

# University of California

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

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

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

In the report, the California State Auditor (state auditor) made the following recommendations to the university. The state auditor's determination regarding the current status of recommendations is based on the university's response to the state auditor as of November 2011.

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

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

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

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

The university stated that it has established a systemwide work group to examine variation in funding across the system. This work group consists of chancellors and other campus leadership, faculty representatives, and leadership from the Office of the President. The university further stated that the work group will review the base budgets and consider changes “going forward”; it will not attempt to quantify the existing variation. The university stated that the work group will likely consider many factors in its evaluation, such as the amount of funding provided per-student, the distribution of graduate and undergraduate students at each campus, and the numbers of students and cost for the various types of graduate and undergraduate programs (e.g., health sciences programs). The work group will also consider funding for noninstructional programs operated by the campuses, such as agricultural experiment stations. The university stated that the work group had held three meetings by September 2011 and would continue to meet monthly through early 2012, at which time it expects the work group to submit recommendations to the president. The university also stated that the recommendations will be made public.

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

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

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

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

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

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

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

The university stated that the Office of the President is developing a new budget manual that describes current budget practices. The university also stated that it should complete the new manual by July 2012, and will publish the manual on its Web site.

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

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

*University's Action: Pending.*

The university stated that it is reviewing the information about budget allocations currently available on its Web site, as well as other financial information made available on systemwide and campus Web sites.

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

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

*University's Action: Pending.*

The university stated that it plans to start implementing this recommendation after it completes its annual financial statement closing process in mid-November.

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

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

*University's Action: Pending.*

The university stated that it plans to start implementing this recommendation after it completes its annual financial statement closing process in mid-November.

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

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

*University's Action: Pending.*

The university stated that it plans to start implementing this recommendation after it completes its annual financial statement closing process in mid-November. The university added that it has already gathered data from the campuses for the year ending June 30, 2010, and is reconciling and analyzing the data to determine what additional level of reporting from the campuses would be useful.

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

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

*University's Action: Pending.*

The university does not agree with this recommendation. The university restated its position that the Regents of the university (regents), and, by delegation, the university president, retain authority to make modifications to the terms of the uses of revenue for all campus-based fees. However, the



university also stated that it will request from the regents at a future meeting approval of policy changes that would clarify the university's position. The university stated that the Office of the President and the campuses are collaborating on efforts to avoid the need for changes from referenda language. It stated that campuses frequently provide draft referenda to the Office of the President for review, and staff work closely with the campuses to clarify language and, in the case of capital project fees, to ensure that the financial planning for building projects has been sound.