures

The University requires that equipment be inventoried when it has an acquisition value of $200 or more.

Donors frequently give or bequeath items of personal property to the University. These items are not inventoried because stated values are under the minimum. At the Santa Barbara campus we attempted to locate donated items ranging from oriental rugs to silver candelabra and could not. Campus officials stated that pilferage had been a problem. In our opinion if the item is worthy of acceptance, it should be inventoried so that some measure of safeguard can be provided.

Sales of Donated Personal Property

University Procedure BUS-38 establishes general policies and procedures for the disposal of excess university-owned material. The procedure requires public sale to the highest bidder; sale on a "first-come, first-served" basis after general advertisement; or a private sale only in those instances when the cost and returns do not warrant either of the first two options.

The Santa Barbara campus purchased two paintings, circa 1901 and 1909, from a legatee. Subsequently, it sold them for a total of $4,160. No evidence of advertisement or public announcement was found.

Contingent Funds

The President, with the approval of the Regents, allocates contingent funds to chancellors and other high-ranking university officials. These funds are furnished to meet official entertainment, travel, public relations or other university business expenses that are not charged against a departmental budget or against the budget for a particular university event, such as Charter Day.

In fiscal year 1977-78 contingent fund allocations totaled $164,750. These funds, used primarily for official entertainment, are derived from earnings of the Searles Fund. The total 1977-78 allocations are shown in Appendix B. The individual allocations for 1976-77 ranged from a low of $600 to a high of $15,000.

Contingent funds are disbursed to each recipient monthly. Usually, the recipient establishes a private bank account for the deposit and withdrawal of such funds. Accounting and verification of expenditures are performed by Systemwide Administration. Original documents for verification of expenditures are not required nor are contingent claims compared with those presented by the same individual through normal university channels for noncontingency fund expenditures. The absence of such verification could result in reimbursement of the same item of expense from both the contingent fund and the normal university expense claim system. A very limited audit of contingent fund claims produced no duplicates; however, the absence of controls to prevent such an occurrence violates basic accounting principles.

Contingent funds may also be used for spouse travel whether or not such travel is directly and primarily related to the employee's employment. When spouse travel is not business related, the expenditure is deemed personal and according to university procedures "will, solely for income tax reporting and withholding purposes, be added to the employee's gross salary in the next available pay period." Personnel in Systemwide Administration stated that there was no established procedure for including such non-university spouse travel on payroll tax reporting information, and any such action was left up to the recipient to report.

Utilization of Gift Proceeds

Regents' Standing Order 100.4 requires the University to utilize gift proceeds in a manner commensurate with the donors' expressed or implied intentions. Although we found no general misuse of gift funds, better judgment might have been used in several situations. The following examples were isolated occurrences and serve only to illustrate that the University should be constantly on guard for potential misuse.

A fund established to "promote personal dimension of education in residential colleges" was used in part to purchase 150 cases of champagne for graduation ceremonies at the Santa Cruz campus. University regulations permit the sale and service of alcoholic beverages at occasional special events sponsored by a campus or campus faculty club to groups exclusively 21 years of age or older. It would appear reasonable that among the 862 graduates and their families, there were minors in attendance. University liability in the event of accidents resulting from consumption of the champagne at an official function would also be a consideration.

A gift of $10,000 for use in connection with an endowed professorship at the Los Angeles campus was turned over to an independent organization. The gift was officially acknowledged by campus officials; however, no mention was made to the donor concerning the decision to transfer the funds outside the University.

The Los Angeles campus gave the sole right of allocation of income from a $1 million bequest for cancer research to an independent organization because, as stated in the agreement, the decedent "might possibly have had in mind" that the research be done at UCLA through this organization rather than the campus unit named in the decedent's will.

Audit

The systemwide internal audit staff of the University of California includes a staff of 17 professionals split equally between the northern and southern campuses. The following is a summary of the unit's internal audit activity for 1975 and 1976:

Summary of Internal Audit Activity for 1976 and 1975

Audit Area	Percent of Effort 1976	Percent of Effort 1975
Hospitals	20.7	7.3
Defalcation Related	16.2	20.0
Departmental Administrative Functions	10.4	10.0
Payroll	8.2	12.9
Auxiliary & Service Enterprises	8.0	--
Mgmt. Consulting/Systems Review	6.0	8.2
Miscellaneous Audits	5.6	4.6
Data Systems--Instructional Resources	4.6	--
Purchasing	4.2	7.9
Dual Employment	3.7	--
Contracts & Grants	3.4	4.2
Equipment Inventory	3.0	--
Follow-up on Audit Recommendations	2.9	6.4
Cashiering	2.1	--
Disposal of Salvage & Surplus Material	1.0	--
Capital Outlay--Plant Fund Accounting Procedures	--	7.3

The summary shows that no audit effort was specifically expended on gift and endowment activities. We have reviewed the procedures and methodology employed by the University's systemwide internal auditors and found them to be, in our opinion, highly professional. Due to their organizational assignment to Systemwide Administration, they are independent from each campus. Failure to specifically include gift and endowment activities in their regular audit program denies an additional measure of control over a significant segment of the UC's resources.

CONCLUSION

Operational controls over private support activities involving cashiering, inventory control, sales of donated property, contingent funds, utilization of gift proceeds need improvement and audits.

RECOMMENDATION

We recommend that:

- The requirements of BUS 49 involving cashiering be enforced to ensure the prompt deposit of funds.
- All items of donated personal property be inventoried.
- Sales of donated property adhere to university policy BUS 38.
- Accounting for contingent funds be performed in the same organizational unit as the normal university expense review to avoid potential duplication of reimbursement.
- Contingent fund expenditures for unofficial spouse travel be automatically added to the employees' taxable income.
- Campuses be instructed to give careful consideration to the donor's expressed or implied wishes concerning the expenditure of gift funds.

