

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

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

2010-105
One-year response
due 7/27/12

rev'd 7/30/12



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July 26, 2012

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Dear Ms. Howle:

This letter is the University's official 12-month progress report on recommendations included in the report *Although the University Maintains Extensive Financial Records, It Should Provide Additional Information to Improve Public Understanding of Its Operations*. Below is the University's response to each recommendation made in the report.

Chapter 1 – University Revenues and Expenses Have Undergone a Few Significant Changes Over the Past Five Years

We note that this chapter did not include any recommendations.

Chapter 2 – The University Should Complete Its Reexamination of the Campus Base Budgets and Could Improve the Transparency of its Budget Process

The University's Allocation Process

As described in the audit report and noted in our previous responses, the University established a systemwide work group, consisting of Chancellors and other campus leadership, faculty representatives, and leadership from the Office of the President, to examine variation in funding across the system. The effort by the Rebenching Task Force reviewed the base budgets and considered alternatives for adjusting distribution formulas, but did not attempt to "quantify" the existing variation, as suggested in the audit. The work group has completed its work and the summary of its findings has been sent to me for my consideration. Other University constituencies are also reviewing the documents. The report and the accompanying appendices are attached to this response. The core principles and recommendations offered by the Task Force create a framework that will form the basis for allocations of State General Funds going forward. Basically, the framework calls for allocations

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of State funds to be based on a per student calculation. The calculation considers the relative weights of various levels of students, without identifying actual costs associated with those levels, and makes several adjustments for a variety of considerations. Such adjustments include the new campus at Merced and the medical campus at San Francisco, programs that hold systemwide importance or that receive State-specific funding and therefore should not be funded on a per student basis. Other considerations are a recognition of a minimum level of fixed costs necessary to operate any campus, and acknowledgement of the need to fund graduate enrollment growth for those campuses that fall below the systemwide average, among others. The report of the Task Force and accompanying appendices have been posted on the following University website: <http://budget.ucop.edu/documents/rebenching-report-recommendations.pdf>.

Many issues will need to be resolved as these recommendations are implemented over time. The group recommended a six-year timeframe, which may or may not be achievable. In addition, because the formula relies on a per student calculation, it will be necessary for the University to develop a long-range enrollment plan upon which future allocations will be based. I am considering a number of issues that will need resolution before a final plan for rebenching State General Funds is completed, but it is my intention to begin the process of rebenching State General Funds in the 2012-13 allocations to those campuses that have the lowest State funding per student with the new funding provided in the University's 2012-13 State budget appropriation.

Transparency of Budget Process

In our previous responses, we noted that for the 2011-12 fiscal year, the University has implemented changes to its budget process that result in individual campuses retaining all student tuition and fee revenue, research indirect cost recovery funds, and other campus-generated funds. These changes will increase the transparency of the University's budget. There is no further update to this response.

The Office of the President is developing a new budget manual describing current budget practices, which had been scheduled to be completed by July 2012. This work is still underway, but due to budget cuts and staff shortages, it is likely completion of this project will be delayed a year. When completed, it will be published on the University's website. Again, there is no further update to this response.

The University is reviewing the information about budget allocations currently available on the University's website, as well as other financial information made available on systemwide and campus websites. There is no further update to this response.

Chapter 3 – Although the University Has Numerous Processes to Provide Detailed Accountability for Various Types of Funding, It Could Improve the Transparency of Its Financial Operations

Transparency of University Funds

We are continuing to analyze data and explore alternatives to consistently report unspent balances that are carried over to future years. We expect to include this information in fiscal year 2013 reports.

Campus Financial Information on Auxiliary Enterprises

We gathered data for fiscal year 2011. After excluding revenues received for special programs, for example child-care grants from the State, and student fees designated by each Chancellor, there was \$1.4 million of campus unrestricted funds used to support non-hybrid auxiliaries. Two of these auxiliaries, which received \$0.9 million of campus support, were recently closed. For hybrid auxiliaries, the Chancellor has discretion over the source of funds that will be used for direct and indirect costs of the activities. We plan to continue to monitor this information annually.

Transparency of University Expenses

Each campus implemented new procedures for fiscal year 2012, and we expect miscellaneous services will decrease by over 90 percent over the next two fiscal years as other, more appropriate accounts, are used to report the expenses.

Use of Revenues Generated from Student Fees Imposed by Referenda

As noted in our previous responses, the University maintains that The Regents, and, by delegation, the President retain authority to make modifications to the terms of collection and the uses of revenue for all campus-based fees. At a future Regents' meeting, the University will request approval from The Regents for changes to policy that would clarify the University's position.

Compulsory campus-based student fees adopted by student referenda are guided by the University's *Policy on Compulsory Campus-Based Student Fees* (referred to as *Policy* below). Compulsory campus-based student fees may only be established following a student referendum adopting the fees, except as provided in Section 83.00, "Exceptions to the Referendum Requirement."

The passage of a referendum, however, does not mandate the imposition of a fee. The fee must still be approved by the Chancellor and the President. Approval of compulsory student fees adopted by student referenda, including fees for student-fee funded facilities, has been delegated to the President under The Regents' *Standing Order 100.4(g) – Duties of the President*, which can be found online at <http://www.universityofcalifornia.edu/regents/bylaws/so1004.html>.

In all situations, 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 by campus-based

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referenda. Once a fee has been imposed by The Regents or the President, after possible modifications of the fee 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. A referendum, however, 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. The Office of the President (UCOP) and the campuses are collaborating on efforts to avoid the need for changes from referenda language. When student referenda for campus-based fees are in the planning stages on the campus level, campuses frequently send draft referenda language to UCOP prior to printing final language on student ballots. The draft language is 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, however, may not want to restrict campus flexibility in the future. 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. There is no further update to this response.

If you have any questions about this response, please do not hesitate to be in touch with me.

Sincerely yours,



Mark G. Yudof
President

Attachment

cc: Executive Vice President Brostrom
Chief Financial Officer Taylor
Senior Vice President and Chief Compliance & Audit Officer Vacca