- The internal audit activity for Systemwide Administration be expanded to include the area of private support.

BENEFITS

The judicious use of private donations by the University will encourage donors to continue to support the University.

THE UNIVERSITY DOES NOT REGULATE THE ACTIVITIES OF AFFILIATED, BUT INDEPENDENT, FUND-RAISING ORGANIZATIONS

The University has inadequately controlled the operations of affiliated fund-raising organizations. As a result, at least one such entity, which has operated on the Los Angeles campus in various forms since 1945, has engaged in activities resulting in diversion of significant sums of money for noncharitable purposes, cancellation of its tax-exempt status and its ultimate suspension for failure to file as a taxable corporation.

We selected an affiliated fund-raising organization for analysis to determine if the University is maintaining satisfactory controls over activities of such organizations that raise funds ostensibly in the University's behalf. The selection of this organization, currently known as the California Institute for Cancer Research (CICR), did not result from a randomly selected sample but rather from another audit finding which dealt with cashiering practices. Consequently, the circumstances and practices of this particular institution may not be representative of other university-affiliated fund-raising organizations. This example does show, however, an apparent absence of controls over the operations of such affiliated entities.

On February 17, 1961, the Regents adopted the following policy relative to fund-raising campaigns on behalf of the University:

> Fund-raising campaigns are defined as organized efforts to solicit gifts and grants for any University purpose from multiple sources such as individuals, firms, corporations, groups, and/or foundations. This procedure applies to all forms of fund-raising efforts which are for any University purpose of benefit such as memorial gifts, paintings, lectureships, loan funds, scholarships, etc., and to any effort made to solicit funds in the name of the University and/or in the memory of an individual. It does not cover instances where a private individual announces that contributions may be sent to the University for an established program in lieu of flowers or other remembrances for a deceased person.

The President of the University interpreted this policy statement in a memorandum of April 11, 1961 stating:

> 1. The definition of fund-raising includes efforts by closely related organizations such as the various alumni associations (even though organically separate) which seek to obtain funds from multiple sources for any University use or purpose. These groups cannot avoid reference to the University or to the ultimate purpose of their solicitations, and thus the University is involved in fact as well as appearing to be involved, so far as the people approached are concerned.

Therefore, fund-raising efforts by university-related groups are subject to university policy. The importance of this relationship and the responsibility which the University must bear for the activities of affiliated groups is linked directly to Regents' policy.

The California Institute for Cancer Research has been headquartered on the Los Angeles campus of the University of California since 1954. The present officers and directors include five professional staff members of the University, officers of major corporations operating in the area and people with an interest or experience in cancer research.

To illustrate the rather complex life span of CICR and its predecessor affiliates a chronological history is provided in Table 1. The table shows essentially two entities with several name changes operating over a period of 33 years from 1945 to the present.

CICR first began in 1945 with the incorporation of the Cancer Research Foundation of California. This organization's name was changed to the California Institute for Cancer Research on August 22, 1947.

In 1951 CICR entered into a complicated sale-leaseback arrangement with an Oregon firm known as Timber Structures Inc., whereby the owners sold CICR the company's plant assets for $2.5 million with $10,000 down. The Institute leased the assets of Timber Structures Inc. to a newly formed operating company for a five-year period with the operating company paying 80 percent of the operating profits to the Institute as rent, and the Institute in turn paid 90 percent of these rental receipts to the former owners in payment of the property's purchase price.

This arrangement presented several tax advantages: the operating company could deduct rental payments as business expense; the Institute would pay no income tax on rental receipts due to its tax-exempt status; and the former owners could treat the sale proceeds as a capital gain subject to preferential tax treatment. The Institute entered into a similar arrangement with Fortuna Saw Mills Inc. in 1953 for $1.3 million.

Table 1

Cancer Research Foundation of California	California Institute for Cancer Research	West Los Angeles Institute for Cancer Research	California Institute for Cancer Research--II
Incorporated. April 16, 1945			
Name changed to California Institute for Cancer Research. August 22, 1947 →			
	Articles of Incorporation amended to permit wide range of business activities. August 15, 1948		
	Entered into purchase and leaseback arrangements with two timber products firms for $3.8 million. 1951 & 1953		
	Locates on UCLA campus. June 1, 1954		
	U.S. Bureau of Internal Revenue rules against tax advantages of purchase and leaseback arrangements made by CICR. October 1954		
	Name changed to West Los Angeles Institute for Cancer Research. February 11, 1957 →		1) Incorporated. 2) Borrows $10,000 initial capital for West Los Angeles Institute for Cancer Research. 3) Shares directors, staff and campus facilities with West Los Angeles Institute for cancer research. December 24, 1956
		U.S. Bureau of Internal Revenue tax exemption withdrawn. June 1957	
			Name changed to California Institute for Cancer Research. February 11, 1957
			Received determination of tax-exempt status from U.S. Bureau of Internal Revenue June 26, 1957
		Sellers of Timber Structures Inc filed action to recover their property due to unfavorable tax treatment of 1954. March 1960	
		California State Franchise Tax Board revokes tax exempt status due to "operations for profit" in 1951-53. July 14, 1964	
		U.S. Supreme Court rules in favor of institute in purchase-leaseback arrangement involving Fortuna Saw Mills Inc. April 22, 1965	
		Registered as a charitable trust. August 23, 1965	continuous operation
		Appeal denied on court decision to rescind purchase-leaseback arrangement involving Timber Structures Inc. August 29, 1966	
		State Department of Justice reviews operations and determines that "during the past two years substantial assets of the corporation have evaporated." February 28, 1967	
		State Franchise Tax Board suspends corporate rights, powers, privileges for failure to file as a taxable corporation. May 1, 1967	
		Ceases operations. October 17, 1967	
			First contractual agreement between UCLA and CICR. June 30, 1969
			Expiration of contractual agreement between UCLA and CICR. June 30, 1976
			operations continue without agreement
			Second contractual agreement between UCLA and CICR. September 23, 1977

An amendment to the Articles of Incorporation of CICR filed on June 1, 1954 moved the principal offices of the Institute to the UCLA campus.

In September 1954 the Internal Revenue Service issued Revenue Ruling 54-420, 1954-2 Cum. Bull. 128 rejecting the tax premises upon which the lease-purchase transactions agreed to by the Institute were based. The Revenue Ruling made the rental receipts taxable income to the Institute and denied the sellers capital gains treatment on payments from CICR.

Faced with the withdrawal of their tax-exempt status as a result of their plant sale-leaseback activities, the directors of CICR authorized the incorporation of a new nonprofit entity known as CICR–II on December 24, 1956. Initial capital for the new organization was provided by a $10,000 loan from CICR. In a related transaction which occurred on February 11, 1957, the directors authorized a change in name from CICR to the West Los Angeles Institute for Cancer Research and a name change from CICR-II to CICR.

The net effect of the creation of the new entity and the name switching was to allow the continued use of CICR's established and respected name in fund-raising activities when actually it was a new corporation which could and did receive the tax-exempt status which had been withdrawn from its predecessor. The assets and bank accounts of the original CICR organization became the property of the West Los Angeles Institute for Cancer Research.

The sellers of the Timber Structures property filed suit in 1960 to rescind the sales agreement due to the adverse tax ruling of the Internal Revenue Service. The judgment, which was later affirmed in the Ninth Circuit Court of Appeals, was in favor of the sellers.

In April 1965 the U.S. Supreme Court ruled in favor of the West Los Angeles Institute for Cancer Research and against the Commissioner of Internal Revenue in the tax treatment of the purchase-leaseback agreement with Fortuna Sawmills Inc.

Available documentation indicates that the West Los Angeles Institute for Cancer Research ceased to function on or about October 17, 1967.

The CICR which exists today was founded in 1956 and has always been located on the UCLA campus. In 1969 it entered into a formal contractual agreement with UCLA, which provided the University with some assurances as to the disposition of donations accepted in the University's behalf. Prior to that time no formal University assurances existed. Our analyses of CICR and its predecessor organizations, based on incomplete records from a multiplicity of sources, indicates some activities or practices that the University may wish to review to determine the need for additional controls and safeguards to prevent similar experiences with other affiliated groups. These problem areas are:

- We could not determine the disposition of over $3 million in assets belonging to CICR at the time of the name change to the West Los Angeles Institute for Cancer Research. Apparently the Fortuna Sawmills Inc. property was sold, however, no record of any contributions by the West Los Angeles organization to either CICR or UCLA was found. The State Department of Justice concluded in a memorandum dated February 28, 1967 that "during the past two years substantial assets of the Corporation have evaporated." Copies of CICR financial statements for the years 1956 and 1957 are included in Appendices C and D to illustrate the very significant reduction in assets. The key question here of course is how much of those assets represented donations raised to support cancer research at UCLA.

- A safety deposit box belonging to CICR contained uncollected promissory notes dated from 1947 to 1953 with a face value in excess of $1 million. Some were interest-bearing and some pledged shares of stock as additional collateral. The safety deposit box had not been opened during the period for which the bank maintains records (1970 to current).

- We found evidence of a bank transfer of $15,000 in 1964 between a savings account in the name of CICR and a checking account belonging to the West Los Angeles Institute for Cancer Research. The payment and the bank account do not appear in the annual report of that year for CICR. Any payment by a tax-exempt organization such as CICR to an organization which had lost its exemption would be open to question. Part of the payment was subsequently paid to one of the founding officers of CICR.

- The first contract between CICR and UCLA was not signed until June 30, 1969 and was allowed to expire between June 30, 1976 and September 23, 1977. The present agreement does not stipulate the disposition of assets in the event that CICR ceases operation nor does it clearly state that the net proceeds of all fund-raising activities will be donated to the University of California.

CONCLUSION

Activities of affiliated fund-raising organizations are, by the Regents' definition, closely associated with and reflect upon the University. The University's inadequate control of such organizations does not provide UC with necessary protection or assurance that these activities are in its best interest or meet the donors' wishes.

RECOMMENDATIONS

We recommend that:

- The Regents' Committee on Educational Policy formulate clear and complete policy on permissible activities by affiliated fund-raising organizations.

- The University develop and implement a standard contractual agreement with all affiliated fund-raising organizations, which stipulates disposition of assets in the event of dissolution and provides guarantees that the net proceeds of all donations for UC activities reach the University.

- All officers and employees of affiliated fund-raising organizations be bonded in the same manner as university employees.

- All bank accounts of affiliated fund-raising organizations be closed and the funds moved to the University as agency accounts.

BENEFITS

Since the activities of affiliated organizations reflect upon the University, the implementation of these recommended controls will ensure the continued public confidence in UC fund-raising activities.

Respectfully submitted,

JOHN H. WILLIAMS
Auditor General

Date: June 23, 1978

Staff: Kurt R. Sjoberg, Audit Manager
Gary S. Ross

UNIVERSITY OF CALIFORNIA SYSTEMWIDE ADMINISTRATION

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Academic Vice President

BERKELEY, CALIFORNIA 94720

June 20, 1978

Mr. John H. Williams
Auditor General
Joint Legislative Audit Committee
925 "L" Street, Suite 750
Sacramento, California 95814

Dear Mr. Williams:

In President Saxon's absence, I am replying to your letter of June 14, 1978 to the president and am forwarding a staff analysis, in which I concur, of the audit findings and recommendations resulting from your review of the management of the University of California's private support program.

As the analysis indicates, the University is actively engaged in policy and procedure development which is focusing on affiliated organization relationships and private support of research to respond to the concerns expressed in Auditor General reports.

In view of the limited time available for review of the report we may, at a later date, want to amplify our response.

Sincerely,

Donald C. Swain

Donald C. Swain
Academic Vice President

Attachment

cc: President Saxon

ANALYSIS OF DRAFT REPORT OF THE OFFICE OF THE AUDITOR GENERAL ON THE REVIEW OF THE MANAGEMENT OF THE UNIVERSITY OF CALIFORNIA'S PRIVATE SUPPORT PROGRAM

Following is an analysis of the audit findings and recommendations as set forth in the Auditor General's report on the management of private support at the University of California.

Audit Finding

GIFT-SPONSORED RESEARCH ACTIVITIES VIOLATE ESTABLISHED UNIVERSITY POLICY

Analysis

The report states that some research funded by private support violated University regulations related to investigations of a purely commercial or proprietary interest to a donor. It is acknowledged that some violations have occurred. The University is in the process of developing further implementing procedures to assure a more thorough review of gifts received for support of research, and will provide for a determination that acceptance of such gifts will not violate University regulations related to investigations of a purely commercial nature.

The report further states that gift-sponsored research also avoids established research review processes required for research performed under a contract or grant. This statement is not entirely correct. A considerable amount of voluntary support is received from philanthropic foundations and associations (approximately 50% of the total private support) much of which is based on formal solicitations from University faculty members. In such cases the University's research review process is followed. Also gifts and bequests from alumni and other private donors generally are not identified to specific research projects and do not involve a proprietary interest. Rather such gifts or bequests are for the support of general areas of research such as cancer, heart disease, chemistry, etc. in which case the research review process would not be relevant.

However, where voluntary support is for research which is directed to satisfying donor specifications, it is conceded that a research review process is appropriate to assure that such matters as publication rights, rights to patentable inventions and use of human subjects are in accord with University policy. It should be noted here that, in addition to the Davis campus, the Berkeley, Los Angeles and Riverside campuses already have local procedures in place which require gifts in support of research to be reviewed by the Contracts and Grants Office. Implementing procedures being developed for use by all campuses, as mentioned above, will assure conformance with University policy.

The report comments that indirect cost rates are not applied to research projects sponsored by donations and concludes that there appears to be a violation of Standing Order 100.4(l) which, it is alleged, calls for achieving full recovery of indirect costs.

The specific provisions of Standing Order 100.4(1) are, "the President is authorized to negotiate and approve indirect cost rates to be applied to contracts and grants (emphasis added) under which the University conducts programs supported by extramural funds, provided that such negotiations shall be directed toward full recovery of indirect cost (emphasis added)...."

It should be noted that the Standing Order speaks to application of indirect cost rates to "contracts and grants", not to gift-sponsored research. In adopting this provision The Regents did not intend that it apply to gifts since gifts are provided to support University programs rather than to satisfy mission-oriented objectives of the donors. Under such circumstances it has been the traditional practice, in keeping with donor intent, to utilize such funds solely for the direct costs of research activity.

The report also comments that the University does not apply indirect cost rates consistently to private grants. In this circumstance one must not only look at The Regents' policy in this regard but also at the policies of agencies which provide research support with respect to reimbursement of indirect costs. The Standing Order does not mandate that full indirect costs be recovered but only that negotiations be "directed toward" full recovery. This recognizes that there are circumstances in which full recovery may not be achieved and yet acceptance of funds from external sources for the support of research is appropriate. For example, philanthropic foundations commonly impose limitations on reimbursing for indirect costs on the basis they are supporting programs colleges and universities have elected to pursue rather than having the institutions carry out foundation programs. As a result it is a general practice across the country for institutions to accept grants from such foundations without full indirect cost recovery. It is acknowledged that certain grants from commercial organizations, if appropriate for acceptance, should provide for full indirect cost recovery and University policy will be clarified in this regard.

Audit Recommendation

That The Regents' Committee on Educational Policy review the use of gifts for extramurally sponsored research. Specifically, it should consider the appropriateness of research of a commercial nature, the implementation of review processes for gifts involving research, the acceptance of restrictive conditions such as the right to publish research results and the application of indirect cost rates.

Analysis

It is believed that action by the Committee on Educational Policy is not necessary. The long standing University policy on research of a commercial nature is appropriate and the establishment of a formal review process for gifts involving research to insure proper application of policy should resolve the concerns identified in the audit report.

Audit Finding

OPERATIONAL CONTROLS ON CERTAIN ASPECTS OF THE UNIVERSITY'S PRIVATE SUPPORT PROGRAM NEED IMPROVEMENT

Analysis

The University is sensitive to the need for adequate operational controls in order to achieve compliance with established policies and procedures. Tests of performance through audit and other processes can aid in determining that operational controls are functioning. But the effectiveness of these controls still depends on human beings and mistakes will occur.

The University will continue to direct its efforts toward achieving a high level of administrative efficiency in the conduct of University business. The instant report provides no evidence that deficiencies in areas reviewed are of a serious magnitude, but the University will remind appropriate personnel of the need to assure that there is continued adherence to established policies and procedures.

In the first paragraph of this section the report makes reference to the $58.2 million as being discretionary income. This is not a correct statement since only $723,000 was unrestricted (and, therefore,, discretionary). The balance was subject to donor or grantor constraints.

In the case of questionable depositing of checks the circumstances surrounding the alleged deficiencies are dèscribed later in this response in connection with the case history of the California Institute for Cancer Research.

With respect to inventory control, the University believes its policy of inventorying items having an acquisition value of $200 or more whether purchased or donated is reasonable. The cost of maintaining inventory records must be weighed against the value of the inventory involved and some reasonable level adopted below which records are not practical from a cost benefit standpoint. The oriental rug and silver candelabra which could not be located at the Santa Barbara campus were appraised at $50 each in 1966 (incidentally they have both been located in storage at the Faculty Club). The fact that items are inventoried will not necessarily safeguard them or resolve pilferage problems.

In the case of the sale of paintings, it is believed that the paintings were part of a collection which was a gift to the University and that the paintings were to be sold and the proceeds used for purposes specified by the donor. The paintings were sent to a leading art auctioneer in New York and sold on a competitive bid basis.

With respect to contingent funds the University has established procedures for providing campus accounting offices with payroll tax reporting information. The procedure was not followed in 1977 and responsible individuals will be advised of this oversight and action to correct will be taken.

With respect to documentation, University procedures follow the substantiation requirements imposed by the Internal Revenue Service. They are believed to be both adequate and reasonable. The University will review the situation relative to potential duplicate reimbursement to determine what controls might be appropriate to guard against this possibility.

The utilization of gift proceeds must occasionally involve judgements in which case the opportunity exists for second guessing. Where donor restrictions are not precise, reasonable administrative judgement of responsible officials is appropriate.

The expenditure at Santa Cruz was considered not in violation of the terms of the funds and under such circumstances it does not seem appropriate that the incident be mentioned here.

In the use of gift and endowment funds, however, the audit program will be extended to include periodic tests of such uses. Frequency of review will be governed by availability of staff to perform this and the many other audit functions for which the unit is responsible.

Audit Recommendations

- The requirements of BUS 49 involving cashiering be enforced to ensure the prompt deposit of funds.
- All items of donated personal property be inventoried.
- Sales of donated property adhere to university policy BUS 38.
- Accounting for contingent funds be performed in the same organizational unit as the normal university expense review to avoid potential duplication of reimbursement.
- Contingent fund expenditures for unofficial spouse travel be automatically added to the employees' taxable income.
- Campuses be instructed to give careful consideration to the donor's expressed or implied wishes concerning the expenditure of gift funds.
- The internal audit activity for Systemwide Administration be expanded to include the area of private support.

University Response

- The University will take necessary action to assure that the requirements of BUS 49 are observed.
- Donated personal property will be inventoried in accord with University policy on inventorying.

-- Campus Materiel Managers will be reminded of the requirements of BUS 38.

-- Accounting for contingent fund procedures will be reviewed to determine what controls might be appropriate to avoid duplicate reimbursement.

-- Procedures for adding unofficial spouse travel to employees' taxable income will be reviewed to determine if any change is necessary.

-- The University's Gift Manual is quite explicit in the matter of conforming to donor restrictions concerning expenditure of gift funds. Campuses will be instructed to give this matter careful attention.

-- Internal audit activity will include the area of private support.

Audit Finding

THE UNIVERSITY DOES NOT REGULATE THE ACTIVITIES OF AFFILIATED, BUT INDEPENDENT, FUND-RAISING ORGANIZATIONS

Analysis

As a general comment responding to this finding, the University, as a result of the Auditor General's report on Campus Foundations,is developing a policy and regulations on University relationships with affiliated organizations. This should serve to correct problems identified in this report and the report on Campus Foundations resulting from the nature of the relationship which has prevailed in the past.

As a general comment relative to the case history presented in this section of the report, it should be noted that on page 2 it is stated that an affiliated fund raising organization which has operated on the Los Angeles campus in various forms since 1945, has engaged in activities resulting in the diversion of significant sums of money for noncharitable purposes. However, in the section commencing on page 25 of the report, there is nothing presented which appears to sustain this allegation.

Turning now to the relationship between UCLA and the California Institute of Cancer Research the comments will first deal with cashiering matters cited earlier in the report.

At page 16 it is stated that due to a failure to follow proper cashiering practices, checks payable to the University were being forwarded to an independent organization. This was CICR.

Since 1962, under an oral agreement with the Dean of the School of Medicine, which was reduced to writing in 1969, CICR has been the fund raising arm for cancer research at UCLA and has devoted its efforts exclusively to UCLA. CICR has, in fact, devoted considerable effort to this cause with great success. It is an organization of some significance in the Los Angeles community, its board of directors consisting of chief executives and senior partners in numerous southland banks, law firms and businesses.

At the same time this active and civic-minded board has wanted to remain in touch with the activities its funds have gone to support. In the written agreement of 1969, for example, the University agreed to permit CICR's board to allocate the funds to worthy cancer research projects on the basis of faculty applications for grants. This reflected the practice of prior years. This kind of involvement was designed as an incentive to CICR's fund-raising activities, and the University lost nothing by it because all of the funds had to come to UCLA anyway.

For this well-intended reason, the School of Medicine would transfer checks which had come in for unrestricted cancer research purposes to CICR for allocation to worthy projects. Also, as a practical matter, it was clear that many of these unrestricted gifts came in as a direct result of CICR's fund-raising efforts which, under the University's agreement with CICR, gave that organization a legitimate claim to control the disposition of these funds. In any case, UCLA halted the practice of transfering these unrestricted cancer research gifts to CICR in September, 1977, simply to avoid the appearance of any improper procedure. The report does not mention this.

Granted that unrestricted fund checks were transfered to CICR for allocation, a specific example is cited of an $83,334 check made payable to the "UCLA Cancer Center" which was an entirely proper transaction, and seems singled out here because of its size. On May 15, 1975, The Regents approved a joint fund-raising campaign for the University and CICR to raise $5 million to construct a Cancer Center at UCLA. As part of that effort, CICR obtained $2 million in pledges from major Los Angeles area corporations, which CICR, in turn, pledged to UCLA. The first payment on one of these pledges, $83,334 of a total $250,000 pledge from an oil company, came in made out to "UCLA Cancer Center." There is no question that this payment was intended to fulfill the pledge to CICR and - for proper accounting purposes - the check was given to CICR for ultimate payment to the University.

The Auditor General finds some significance in his statement that the contract with CICR had been allowed to "expire" five months before this "erroneous" bank deposit. The deposit was not erroneous, and the contract was extended orally during this period until language for a written extension could be agreed upon, and therefore never expired. Moreover, the University had a legally enforceable pledge from CICR for the $83,334 in question, and the existence of any other contract was irrelevant. The implication of improper procedures here is misleading.

This section of the report concludes with two further examples which relate to CICR, on page 21.

One is that a gift of $10,000 was turned over to an independent organization (again, CICR). This gift, from the Bowyer Foundation of Chicago, was solicited and tendered for the purposes of constructing the Cancer Center, as described above since the Bowyer Professor of Medical Oncology, the chair in question, would obviously benefit from the new Center. The check was turned over to CICR, again for overall coordination of the joint fund-raising campaign approved by The Regents.

The second is a statement that UCLA gave the sole right of allocation from a $1 million bequest for cancer research to an independent organization (again, CICR). This "sole right of allocation" pertains to the Evelyn Hamburger Fund, a $1 million bequest to the University for research at the "Cancer Research Institute." UCLA and CICR disagreed over Miss Hamburger's intentions, but UCLA recognized that she had been solicited by and had a close friendship with leaders in CICR. Rather than dispute their respective claims, UCLA and CICR entered the above - described 1969 agreement under which the University deposited and invested the Hamburger Fund, but CICR was given authority to allocate income from it to worthy cancer research projects at UCLA on the recommendation of the School of Medicine's cancer research committee. This was and is an innocent arrangement under which the University loses no control of the funds, all of the funds must be allocated to UCLA, and was a reasonable compromise of conflicting claims of control which neither party wished to dispute.

It should be added that in the entire discussion above, the Auditor General does not mention CICR, which may create the impression that he is speaking of more than one group, which is not the case.

In the section commencing on page 25 CICR is mentioned by name, and demonstration of the conclusion quoted in the heading to the section is offered in a several page dissertation concerning CICR's history, growth, acquisition of the assets of timber mills in the northwest and troubles with the IRS. The bulk of the activities described occurred in the 1940's and 50's, before CICR had any commitment to raise funds exclusively for UCLA. To describe at length CICR's problems before this commitment was made in 1962 is the same as holding the University responsible for the activities of the Ford Foundation or any other independent group which provides funding for research. The University agrees with the Auditor General's conclusion that private groups which raise money exclusively for the University should be subject to reasonable control, but we contend that it is unfair to burden the University with this responsibility for CICR when there was no such exclusive connection or right to control. (See Auditor's Note 1.)

On pages 31-32 of the report, the Auditor General summarizes four problem areas derived from its study of CICR.

The first two, regarding the disposition of $3 million in CICR assets in 1957 when the organization split into two groups, and the existence of $1 million in notes payable to CICR from 1947 to 1953, again relate to an era when UCLA did not have authority and could not be responsible for the affairs of the organization. Therefore, it is not reasonable or appropriate for the campus to comment on these audit findings.

The third refers to a $15,000 bank transfer in 1964, apparently between CICR and its spin-off organization, the West Los Angeles Institute for Cancer Research. UCLA is unaware of this transaction, and no detail on it has been provided. We would be troubled by any disposition of funds by CICR beyond the University after 1962 and are looking into it.

Auditor's Note 1: The minutes of the May 15, 1975 meeting of the Regents Committee on Educational Policy states, "The CICR is a non-profit organization of long standing in the Los Angeles community, having been incorporated as a tax exempt organization in 1947. It has been an official support group on the Los Angeles campus since the founding of the School of Medicine...." It would appear that such a long standing and close relationship should have included some degree of control.

The final problem area states that the UCLA - CICR agreement was allowed to expire between June 30, 1976 and September 23, 1977, that the agreement does not provide for disposition of CICR's assets in the event it ceases operation, and that the agreement does not clearly state that the net proceeds of CICR's fund-raising activities will be donated to the University. All three of these statements are flatly untrue, and reflect another attempt in this report to substitute a legal judgement for an audit analysis.

The agreement between UCLA and CICR was orally extended from June 30, 1976 to September 23, 1977, and such an extension was legally enforceable and proper, pending agreement on final language for the written extension signed September 23, 1977.

The agreement commits all of CICR's funds to UCLA, and UCLA could clearly obtain all of its assets in the event of its dissolution.

The agreement expressly commits all of CICR's fund-raising activities to the University. **(See Auditor's Note 2.)**

Audit Recommendations

That

-- The Regents' Committee on Educational Policy formulate clear and complete policy on permissible activities by affiliated fund-raising organizations.

-- The University develop and implement a standard contractual agreement with all affiliated fund-raising organizations, which stipulates disposition of assets in the event of dissolution and provides guarantees that the net proceeds of all donations for UC activities reach the University.

-- All officers and employees of affiliated fund-raising organizations be bonded in the same manner as university employees.

-- All bank accounts of affiliated fund-raising organizations be closed and the funds moved to the University as agency accounts.

Analysis

In the formulation of policy mentioned earlier the recommendations listed above will be thoroughly exploredand responded to as appropriate to the relationship of the University to affiliated organizations that is established. Policy recommendations are to be presented to the Committee on Educational Policy at the September meeting.

Auditor's Note 2: We strive to fairly and accurately present the facts as we believe them to be. We are not lawyers, however, our reports are subjected to an extensive process of verification and substantiation which includes review by the Office of the Legislative Counsel.

OFFICE OF THE VICE PRESIDENT OF THE UNIVERSITY

APPENDIX A

Statement of Unrestricted Funds Available for Appropriation

April 10, 1978

Unrestricted Funds Available to the President	Estimated Annual Income Or Receipts	Balance July 1, 1977(2)	Net Allocations 1977-78	Balance April 10, 1978
Allyne, Lucy H. Memorial Fund (1a)	$ 73,000	$ 383,142	$ 154,400	$ 228,742
Barron, David Memorial Fund	1,570	9,133	4,275	4,858
Bock, James Samuel Fund	6,700	19,823	15,000	4,823
Bridges, Robert L. Fund (4)	2,000	42,129	--	42,129
Button, Ray S. E. Fund	58,000	98,466	51,643	46,823
Carter, Edward W. Endowment Fund	13,000	78,041	--	78,041
Educational Fund (4)	4,500,000	10,053,427	4,681,408	5,372,019
Edwards, Lillian Fund	11,000	11,073	--	11,073
Federal Endowment Fund (1b)	62,000	169,239	42,000	127,239
Goldstein, Lutie D. Fund	37,000	57,709	19,000	38,709
Guthrie, William K. Fund	6,400	22,809	19,531	3,278
Kutner, Alfred Fund	20,000	73,288	40,000	33,288
President's Provision for Contingencies	750,000	790,785	699,016	91,769
President's Unallocated		213,828	106,674	107,154
Property Holding Corp. Fund (4)	2,000	39,291	--	39,291
Public Building Land Fund	39,000	42,633	12,803	29,830
Robinson, Mabel R. Fund	13,700	21,146	10,737	10,409
Searles Fund	1,009,200	987,506	574,654	412,852
Seminary Land Fund	12,000	26,114	--	26,114
State Tidelands Fund (1c)	126,500	290,391	273,324	17,067
University Endowment Fund	219,000	455,587	399,300	56,287
Unrestricted Gifts Fund (4)	10,000	19,422	12,420	7,002
Wetmore Trust Fund	17,500	31,583	19,000	12,583
	$ 6,989,570	$13,936,565	$7,135,185	$6,801,380

Unrestricted Funds Available To The Regents:				
Nuclear Science Fund (3)(4)	$ 7,375,000	$15,620,443	$ 14,533,000	$ 1,087,443
University Opportunity Fund (3)(4)	25,781,000	29,102,005	25,371,984	3,730,021
Totals	$33,156,000	$44,722,448	$39,904,984	$4,817,464

NOTES:

1. Funds with minor restrictions:
   a. to assist new campuses.
   b. may not be used for purchase or repairs of buildings.
   c. may not be used for purchase of land or buildings.

2. The University operates under the general rule that fund income earned in one fiscal year is not available for expenditure until the next fiscal year. Therefore, 1976-77 income has been included in the July 1, 1977 balance. Also included in the July 1, 1977 balance are returns of earlier allocations, which were recorded during 1976-77.

3. Estimated receipts of the Nuclear Science and the University Opportunity Funds are used for allocations during the current fiscal year. The estimated income, loan repayments and returns for 1977-78 have been included in the July 1, 1977 balance for the purpose of this report.

4. Income added to Principal of Funds.

SEARLES FUND
1977-78 Allocations

INCLUDED IN THE 1977-78 PRINTED BUDGET:

Contingent Funds	$164,750
International Travel	8,200
Regents Administrative Stipend	2,000
Public Ceremonies - Special Events	3,500
Berkeley - Matilda Brooks Appointment	500
Berkeley - Membership in Learned Societies	2,000
San Francisco - Chancellor's Housing Stipend	6,000
Miscellaneous Systemwide Expenses	3,500
Contribution to Tax - Annuity Plan for Chancellors, Vice Presidents & Principal Officers	34,500
Chancellor's House Maintenance	237,500
President's House Maintenance	42,900
Vice President's House Maintenance	17,600
NLWRS-Representative - Support	1,700
Supplementary retirement allowance for President Emeritus Hitch	1,978
Total 1977-78 Printed Budget Allocations	526,628
Systemwide - NLWRS-Representative - Salary and Employee Benefits; Approved by President Saxon on 5/16/77	27,693
Santa Cruz - Furniture and carpeting replacement in the Chancellor's House; Approved by President Saxon on 11/10/77	10,000
Santa Barbara - Furniture for University House; Approved by President Saxon on 12/8/77	9,000
Systemwide - Discretionary expenses of the Associate Vice President of the University, 3/1 - 6/30/78; Approved by President Saxon on 2/28/78	1,333
Total Allocations	$574,654

4/10/78

CALIFORNIA INSTITUTE FOR CANCER RESEARCH
(A Nonprofit Corporation)
STATEMENT OF FINANCIAL CONDITION BY FUNDS
NOVEMBER 30, 1956

ASSETS

CURRENT FUND				
Cash in banks			$82,131.15	
10 per cent of rents receivable (Note A)				
Fortuna Sawmills, Inc.		$9,488.84		
Timber Structures, Inc.		23,488.59	32,977.43	
One-half of interest receivable from employees of Timber Structures, Inc.			335.28	
				$115,443.86
INVESTMENT FUND (NOTE B)				
90 per cent of rents receivable (Note A)				
Fortuna Sawmills, Inc.		$85,399.54		
Timber Structures, Inc.		211,397.35	$296,796.89	
One-half of interest receivable from employees of Timber Structures, Inc.			335.27	
Investments				
Notes receivable (Note C)				
Employees of Timber Structures, Inc. and members of their families		$16,763.82		
Timber Structures, Inc., noninterest bearing		664,449.06		
Fortuna Sawmills, Inc., noninterest bearing		20,991.79	702,204.67	
Property held for rental (Note D)	Leased to Timber Structures, Inc.	Leased to Fortuna Sawmills, Inc.		
Buildings and improvements	$805,502.62	$217,304.52		
Equipment	1,183,626.27	634,576.82		
	$1,989,128.89	$851,881.34		
Less: Accumulated depreciation	969,075.24	297,204.80		
	$1,020,053.65	$554,676.54		
Land	217,340.30	63,570.00		
	$1,237,393.95	$618,246.54	1,855,640.49	
Excess of cost over appraisal value of assets leased to Fortuna Sawmills, Inc.			238,006.70	3,092,984.02
				$3,208,427.88

LIABILITIES AND FUNDS

CURRENT FUND (NOTE E)			
Fund balance, November 30, 1955		$139,308.80	
Deduct: Excess of grants-in-aid over current fund income for the year ended November 30, 1956 (Exhibit "B")		23,864.94	
Fund balance, November 30, 1956			$115,443.86
Proposed reservation of current funds:			
Nuclear reactor		$125,000.00	
Cancer detection study		66,000.00	
		$191,000.00	
INVESTMENT FUND (NOTE B)			
Liabilities (Notes C and F)			
Note payable to Ward Mayer, et al., noninterest bearing, due on or before September 1, 1961, secured by trust deed and chattel mortgage on property leased to Timber Structures, Inc. and by assignment of notes receivable	$2,138,068.49		
Note payable to Clay Brown, et al., noninterest bearing, due on or before January 31, 1963, secured by trust deed and chattel mortgage on property leased to Fortuna Sawmills, Inc. and by assignment of note receivable	648,905.43	$2,786,973.92	
Fund			
Balance, November 30, 1955	$260,089.38		
Add:			
Net amount expended by lessee for additions to rental properties (see Exhibit "C")	77,957.54		
Portion of investment fund income (Exhibit "C")	235,750.69		
	$573,797.61		
Deduct: Depreciation for the year ended November 30, 1956	267,787.51		
Balance, November 30, 1956		306,010.10	
			3,092,984.02
			$3,208,427.88

CALIFORNIA INSTITUTE FOR CANCER RESEARCH
(A Nonprofit Corporation)
STATEMENT OF RECEIPTS AND DISBURSEMENTS
FOR THE PERIOD FROM DECEMBER 24, 1956 TO JUNE 30, 1957

Receipts			
Contributions			
Cash	$6,904.72		
Proceeds from sale of donated unimproved real property	165,950.07	$172,854.79	
Cash received from West Los Angeles Institute for Cancer Research (Note A)			
Noninterest bearing loan (Note B)	$10,000.00		
Undisbursed contributions	16,054.63		
Foothill Women's Guild budget account	123.08	26,177.71	
Total, receipts			$199,032.50
Disbursements - from noncontributed funds (Note B)			
Office secretary's salary (for the year beginning July 1, 1957 and ending June 30, 1958)		$4,296.00	
Stationery and office supplies		140.47	
Postage		46.63	
Publicity		281.86	
Legal		167.62	
Miscellaneous		10.24	
Total, disbursements			4,942.82
Excess of receipts over disbursements for the period from December 24, 1956 to June 30, 1957 (balance of cash at June 30, 1957)			$194,089.68
Balance of cash at June 30, 1957 consists of:			
Contributions account - Citizens National Trust & Savings Bank of Los Angeles, University-Westwood Branch		$188,904.77	
Operating account - The Bank of Los Angeles at Westwood		5,154.10	
Budget account of Foothill Women's Guild - Security-First National Bank of Los Angeles, Lake and Colorado Branch, Pasadena		8.52	
Petty cash on hand		22.29	$194,089.68

Note A - This corporation was formed on December 24, 1956 for the purpose of collecting and distributing funds to educational institutions for research in the disease of cancer. These activities were formerly carried on by the West Los Angeles Institute for Cancer Research (name changed from California Institute for Cancer Research on February 11, 1957). The sum of $26,177.71, as shown above, was subsequently transferred from the old corporation to this corporation.

Note B - The disbursements of $4,942.82, as shown above, were paid from the loan of $10,000.00 received from the West Los Angeles Institute for Cancer Research and from the Foothill Women's Guild budget account. At June 30, 1957 no portion of the loan had been repaid.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps