



The University of California

Its Admissions and Financial Decisions Have
Disadvantaged California Resident Students

Report 2015-107



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March 29, 2016

2015-107

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the California State Auditor presents this audit report concerning the University of California's (university) enrollment, executive compensation, and budget. This report concludes that over the past several years, the university has undermined its commitment to resident students. Specifically, in response to reduced state funding, the university made substantial efforts to enroll nonresident students who pay significantly more tuition than residents. The university's efforts resulted in an 82 percent increase in nonresident enrollment from academic years 2010–11 through 2014–15, or 18,000 students, but coincided with a drop in resident enrollment by 1 percent, or 2,200 students, over that same time period.

The university's decision to increase the enrollment of nonresidents has made it more difficult for California residents to gain admission to the university. According to the Master Plan for Higher Education in California, which proposes the roles for each of the State's institutions of higher education, the university should only admit nonresidents who possess academic qualifications that are equivalent to those of the upper half of residents who are eligible for admission. However, in 2011 the university relaxed this admission standard to state that nonresidents need only to "compare favorably" to residents. Combined with the university's desire to enroll more nonresidents because of the additional tuition that they pay, the relaxing of this admission standard had dramatic results. During the three-year period after this change, the university admitted nearly 16,000 nonresidents whose scores fell below the median scores for admitted residents at the same campus on every academic test score and grade point average that we evaluated. At the same time, the university denied admission to an increasing proportion of qualified residents at the campus to which they applied—nearly 11,000 in academic year 2014–15 alone—and instead referred them to an alternate campus. However, only about 2 percent of residents who the university referred actually enrolled. Moreover, increasing numbers of nonresident students have enrolled in the five most popular majors that the university offers at the same time that resident enrollment has generally declined in those same majors.

The university could have taken additional steps to generate savings and revenue internally to mitigate the impact of its admissions and financial decisions on residents. For example, the university's spending on employee salaries increased in eight of the last nine fiscal years despite the State's fiscal crisis. By fiscal year 2014–15, its annual salary costs had risen to \$13 billion. In addition, even though the university publicly claimed that it redirected \$664 million to its academic and research missions through an initiative it developed called Working Smarter, it could not substantiate the asserted savings or revenue amounts or demonstrate how much of this amount directly benefited students.

continued on next page...

Moreover, the university's funding allocation decisions have not completely resolved its unequal distribution of per-student state funding across its campuses, resulting in certain campuses continuing to receive less state funds per student than others. After several reports identified inequity in per-student funding among the campuses and a lack of transparency in how the university distributes that funding, the university embarked on an effort which it refers to as *rebenching*. However, we identified several problems with rebenching, including the fact that the university does not base the formula it uses to redistribute funds on the amounts it actually costs to educate different types of students. The university also excluded \$886 million in state funds from the amount it distributes to campuses through per-student funding for fiscal year 2014–15 for programs that do not relate directly to educating students. Further, even though the university asserts that the additional revenue from its increased enrollment of nonresidents allows it to improve education quality and enroll more residents, the university does not give campuses spending guidance or track how they use these funds. Lacking such guidance or oversight, we found campuses spend these funds in an inconsistent manner.

Because of the significant harm to residents and their families resulting from the university's actions, we believe that legislative intervention, as outlined in the report, is necessary to ensure that a university education once again becomes attainable and affordable for all California residents who are qualified and desire to attend. For example, we recommend that the Legislature consider amending state law to limit the percentage of nonresidents the university can enroll each year and consider basing the university's annual appropriation upon the university following this requirement.

Respectfully submitted,



ELAINE M. HOWLE, CPA
State Auditor

Contents

Summary	1
Introduction	11
Chapter 1	
The University of California Undermined Its Commitment to California Resident Students in Exchange for Revenue Generated by Nonresidents	23
Recommendations	47
Chapter 2	
The University of California Did Not Sufficiently Reduce Its Costs Before Increasing Tuition and Nonresident Enrollment	49
Recommendations	64
Chapter 3	
The University of California Has Not Adequately Monitored Campus Spending and Has Not Completely Equalized Per-Student Funding	67
Recommendations	85
Appendix	
The University of California Has Not Fully Implemented Half of the Recommendations From the California State Auditor's 2011 Audit	89
Response to the Audit	
The University of California	91
California State Auditor's Comments on the Response From the University of California	105

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Graphics

INTRODUCTION

Figure 1 University of California’s Revenues by Category Fiscal Year 2014–15	13
Figure 2 University of California’s Estimate of How It Spent State General Fund Revenue Fiscal Year 2014–15	14
Table 1 Per-campus Allocation of State Funds for Fiscal Year 2014–15	15
Table 2 The University Of California’s Students Pay Tuition and Various Fees	16
Table 3 Annual Tuition and Fees for Undergraduates 2015–16 Academic Year	17
Figure 3 The University of California’s Student Tuition and Fee Revenues Have Increased While Its State Appropriations Have Declined	18
Table 4 Audit Objectives and the Methods Used to Address Them	19

CHAPTER 1

Figure 4 Despite an Increase in Resident Applicants, the University of California Has Kept Resident Undergraduate Enrollment Flat	25
Figure 5 The University of California Has Admitted and Enrolled Increasing Numbers of Nonresident Undergraduates	26
Figure 6 The University of California Admitted Nearly 16,000 Nonresident Undergraduates Over the Past Three Academic Years With Grade Point Averages and Scores on All Tests That Fell Below the Median of Admitted Residents	28

Table 5 In Recent Academic Years, Most Campuses Have Admitted Domestic Nonresident Undergraduates With Lower Weighted Grade Point Averages Than Residents They Admitted	29
---	----

Table 6 The University of California Has Admitted Increased Numbers of Nonresident Undergraduates Who Have Lower Test Scores and Grade Point Averages Than the Upper Half of Admitted Residents	30
---	----

Figure 7 Nonresident Supplemental Tuition Revenue by Campus From Fiscal Years 2005–06 Through 2014–15	32
---	----

Table 7 Resident Undergraduates Whom the University of California Refers to Other Campuses Rarely Enroll	35
--	----

Table 8 Changes Have Occurred in Resident and Nonresident Enrollment Growth in the Most Popular Undergraduate Majors	36
--	----

Table 9 Enrolled California Resident Undergraduates and Graduates Include a Higher Percentage of Underrepresented Minorities Compared to Nonresidents	38
---	----

Figure 8 Ethnicities of Resident Undergraduates Who Were Denied Admission to the Campus of Their Choice	40
---	----

Figure 9 The University of California Has Significantly Increased Undergraduate Mandatory Fees	42
--	----

Table 10 Potential Results of Capping Nonresident Undergraduate Enrollment at Levels Between 5 Percent and 20 Percent	46
---	----

CHAPTER 2

Table 11 The Number of University of California Employees and Their Gross Earnings Increased Significantly From Fiscal Years 2005–06 Through 2014–15	51
--	----

Table 12 The University of California’s Top Executives Earn More Than High-Level Positions in the State’s Executive Branch	53
--	----

Table 13	The University of California Has Claimed Significant Savings From Working Smarter Initiative Projects	59
-----------------	---	----

Table 14	Undergraduate Recruiting Expenditures Have Increased Significantly, Particularly for Nonresident Recruiting	63
-----------------	---	----

CHAPTER 3

Table 15	Despite Large Increases in Nonresident Supplemental Tuition Revenue, Systemwide Resident Enrollment Has Declined Over the Past Five Academic Years	69
-----------------	--	----

Table 16	Campuses Spent Nonresident Supplemental Tuition Revenue Across a Variety of Functions Fiscal Years 2007–08 Through 2014–15	72
-----------------	--	----

Table 17	The University of California Failed to Monitor and Evaluate Programs That Cost \$337 Million in State Funds Annually	75
-----------------	--	----

Table 18	Formula for Determining Annual Rebenching Amounts Per Campus	78
-----------------	--	----

Table 19	Weight Factors Used to Determine Per-Student Funding Under Rebenching	79
-----------------	---	----

Figure 10	The University of California Did Not Apply About a Third of Its Fiscal Year 2014–15 State Allocation to Its Calculation of Per-Student Funding	81
------------------	--	----

Figure 11	Per-Student Funding by Source and Proportion of Underrepresented Minority Students by Campus Fiscal Year 2014–15	84
------------------	--	----

APPENDIX

Table A	Status of California State Auditor’s Report 2010-105 Recommendations	89
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Summary

Results in brief

The University of California (university) is one of the premier public university systems in the nation, enrolling more than 252,000 students at its 10 campuses as of the fall of 2014. As a public institution, the university should serve primarily those who provide for its financial and civic support—California residents. However, over the past several years, the university has failed to put the needs of residents first. In response to reduced state funding, it has made substantial efforts to enroll more nonresident students, who pay significantly more annual tuition and mandatory fees than resident students—\$37,000 compared to \$12,240 in academic year 2014–15. The results are stark: From academic years 2010–11 through 2014–15, total nonresident enrollment at the university increased by 82 percent, or 18,000 students, while resident enrollment decreased by 2,200 students, or 1 percent.

The decision to increase nonresident enrollment has had profound repercussions for residents who apply for admission. According to the Master Plan for Higher Education in California (Master Plan), which proposed the roles for each of the State’s institutions of higher education, the university should select for admission from the top 12.5 percent of the State’s high school graduating class. Based on the university’s interpretation, to comply with the Master Plan, the university guarantees admission to all residents who meet this standard, although not necessarily at the campuses of their choice. Although the university stated that its decision to enroll more nonresidents has not precluded it from meeting its Master Plan commitment to admit qualified residents, we do not believe that the university has sufficiently substantiated this claim.

Specifically, the Master Plan recommends that nonresidents possess academic qualifications that are equivalent to those of the upper half of residents who are eligible for admission. That is, nonresidents should demonstrate higher qualifications than the median for residents. However, in 2011 the university modified its admission standard to state that nonresidents need only to “compare favorably” to residents. During a three-year period after this change, the university admitted nearly 16,000 nonresidents whose academic scores fell below the median for admitted residents at the same campus on every grade point average and admission test score we evaluated. By admitting nonresidents with lower academic qualifications on these key indicators than the median for residents it admitted, the university essentially deprived admittance to highly qualified residents.

Audit Highlights . . .

Our audit of the University of California’s (university) enrollment, executive compensation, and budget revealed the following:

- » *Over the past several years, the university has failed to put the needs of residents first and has made substantial efforts to enroll nonresidents who pay significantly more annual tuition and fees.*
 - *Total nonresident enrollment increased by 82 percent, while resident enrollment decreased by 1 percent.*
 - *The university made it less appealing for the residents it did admit to attend the university by denying an increasingly large percentage of those students admission to the campus of their choice. In contrast, nonresidents, if admitted, are never denied admission to the campus of their choice.*
 - *It modified its admission standard for nonresidents and, during a subsequent three-year period, admitted nearly 16,000 nonresidents with lower academic qualifications than the median for residents it admitted.*
 - *From academic years 2005–06 through 2014–15, the university’s campuses denied admission to nearly 4,300 residents whose academic scores met or exceeded all of the median scores for nonresidents whom the university admitted to the campus of their choice.*
- » *In 2008 the university began encouraging campuses to maximize nonresident enrollment by allowing them to retain their nonresident tuition and establishing separate enrollment targets for residents and nonresidents.*

continued on next page . . .

- » *Admission decisions have hampered efforts for its student body to reflect the diversity of the State—only 11 percent of the increasing number of nonresident undergraduates were from underrepresented minorities in academic year 2014–15.*
- » *The university had other options for generating savings and revenue without increasing tuition or nonresident enrollment.*
 - *Assessing ways to streamline and reduce employee salary costs, which rose from nearly \$8 billion to \$13 billion over the past 10 fiscal years.*
 - *Substantiating the claimed savings and new revenue of \$664 million from the Working Smarter Initiative and directing these funds to its academic and research missions.*
 - *Annually evaluating \$337 million in state funds it allocates to 18 programs not directly related to instruction.*
- » *The university's efforts to equalize per-student funding have not addressed historical concerns.*
 - *The university excluded \$886 million of state funds in fiscal year 2014–15 from the amount it distributed to campuses for per-student funding.*
 - *Not including nonresident revenue in per-student funding exacerbates inequities, especially for underrepresented students.*

To increase tuition revenue in the face of state funding shortfalls, the university implemented two key procedural changes that encouraged campuses to maximize nonresident enrollment. In 2008 the university began allowing the campuses to retain the nonresident supplemental tuition revenue (nonresident revenue) they generated rather than remitting these funds to the Office of the President, which resulted in campuses focusing resources on enrolling additional nonresidents. Also in 2008, the Office of the President began establishing separate enrollment targets—systemwide targets for the number of students each campus should strive to enroll each year—for nonresidents and residents, and it allowed each campus to establish its own separate enrollment targets. In subsequent years, each of the four campuses we visited—Davis, Los Angeles, San Diego, and Santa Barbara—increased their individual campus enrollment targets for nonresidents at a faster rate than their targets for residents. These two procedural changes satisfied the university's goal: In fiscal year 2014–15 the university generated \$728 million from the supplemental tuition that nonresidents paid—a growth of \$403 million, or 124 percent, from fiscal year 2010–11.

Furthermore, over the past 10 years, the university began denying admission to an increasing number of residents to the campuses of their choice. If residents are eligible for admission to the university and are not offered admission to the campuses of their choice, the university offers them spots at an alternative campus through what it calls a *referral process*. In contrast, nonresidents, if admitted, are always admitted to at least one campus of their choice. Of particular concern is that, over the same time period, the university's campuses denied admission to nearly 4,300 residents whose academic scores met or exceeded *all* of the median scores for nonresidents whom the university admitted to the campus of their choice. According to the university, the referral process is critical to it meeting its Master Plan commitment to admit the top 12.5 percent of residents. However, few of the residents whom the university admits and refers to an alternate campus ultimately enroll. In academic year 2014–15 for example, 55 percent of residents to whom the university offered admission to one of the campuses to which they applied enrolled, while only 2 percent of the 10,700 residents placed in the referral pool enrolled.

According to the university, it estimated that it admitted the top 14.9 percent of the eligible California high school graduating class in academic year 2014–15, which included the residents in the referral pool. If we exclude the residents placed in the referral pool and who did not ultimately enroll at the referral campus, the university actually admitted 12.4 percent of the California high school graduating class—less than the 12.5 percent Master Plan commitment. Because placements in the referral

pool result in significantly fewer enrollments of residents than admissions to their campus of choice, we question whether the university should include the residents in the referral pool when computing its admission of the top 12.5 percent of California high school graduates.

The university's admission decisions have also hampered its efforts to meet its own and the Legislature's desire that the university's student body reflect the diversity of the State. While underrepresented minorities—which the university considers to be Chicanos/Latinos, African Americans, and American Indians—represent 45 percent of California's population, they make up 30 percent of the university's overall undergraduate population. Although nonresidents bring geographic diversity to the university, only 11 percent of domestic undergraduate nonresidents were from underrepresented minorities as of academic year 2014–15. The university will struggle to ensure that its student population reflects the diversity of the State if it continues to increase nonresident enrollment.

In reaction to state funding reductions, the university has doubled resident mandatory fees—base tuition and the student services fee—over the past 10 years, which has made it difficult for California families to afford and budget for this important investment. We expected the university to justify these tuition increases by basing resident tuition on the actual costs to educate students. However, the university has not conducted a usable study to determine those costs, thereby limiting its ability to appropriately justify tuition increases. Although the university produced a report on the total costs of education that the Legislature required, the university cautioned that decision makers should not use the report as a solid rationale for policy decisions or resource allocations because the university used many assumptions, estimates, and proxies to calculate the costs it included in the report. That cost study is also problematic because the source of the data it uses does not tie to readily available public financial data, such as its audited annual financial report.

The university could have taken additional steps to generate savings and revenue internally to mitigate the impact of its admissions and financial decisions on residents. For example, the Legislature required the university to enroll an additional 5,000 residents in academic year 2016–17 as a condition of receiving \$25 million in state funds. While the university estimates these 5,000 students will cost approximately \$50 million to educate, or \$10,000 per student, in addition to the tuition they pay, it has not conducted a study to support that estimate. The university plans to use its other funding sources to pay for the remaining \$25 million,

primarily by not offering financial aid to new nonresidents. These actions suggest that the university has the ability to use funds that it had dedicated for other purposes to enroll additional residents.

We also identified key areas in which the university could have reduced its costs in recent years, thus making funds available to enroll more residents. For example, the university's spending on employee salaries increased in eight of the last nine fiscal years despite the State's fiscal crisis. By fiscal year 2014–15, its annual salary costs had risen to \$13 billion. The university also paid its top executives significantly more than employees in other high-level state positions receive: 14 of 15 of those in its top leadership positions earned at least \$400,000 in fiscal year 2014–15, which was significantly more than the executive branch paid the governor and directors of several large state departments. Although the salaries of the university's chancellors rank low in comparison to other higher education and research institutions, the university could do more to help justify its salaries and benefits by conducting regular compensation and benefits studies.

Moreover, the university could have engaged in cost-saving efforts related to one of its initiatives and to recruiting. Specifically, the university did not maximize the benefits that it could have achieved through an initiative it developed in 2010 called Working Smarter, which the university asserts generated \$664 million in savings and new revenue. The university's goal for Working Smarter was to generate administrative savings and new revenue sources that it could redirect to the university's academic and research missions. However, the university is unable to substantiate the \$664 million of savings and new revenue that it asserts the initiative achieved or even how much the university redirected to its academic and research missions. In addition, the university does not require campus participation in the initiative, nor does it centrally manage the savings or revenue that the campuses generate. The university estimates that if it had achieved a campus participation rate of 80 percent for one program alone, it would have generated \$9 million of additional savings. We also found that in fiscal year 2014–15, the university spent \$4.5 million to recruit undergraduate nonresidents, a 400 percent increase over the previous five years. A reasonable limit on nonresident recruiting expenditures could have resulted in significant savings for the university.

Additionally, the university publicly claimed in its operating budgets that increased enrollment of nonresidents has allowed it to enroll more residents. The university subsequently clarified to us that nonresident revenue has enabled campuses to continue to enroll residents above state-funded levels. However, the number of residents enrolled at the university actually decreased by 2,200 students—or 1 percent—from fiscal years 2010–11

through 2014–15 while nonresident enrollment increased by 18,000 students, or 82 percent. Thus, contrary to the university's claim, the amount of nonresident revenue the campuses received has not had a significant impact on the number of residents that they enrolled. In fact, our review of each campus's spending of nonresident revenue revealed that they spent these funds across a variety of areas, not all of which directly benefited residents.

The university also did not sufficiently monitor 18 programs that do not directly relate to teaching students but which nonetheless received \$337 million in state funds for fiscal year 2014–15. Although these programs may provide indirect and important benefits to students, the university has not regularly evaluated its need to continue funding them through state appropriations rather than seeking alternative funding sources. For example, the university acknowledged that it could potentially find alternative sources of funding for two programs to which it allocated \$33 million in state funding in fiscal year 2014–15.

In addition, the university's efforts to equalize its per-student state funding across its campuses did not completely address past concerns regarding its methods for allocating state funding. After our 2011 audit identified inequity in per-student funding among the campuses and a lack of transparency in how the university distributes funds, the university embarked in 2012 on an effort to address these concerns, which it refers to as *rebenching*. However, we identified several problems with rebenching, including the fact that the university based the formula it uses to redistribute funds not on the actual costs to educate different types of students but instead on costs it judgmentally assigned.

Moreover, the university made allocation decisions that excluded \$886 million in state funds from the amount it distributed to campuses through per-student funding for fiscal year 2014–15. This amount represented nearly one-third of the university's total state funding for that year, significantly affecting the amount of per-student funding each campus received. Specifically, if the university includes all funds that the State provides to the university, per-student funding would be as much as \$10,900 per student or as little as \$7,600 per student if the university continues to exclude that state funding.

Although the university's actions may be justified, this information is not transparent or easily accessible to stakeholders. Furthermore, not including nonresident revenue in a per-student funding calculation contributes to the persistence of per-student funding inequities among the campuses. These funding inequities have continued to disproportionately affect underrepresented minority students. Specifically, the highest-funded campuses

when we include nonresident revenue—Berkeley, Los Angeles, and San Diego—are among the four campuses with the lowest percentage of underrepresented minority students.

During our audit, the university stated its intent to address several of the key concerns that we raise in this report. In November 2015 the university committed to enrolling an additional 10,000 residents over the next three academic years. In addition, the university addressed two of the flaws we identified in its efforts to equalize per-student state funding. Nonetheless, because of the significant adverse repercussions for residents and their families resulting from the university's past actions, legislative intervention is necessary to ensure that a university education once again becomes attainable and affordable for all California residents who are qualified and desire to attend.

Specifically, the Legislature should consider limiting the percentage of undergraduate nonresidents that the university can enroll each year. Between academic years 2005–06 and 2007–08—before the fiscal crisis—nonresidents comprised about 5 percent of the university's new undergraduate enrollment. By academic year 2014–15, that percentage had climbed to more than 17 percent, which translated into more than 7,200 additional new nonresident undergraduates enrolled over a 5 percent limit. Implementing a 5 percent limit on new nonresident enrollment would allow the university to enroll an equivalent number of additional new resident undergraduate students per year—about 7,200—more than the number it enrolled in academic year 2014–15.

Requiring the university to enroll these additional residents would necessitate an increased annual financial commitment from both the university and the State to compensate for the increased enrollment of resident undergraduates and the decrease of nonresidents. If the Legislature were to commit additional funds to the university for the purpose of meeting agreed-upon enrollment percentages, it could do so using a phased-in approach. Specifically, the Legislature could require the university to meet enrollment targets within, for example, four years, and it could provide the university with incremental increases in appropriations each year until the university reaches those targets.

Recommendations

To meet its commitment to California residents, the university should do the following:

- Revise its admission standard for nonresidents to reflect the intent of the Master Plan. The admission standard should require campuses to admit only nonresidents with admissions credentials that place them in the upper half of the residents it admits.
- Amend its referral process by taking steps to increase the likelihood that referred residents ultimately enroll.

To ensure that the university meets its commitment to residents and to bring transparency and accountability to admission outcomes, the Legislature should consider excluding the students who the university places in the referral pool and who do not ultimately enroll at the referral campus when calculating the university's Master Plan admission rate until the percentage of students who enroll through the referral process more closely aligns with the admission percentages of the other campuses.

The university should conduct a cost study at least every three to five years and ensure that it represents the costs to educate students and contains amounts that are based upon publicly available financial reports. The university should use the results of the cost study as a basis for the tuition it charges and for the proposed funding needs that it presents to the Legislature.

To ensure that it has accurate information upon which to make funding decisions, the Legislature should consider amending the state law that requires the university to prepare a biennial cost study. The amendment should include requirements for the university to differentiate costs by student academic levels and discipline and to base the amounts it reports on publicly available financial information.

To ensure that the university does not base future admission decisions on the revenue that students generate and to make the university more accessible to California residents, the Legislature should consider amending state law to limit the percentage of nonresidents that the university can enroll each year. For example, it could limit nonresident undergraduate enrollment to 5 percent of total undergraduate enrollment. Moreover, the Legislature should consider basing the university's annual appropriations upon its enrollment of agreed-upon percentages of residents and nonresidents.

To improve its internal operations and promote cost savings related to the \$13 billion it spent on employee salaries in fiscal year 2014–15, the university should conduct a systemwide assessment to identify ways to streamline and reduce its employee costs.

To maximize the savings and new revenue from the Working Smarter initiative and ensure that the university uses those funds for its academic and research missions, the Office of the President should:

- Immediately require that the campuses fully participate in all projects.
- To the extent possible, implement a process to centrally direct these funds and ensure that it can substantiate any actual savings and new revenue generated.

To ensure that its recruiting efforts benefit residents, the university should prioritize recruiting residents over nonresidents and establish a limit on the amount of funds it spends to recruit nonresidents. In particular, the university should focus its efforts broadly to ensure that it effectively recruits residents who are from underrepresented minorities.

The university should track the use of state funds for programs that do not directly relate to educating students, annually reevaluate these programs to determine whether they continue to be necessary, and explore whether they could be funded from alternate sources.

To increase its transparency and help ensure that it can justify its spending decisions, the university should make publicly available how it allocates state funding to the campuses and to other programs or uses.

To ensure that its rebenching efforts lead to equalized per-student funding among the campuses, the university should update the costs it uses in its formula every three to five years to ensure that they reflect the actual costs of instruction.

Agency Comments

The university disagreed with a key conclusion of our report—that increasing nonresident enrollment has disadvantaged California resident students. However, in its response the university did not provide evidence that refuted our conclusion nor did it

identify any factual errors with our draft report. Nevertheless, the university indicated that it plans to implement only seven of our 21 recommendations.

We are disappointed that the university objects to many of our recommendations despite clear evidence that improvements are needed. Beginning on page 105 we provide our perspective on the university's response to our report.

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Introduction

Background

The Legislature founded the University of California (university) in 1868 as a public, state-supported, land-grant institution. The California Constitution established the university as a public trust, to be administered by the Regents of the University of California (regents), an independent governing board with full powers of organization and government that is subject to legislative oversight only in certain circumstances. The regents consist of 26 members: 18 members appointed by the governor with the approval of the California Senate; seven ex officio members, including the governor, the speaker of the assembly, and the president of the university; and one student member appointed by the regents.

The head of the university is the president, to whom the regents granted full authority and responsibility over the administration of all the university's affairs and operations. The university's Office of the President is the systemwide headquarters of the university. It manages the university's fiscal and business operations, and it also supports its academic and research missions across its campuses, laboratories, and medical centers. A chancellor at each campus is responsible for managing campus operations. The Academic Senate determines conditions for admission; establishes degree requirements; approves courses and curricula; and advises the university on faculty appointments, promotions, and budgets.

The Master Plan for Higher Education in California

In 1960, the State Board of Education and the regents approved in principle the Master Plan for Higher Education in California (Master Plan), which proposed the roles of the university and the other parts of the system of state-supported postsecondary education in California. The Legislature subsequently passed the Donahoe Higher Education Act, which enacted into law many Master Plan recommendations, such as defining the distinct missions of the three public higher education segments. Over the years, the Master Plan has been updated and the Donahoe Higher Education Act has been amended; however, according to the university, significant principles from the original Master Plan were not enacted into law.

The major features of the Master Plan include the assignment of different functions and different admission pools for the university, the state colleges, and the community colleges. The university is to select from among the top one-eighth (12.5 percent) of the State's high school graduating class, while the state colleges (the California State University system) are to select from among

the top one-third (33.3 percent). The California Community College system is to admit any resident high school graduate and adult who could benefit from postsecondary instruction. The university's interpretation of the Master Plan is that it will offer all California residents in the top one-eighth of the statewide high school graduating class who apply on time a place somewhere in the university system but not necessarily at the campus of their choice.

The University's Funding

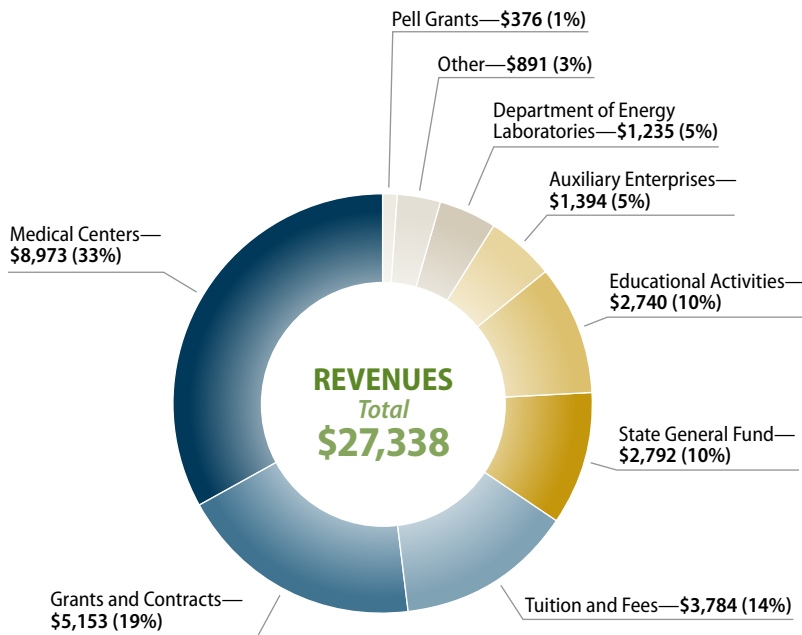
The university receives its revenues from a variety of public and private sources. As shown in Figure 1, the university's revenues totaled over \$27.3 billion in fiscal year 2014–15. Some of those sources, among others, included state funding, mostly from the State's General Fund, which made up about 10 percent of that amount, or \$2.8 billion, while student tuition and fees contributed another \$3.8 billion. In addition, the university's five medical centers generated nearly \$9 billion. Also, the university received over \$1.2 billion in federal funds for the management and operation of three U.S. Department of Energy national laboratories, in addition to the \$5.1 billion it received in grants and contracts.

In 2004, the university entered into a compact with the former governor to secure additional state funding to increase its enrollment. However, with the onset of a state financial crisis in 2008, many of the funding increases the State had agreed to in the compact did not take place. Rather, the State reduced its anticipated funding to the university over a period of several years, culminating with a \$687 million decrease in fiscal year 2011–12. To offset the state funding it lost, the university took a number of actions, including increasing tuition and student fees and embarking on an initiative of several programs to create efficiencies and generate new revenue. Also, the university began increasing the enrollment of nonresidents to bring in more tuition revenue.

By fiscal year 2012–13, the State's financial situation had begun to stabilize, and it consequently made no further cuts in its existing funding to the university. In fact, in that year, it provided a funding augmentation of \$106 million for the university's retirement plan, retiree health benefit, and debt service costs. Further, in fiscal year 2013–14, the governor introduced a plan to increase state support to the university by 5 percent per year in fiscal years 2013–14 and 2014–15 and by 4 percent per year in fiscal years 2015–16 and 2016–17. According to the plan, the governor expected that the university would use the funding increases to mitigate the need for tuition and fee increases and to implement reforms to help students progress through college efficiently. However, the university stated that the additional funding was insufficient to cover its mandatory

cost increases, most of which related to salaries and benefits, and to support other high-priority costs and investment needs. Nevertheless, the university agreed to the plan.

Figure 1
University of California’s Revenues by Category
Fiscal Year 2014–15
(In Millions)

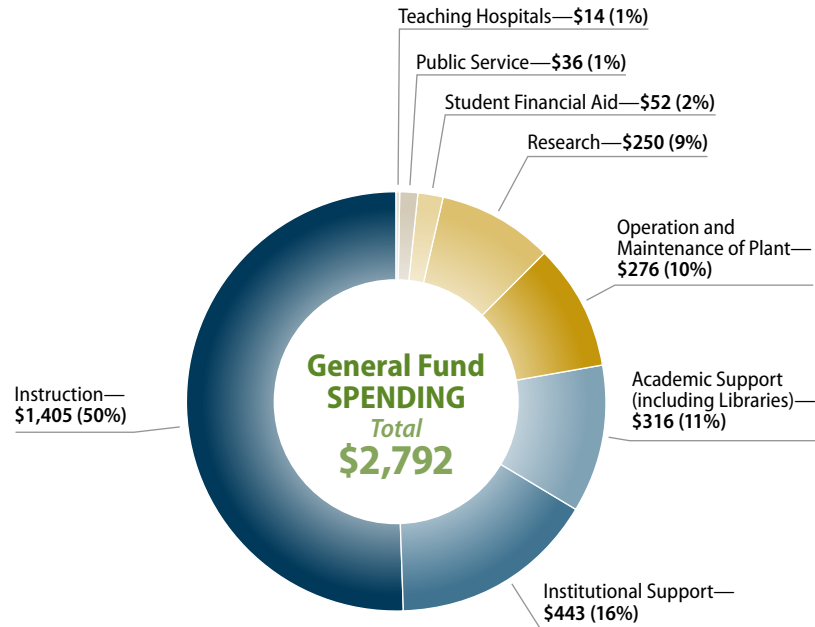


Source: California State Auditor generated based on University of California’s fiscal year 2014–15 audited financial statements.

Note: Excludes nonoperating revenues, such as gifts, investment income, and capital financing, totaling \$1.4 billion.

As seen in Figure 2 on the following page, the university estimates that it used one-half of its \$2.8 billion General Fund appropriation in fiscal year 2014–15 for instruction. After instruction, the next two biggest categories of expenditures were academic support—a variety of programs ranging from libraries, academic administration, and clinics—and institutional support, which funds the administrative functions of the campus, the Office of the President, and the regents. The university estimates that it increased the spending of its General Fund appropriation on institutional support by 38 percent between fiscal years 2005–06 and 2014–15. During that same time, the university increased its use of state funding for instruction by 11 percent and reduced its state spending in most other funding categories. The university indicates it began spending \$52 million in state funding annually for student financial aid in fiscal year 2012–13.

Figure 2
University of California's Estimate of How It Spent State General Fund Revenue
Fiscal Year 2014–15
(In Millions)



Source: California State Auditor generated based on data supplied by University of California Office of the President.

Although state support is a relatively small part of most campuses' overall budget, large differences in funding sources can occur between campuses. For instance, as shown in Table 1, the Los Angeles campus had overall expenses of over \$6 billion, with 7 percent of this amount—\$454 million—coming from the state support that it receives. In contrast, the Santa Barbara campus had overall expenses of less than \$1 billion, with almost 20 percent coming from state support.

Student Tuition at the University

The Master Plan originally affirmed California's long-time commitment to the principle of tuition-free education for residents, but it acknowledged that students should pay fees for auxiliary costs like dormitories and recreational facilities. Beginning in 1970, the regents approved charging education fees of \$150 and \$180 for undergraduate and graduate students, respectively, to offset the cost of instruction. Since that time, the university has increased the education fee—now called *base tuition*—to \$11,220 for the 2015–16 school year.

Table 1
Per-campus Allocation of State Funds for Fiscal Year 2014–15
(In Thousands)

CAMPUS	ALLOCATION OF STATE FUNDS	OVERALL EXPENDITURES	ALLOCATION AS A PERCENTAGE OF EXPENDITURES	TOTAL ENROLLMENT*
Merced	\$114,200	\$261,800	44%	6,268
Santa Cruz	159,500	664,500	24	17,866
Santa Barbara	177,300	945,400	19	23,051
San Francisco	186,000	4,554,600	4	4,904
Riverside	210,500	776,600	27	21,680
Irvine	249,200	2,439,000	10	30,757
San Diego	298,400	3,921,900	8	31,502
Berkeley	331,300	2,566,500	13	37,581
Davis	358,900	3,851,900	9	35,415
Los Angeles	454,400	6,172,600	7	43,239
Totals	\$2,539,700	\$26,154,800		252,263

Sources: California State Auditor’s analysis of data obtained from the University of California (university) Office of the President’s UC Information Center Enrollment Data Mart as well as the university’s 2014–15 *Budget for Current Operations*.

Note: Total per-campus allocation of state funds differs from the university’s total expenditures of state funds for fiscal year 2014–15 in Figure 2 because the latter amount includes expenditures not made by the campuses.

* Total enrollment is the student headcount as of the third week of the fall 2014 term and includes self-supporting students and medical residents.

All students—residents and nonresidents—pay the same base tuition amount and student services fee. In addition, most students pay a number of other fees. For example, nonresidents pay a supplemental tuition amount. All students pay a health insurance charge unless they have private health insurance. Certain professional degree programs also charge a supplemental tuition amount for both residents and nonresidents. Lastly, campuses may charge campus-based fees and course materials and service fees. As shown in the text box, the university estimates that the total cost for a resident undergraduates to attend in academic year 2015–16 was \$33,600; a nonresident undergraduate paid the same amount plus \$24,708 for nonresidential supplemental tuition. Table 2 on the following page briefly describes each charge.

The university has historically compared its tuition rates to those of four other public universities: the University of Illinois, Urbana-Champaign; the University of Michigan; the University of Virginia;

Estimated Cost to Attend the University of California for a Resident Undergraduate Living on Campus, Academic Year 2015–16

Mandatory fees	\$12,240
Base tuition	\$11,220
Student services fee	1,020
Average campus fees	1,160
Books and supplies	1,500
Average health insurance	2,100
Room and board	14,200
Personal/transportation	2,400
Total	\$33,600

Source: University of California website.

and the State University of New York, Buffalo. The publicly listed tuition and mandatory fees for academic year 2015–16 for the university and these four schools, in addition to 11 other similar public universities, are shown in Table 3.

Table 2
The University of California’s Students Pay Tuition and Various Fees

TYPE OF TUITION OR FEE	DESCRIPTION AND PURPOSE OF CHARGE	ACADEMIC YEAR 2015–16 ANNUAL CHARGES
Mandatory Systemwide Charges		
Base Tuition	<ul style="list-style-type: none"> Mandatory tuition charged to all registered students. Provides general support of the university’s operating budget including instruction, academic support, libraries, student services, institutional support, financial aid, and operation and maintenance of facilities. Amount is a flat charge. 	\$11,220
Student Services Fee	<ul style="list-style-type: none"> Mandatory fee charged to all registered students. Supports services and programs that directly benefit students such as counseling, career guidance, cultural and social activities, and student health services. Amount is a flat fee. 	\$1,020
Nonresident Supplemental Tuition	<ul style="list-style-type: none"> Mandatory supplemental tuition charged to nonresidents in addition to the base tuition and student services fee listed above. Intended to cover the full cost of a nonresident. Amount varies by student academic level. 	\$12,245 to \$24,708
Variable Campus-Level Charges		
Professional Degree Supplemental Tuition	<ul style="list-style-type: none"> Tuition charged to students enrolled in select professional degree programs. Used to enhance quality of professional schools’ academic programs and services. Amount varies by professional program and campus. 	\$4,200 to \$40,476
Campus-Based Fees	<ul style="list-style-type: none"> Fee charged to students enrolled at a specific campus. Funds a variety of student-related expenses not covered by other fees such as student government and transit; and the construction, renovation, and repair of sports facilities. Amount varies by campus and student academic level. 	\$205 to \$1,728
Course Materials and Service Fees	<ul style="list-style-type: none"> Fee charged to students enrolled in a particular course. Covers the cost of course materials or other services related to a specific course. Amount varies by course. 	Variable
Health Insurance Charge	<ul style="list-style-type: none"> Fee is mandatory unless waived with proof of health insurance. Funds the cost of the university’s health insurance plan for students enrolled in it. Amount varies by student academic level and professional program. 	\$1,497 to \$5,352

Sources: University of California tuition and fee schedules and its 2015–16 *Budget for Current Operations*.

Table 3 shows the tuition and fee amounts for both resident and nonresident undergraduates. For both types of students, the university’s tuition and fees are in the top half of the comparable public universities shown here. The university contends that other public universities charge varying amounts higher than the amounts shown in Table 3 for certain undergraduate majors. However, Table 3 lists the cost that each of the other universities publish on their websites for an undergraduate to attend.

Table 3
Annual Tuition and Fees for Undergraduates
2015–16 Academic Year

UNIVERSITY	ANNUAL AMOUNT
Residents	
Pennsylvania State University*	\$17,502
University of Illinois, Urbana-Champaign†	15,602
University of Virginia	14,468
Rutgers	14,000
University of Michigan	13,856
Michigan State University	13,612
University of California	13,400
University of Washington	10,770
Indiana University, Bloomington	10,388
University of Oregon	10,287
Ohio State University	10,037
University of Texas at Austin	9,816
Texas A&M University	9,428
State University of New York, Stony Brook	8,854
State University of New York, Buffalo	6,470
University of Florida	6,310
Average	\$11,550
Median	\$10,579
Nonresidents	
University of Virginia	\$43,764
University of Michigan	43,476
University of California	38,108
Michigan State University	36,412
University of Texas at Austin	34,860
Indiana University, Bloomington	33,740
University of Washington	33,072
University of Oregon	32,022
Pennsylvania State University*	30,452
University of Illinois, Urbana-Champaign†	30,228
Rutgers University	28,890
Texas A&M University	28,020
Ohio State University	27,365
State University of New York, Stony Brook	23,935
University of Florida	23,704
State University of New York, Buffalo	21,550
Average	\$31,850
Median	\$31,237

Sources: California State Auditor’s analysis of tuition data sourced from the universities’ respective websites. The University of California (university) amounts include base tuition, student services fee, the average cost of mandatory campus fees, and nonresident supplemental tuition, if applicable.

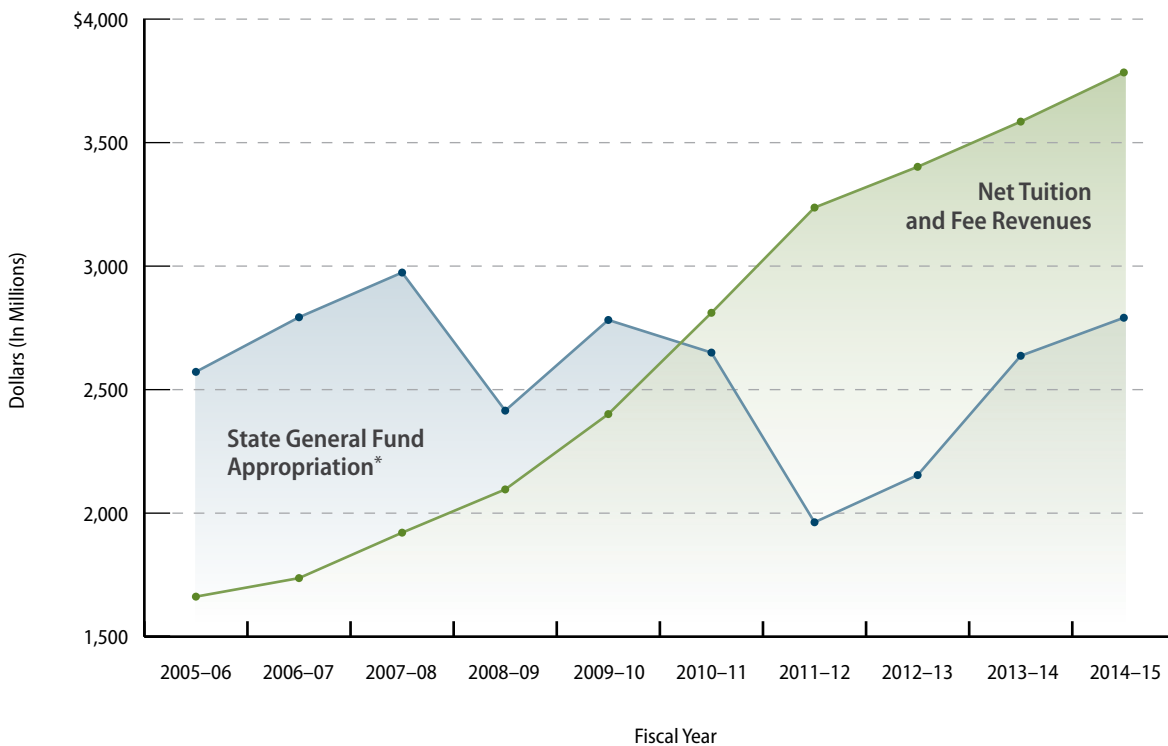
Note: Highlighted schools are the public universities that the university has historically used for comparison.

* Amount is for academic year 2014–15.

† Amount is for fall 2014.

The university's revenue from tuition and fees has increased each year over the last 10 years, which the university attributes to enrollment growth and increases in tuition and fees. As Figure 3 shows, net tuition and fee revenues exceeded the support the university received from the State's General Fund for the first time in its history in fiscal year 2010–11, a trend that has continued since that time.

Figure 3
The University of California's Student Tuition and Fee Revenues Have Increased While Its State Appropriations Have Declined



Source: University of California (university) annual audited financial statements.

Note: Tuition and fee revenues are from all students, net of financial aid.

* The State's General Fund appropriation represents the amount the State appropriated to the university in the state Budget Act for each fiscal year less funding for certain activities, primarily debt service.

In recent years, drastic increases in the university's nonresident enrollment have caused its revenues and expenditures of nonresident revenue to come under increased scrutiny by the Legislature, the Department of Finance (Finance), and the public. In particular, Finance stated that it has embarked on efforts to understand how the university spends tuition and fee revenues, particularly nonresident revenue. However, Finance asserted that it encountered difficulties in determining how the

university spends tuition and fees because the university does not account for its expenditures in sufficient detail. In particular, the university’s spending of nonresident revenue is not distinguishable from its spending from other revenue sources in its financial documents—including its audited annual financial reports, campus financial schedules, and expenditure reports from the Governor’s Budget for fiscal year 2015–16—because it presents its spending by activity rather than revenue source.

Scope and Methodology

The Joint Legislative Audit Committee (audit committee) directed the California State Auditor to conduct an audit of the university’s budget process, nonresident enrollment, and executive compensation. The analysis the audit committee approved contained 12 separate objectives. We list the objectives and the methods we used to address them in Table 4.

Table 4
Audit Objectives and the Methods Used to Address Them

AUDIT OBJECTIVE	METHOD
1. Review and evaluate the laws, rules, and regulations significant to the audit objectives.	Reviewed relevant laws, regulations, and other background materials applicable to budget, enrollment, and executive compensation at the University of California (university).
2. Review and evaluate the recommendations for rebenching and the process by which the university developed the rebenching initiative. Determine how the university developed the weighted basis for distributing per-student funding, including to what extent the university consulted with stakeholders such as undergraduate and graduate students when developing rebenching recommendations.	<ul style="list-style-type: none"> • Interviewed university staff and reviewed available documentation to determine how the university developed the key elements of the rebenching initiative and how rebenching committee members were selected. • Determined how costs and weights were developed by the rebenching committee. • Interviewed committee members to obtain their perspective on the nature of committee deliberations. • Interviewed the primary group representing undergraduate students to determine if the rebenching committee had consulted them.
3. Review and evaluate the university’s progress in the implementation of its “Rebenching and Funding Streams Initiatives” as well as any other initiatives that impact per-student and campus funding. To the extent possible, determine if the university is on track to achieve its goal of leveling per-student funding by 2018.	<ul style="list-style-type: none"> • Interviewed and obtained documentation from the university to determine the formula it used to allocate state funding during its rebenching initiative. • Assessed the university’s progress in its rebenching initiative. • Determined whether the university was on track to equalize per-student funding. • Obtained and evaluated documentation describing the university’s funding streams initiative to determine its effects.

AUDIT OBJECTIVE	METHOD
<p>4. Determine how much of state support funding is included in rebenching and identify how the university is using or distributing state support funding that is not included in rebenching.</p>	<ul style="list-style-type: none"> • Assessed the university's methodology for determining how much state support it allocated to rebenching. • Obtained and analyzed the university's state fund expenditure data. • Reviewed and assessed all programs funded with state support. • Reviewed and assessed the university's methodology for allocating state funds to campuses and identified the amounts it allocated from fiscal years 2005–06 through 2014–15.
<p>5. Determine whether the university is sufficiently addressing per-student funding inequities at the campuses, particularly those campuses identified in the California State Auditor's July 2011 audit report as having received the least funding but having the highest proportion of underrepresented students.</p>	<ul style="list-style-type: none"> • Identified the campuses with the highest proportions of underrepresented minority students. • Identified issues affecting per-student funding at all campuses. • Determined whether the campuses with the most underrepresented minority students were disproportionately impacted by issues we identified as affecting per-student funding.
<p>6. Review and evaluate the university's methods for determining resident and nonresident enrollment targets at its campuses. Identify how the university determined the amount it charges nonresident students and assess how the amount compares to other comparable universities.</p>	<ul style="list-style-type: none"> • Interviewed campus staff to determine how the campuses set their enrollment targets. • Interviewed Office of the President staff to determine how it sets and communicates enrollment targets. • Interviewed Office of the President staff to determine how it sets tuition amounts. • Determined how the university's tuition compares to the tuition at comparable institutions.
<p>7. For the past 10 fiscal years, identify the trend and projections in nonresident enrollment and associated tuition. To the extent possible, determine the impact of nonresident enrollment on per-student funding, California resident student access to the UC campuses, and revenue received by the university and the campuses, including how any changes to admission standards have impacted resident students' access to the campuses of their choice.</p>	<ul style="list-style-type: none"> • Identified historical enrollment data and tuition amounts for all types of students. • Determined the impact of nonresident enrollment on per-student funding. • Determined the impact of nonresident enrollment on California resident student access to the university. • Identified the methodology the university used to guarantee admission for certain California residents. • Reviewed the State's Master Plan for Higher Education for guidance on the role of nonresident enrollment in the university. • Obtained and analyzed the university's application, admission, and enrollment data. This data included incoming freshman applicants for the fall term of academic years 2005–06 through 2014–15. • Obtained and analyzed university-wide enrollment data. This data included all students across the university, with the exception of extension students, as of the third week of the fall term for academic years 2005–06 through 2014–15.
<p>8. Determine the level of outreach, including outreach to students in underrepresented communities and, to the extent possible, its impact on enrollment for nonresident versus California resident students for the past 10 fiscal years. In addition, determine the ethnic and racial background of the enrolled students.</p>	<ul style="list-style-type: none"> • Analyzed the university's outreach efforts primarily for immediate recruiting, which provides information to prospective students and encourages them to attend a university campus. • Requested recruiting expenditures for residents and nonresidents from fiscal years 2005–06 through 2014–15. Analyzed and reported on undergraduate recruiting expenditures from fiscal years 2010–11 through 2014–15 because not all campuses retained records of recruiting expenditures prior to fiscal year 2010–11. • Determined the ethnic and racial background of enrolled students for the last 10 years using the university's enrollment database. • Assessed the impact on enrollment using the recruiting expenditures and university enrollment data.
<p>9. For the most recent five fiscal years, review and evaluate how the university and the campuses have used the nonresident student tuition revenue.</p>	<ul style="list-style-type: none"> • Interviewed university staff to determine how each campus tracks and monitors nonresident supplemental tuition revenues and expenditures. • Reviewed university policy on nonresident supplemental tuition revenue and the protocols regarding the campuses' use of these funds. • Reviewed financial data provided by the Office of the President to evaluate and assess campus-specific and university-wide trends for generating and spending nonresident supplemental tuition revenue.

AUDIT OBJECTIVE	METHOD
10. For the most recent five fiscal years, review the compensation packages for the top executive and management personnel at the university and each campus. Determine if any trends exist in the compensation packages identified, and to the extent possible, compare the university's compensation packages to other public and private universities.	<ul style="list-style-type: none"> • Evaluated the accuracy and transparency of the university's executive compensation reporting using its Annual Report on Executive Compensation for Calendar Year 2013: Incumbents in Certain Senior Management Positions. • Evaluated the compensation packages of 33 top executives and management positions at the Office of the President and at each campus. Reviewed trends in the types of compensation elements the university offered and we did not identify any unreasonable exceptions to university policy. • Compared the gross earnings of university's top executives to the earnings of chief executives at other comparable public and private universities, and to the earnings of those holding similar positions within California's state government. • Reviewed and evaluated the university's progress towards implementing seven recommendations from a 2013 executive compensation internal advisory report.
11. Evaluate the sufficiency of any changes made or corrective actions taken by the university in response to recommendations in the state auditor's July 2011 audit report, including the status of any outstanding recommendations.	<ul style="list-style-type: none"> • Interviewed university staff to determine the extent to which it addressed recommendations in our prior report. • Documented and evaluated the university's progress in addressing the recommendations in our prior report.
12. Review and assess any other issues that are significant to the audit.	Assessed the university's progress specific to its Working Smarter initiative.

Sources: California State Auditor's analysis of state law, planning documents, and information and documentation identified in the column titled *Method*.

Assessment of Data Reliability

The U.S. Government Accountability Office (GAO), whose standards we are statutorily required to follow, requires us to assess the sufficiency and appropriateness of computer-processed information that we use to support our findings, conclusions, or recommendations. In performing this audit, we obtained electronic data files extracted from the Office of the President's Corporate Data Warehouse and from the Decision Support System for the purpose of calculating the number of employees and their gross earnings for fiscal years 2005–06 through 2014–15, reported as of September 30, 2015. We also obtained student admissions data for the 2005–06 through 2014–15 academic years and calculated various statistics related to student demographics and test scores for university applicants and admissions from the Office of the President's Undergraduate Admissions System and other operational data. In addition, we obtained enrollment data from the Office of the President's UC Information Center Enrollment Data Mart to calculate enrollment statistics based on the head count as of the third week of the fall term for academic years 2005–06 through 2014–15. We performed data-set verification procedures and electronic testing of key data elements and did not identify any significant issues.

We did not perform accuracy and completeness testing on any of these data because they are from partially paperless systems, and thus not all hard-copy documentation was available for review. Alternatively, following GAO guidelines, we could have reviewed the adequacy of selected system controls that include general and application controls. However, we did not conduct these reviews because the campuses are spread throughout the State, making such testing cost-prohibitive. Consequently, we determined that the university earnings, admissions, and enrollment data were of undetermined reliability for the purposes of this audit. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our findings, conclusions, and recommendations.

Chapter 1

THE UNIVERSITY OF CALIFORNIA UNDERMINED ITS COMMITMENT TO CALIFORNIA RESIDENT STUDENTS IN EXCHANGE FOR REVENUE GENERATED BY NONRESIDENTS

Chapter Summary

The University of California's (university) desire to increase its nonresident supplemental tuition revenue (nonresident revenue) appears to have significantly influenced its admission decisions, at times at the expense of residents. In fact, while the university admitted 2,600 more residents in academic year 2014–15 than it did in academic year 2010–11, a 4 percent increase, at the same time it increased the number of nonresidents it admitted by 182 percent, or 17,200 students.¹ This significant increase in nonresidents coincided with the university's decision in 2011 to lower its admission standard for nonresidents. As a likely result, over the past three years, the university admitted nearly 16,000 nonresidents who were less qualified on every academic score we evaluated than the median scores for admitted residents. Further, the university made it less appealing for the residents it did admit to attend the university by denying an increasingly large percentage of them admission to a campus of their choice. In contrast, nonresidents, if admitted, are never denied admission to a campus of their choice. The university's admission decisions have also hampered its efforts to meet its own and the Legislature's desire that the university's student body reflect the diversity of the State because, as of academic year 2014–15, only 11 percent of domestic undergraduate nonresidents were from underrepresented minorities.²

In addition, since academic year 2005–06 the university has increased mandatory fees—base tuition and the student services fee—for residents six times, resulting in an overall increase of 99 percent, from \$6,141 to \$12,240; however, the university has not conducted a usable study to determine the costs of educating its students, thereby limiting its ability to appropriately justify these tuition increases. Although the university objects to using cost studies, other states' public university systems have developed cost studies upon which decision makers base those institutions'

¹ The admission data we obtained from the university contained freshman applications for the fall term.

² The university considers underrepresented minorities to be Chicanos/Latinos, African Americans, and American Indians.

tuition and funding, suggesting that such an approach is both feasible and beneficial. By using a cost study, the university would have a reasonable basis for the amount it charges for tuition.

According to the university, losses in state funding necessitated its increase in nonresident enrollment and tuition. Based on the university's assertion that it increased nonresident enrollment because of decreased state funding and rising costs, we expected it would have decreased—or at least held constant—its nonresident enrollment when state funding began to increase; however, that was not the case. Because the university's actions have had significant adverse repercussions for residents and their families, we believe that legislative intervention is not only warranted but necessary to ensure that a university education once again becomes attainable and affordable for all residents who are qualified and desire to attend.

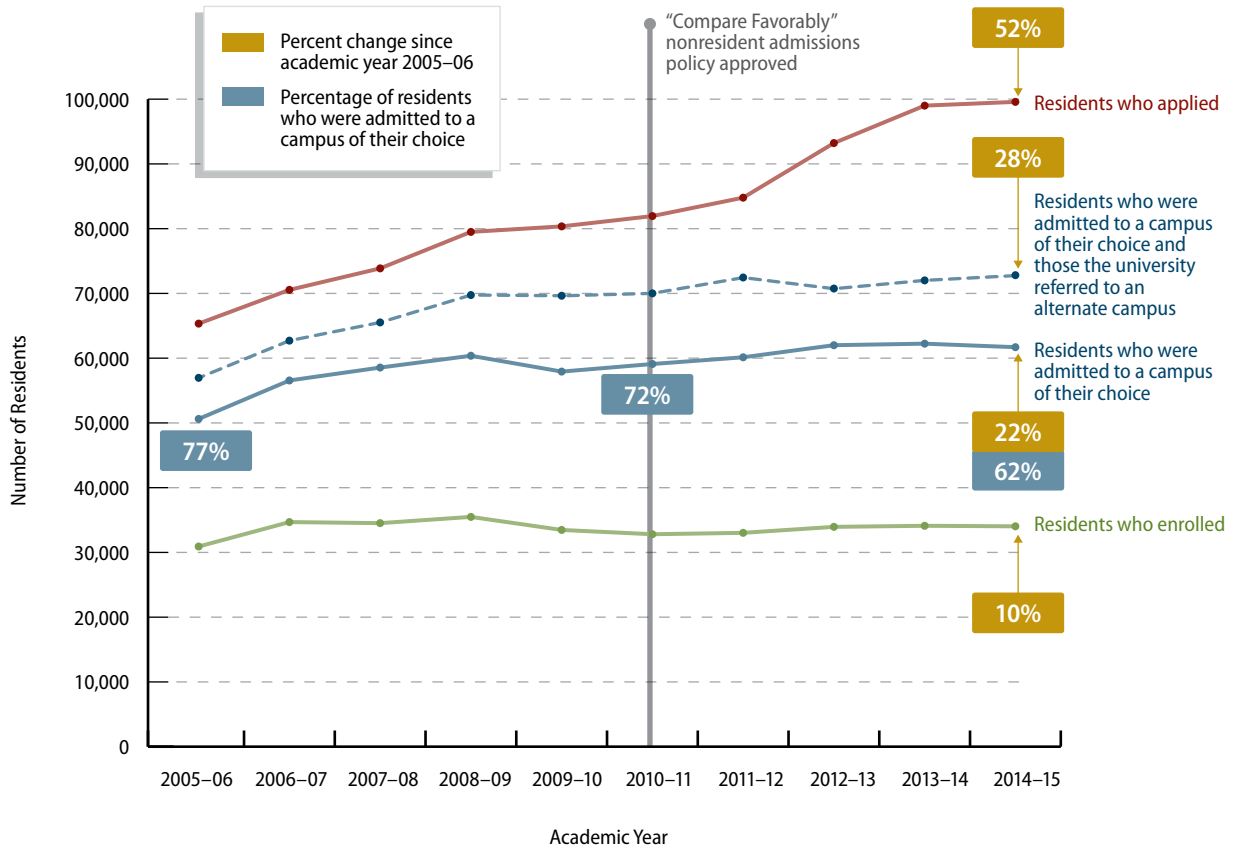
On a Variety of Academic Indicators, the University Has Admitted Thousands of Nonresidents Who Were Less Qualified Than the Upper Half of the Residents It Admitted

Over the past 10 years, the university has admitted thousands of nonresidents who were less qualified than the upper half of residents it admitted on every academic indicator we evaluated. At the same time, the university reduced the percentage of residents it admitted from 77 to 62 percent, and increased the percentage of nonresidents it admitted from 48 to 56 percent—nearly 21,700 nonresidents. As a result, nearly one-third of the students the university admitted in academic year 2014–15 were nonresidents. These trends cannot be attributed to a decrease in residents' demand for a university education. On the contrary, the number of resident applications increased by nearly 22 percent from academic years 2010–11 through 2014–15, from about 82,000 applicants to nearly 100,000 applicants.

Beginning in academic year 2010–11, the trends became especially stark: The university admitted only about 2,600 more residents to a campus of their choice in academic year 2014–15 than it did in academic year 2010–11, a 4 percent increase, while during the same time it increased the number of nonresidents it admitted by more than 17,200 students, or 182 percent. Moreover, the percentage of residents the university admitted actually decreased from 72 percent in academic year 2010–11 to 62 percent in academic year 2014–15, as depicted in Figure 4. Conversely, as shown in Figure 5 on page 26, over the same period the trends for nonresidents show significant increases in applications, admissions, and enrollment.

The university admitted only about 2,600 more residents to a campus of their choice in academic year 2014–15 than it did in academic year 2010–11, a 4 percent increase, while during the same time it increased the number of nonresidents it admitted by more than 17,200 students, or 182 percent.

Figure 4
 Despite an Increase in Resident Applicants, the University of California Has Kept Resident Undergraduate Enrollment Flat



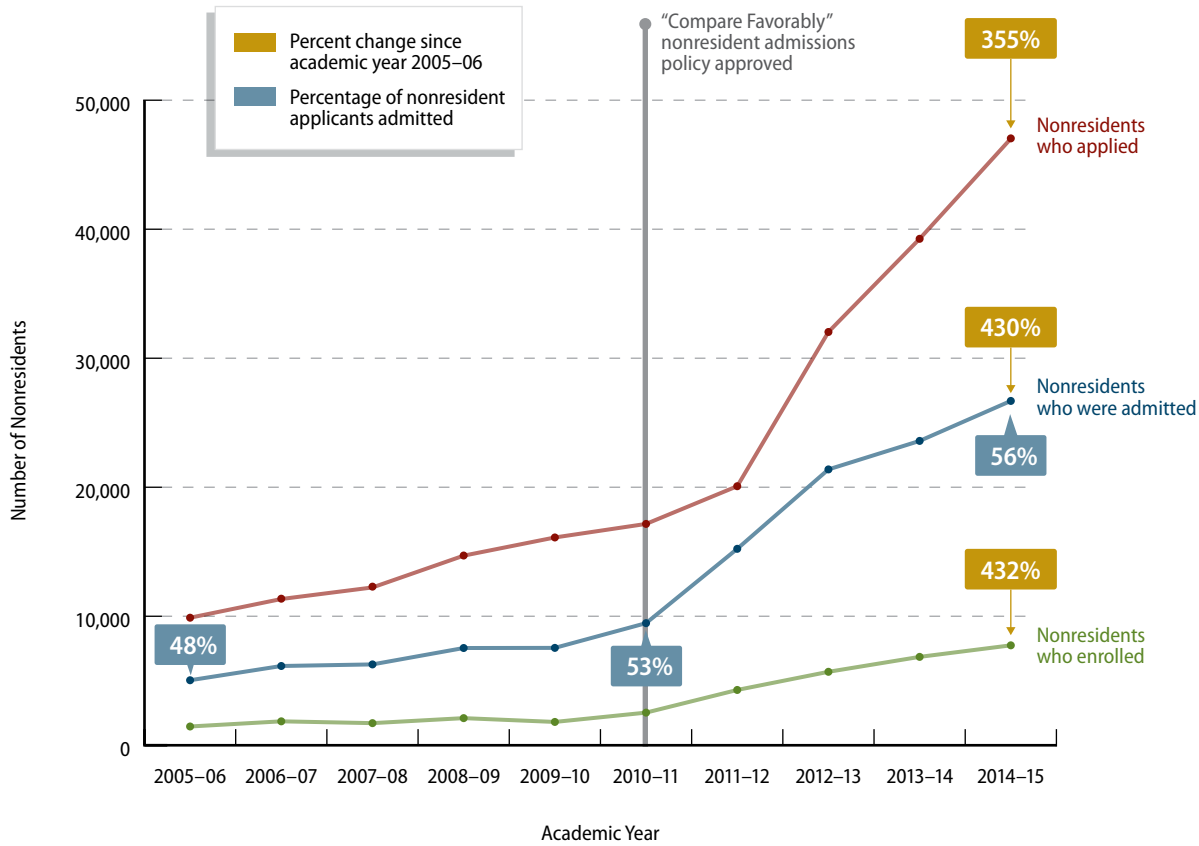
Sources: California State Auditor's analysis of data obtained from the University of California (university) Office of the President's Undergraduate Admissions System and other operational data.

Note 1: Before academic year 2011-12, the university admitted nearly all of its referral pool to either the Merced or Riverside campus. Beginning in academic year 2011-12, the university only referred applicants to its Merced campus, and Merced began contacting referral applicants to confirm their interest in attending the campus before admitting them.

Note 2: Because an applicant can apply to multiple campuses, we count an applicant only once, regardless of the number of campuses to which the applicant applied.

These trends are in part caused by university policy changes. In 2011 the university revised its admission standard for nonresidents, which had the effect of making it easier for nonresidents to gain admission. The Board of Admissions and Relations with Schools (BOARS)—an entity within the university's academic senate charged with developing admission criteria—developed the university's policy related to nonresident undergraduate admission principles in 2009. One of the principles in the policy reflected the Master Plan's recommendation that nonresidents should demonstrate stronger admission credentials than residents by generally requiring that nonresidents possess academic qualifications in the upper half of residents who were eligible for admission. However, BOARS made changes in 2011 that lowered the standard necessary for nonresident admission.

Figure 5
The University of California Has Admitted and Enrolled Increasing Numbers of Nonresident Undergraduates



Sources: California State Auditor’s analysis of data obtained from the University of California Office of the President’s Undergraduate Admissions System and other operational data.

Note: Because an applicant can apply to multiple campuses, we count an applicant only once, regardless of the number of campuses to which the applicant applied.

According to BOARS, at the time the Master Plan was written, eligibility was essentially synonymous with admission, indicating that campuses were admitting all eligible residents. However, because campuses became more selective over time, with some admitting one-quarter or fewer of their eligible applicants, in 2011 BOARS eliminated the wording in its 2009 nonresident undergraduate admission principles that nonresidents “should demonstrate stronger admissions credentials than California residents by generally being in the upper half of those ordinarily eligible” for admission. Instead, BOARS revised this principle to state that admitted nonresidents should “compare favorably to California residents admitted.” The revised principle

left the application of the “compare favorably” standard up to the campuses, which BOARS believed were capable of making appropriate admission judgments. BOARS did specify, however, that as campuses recruited more nonresidents in difficult financial times, they should remember two other principles for nonresident enrollment: That nonresident enrollment should not be an exclusively revenue-producing strategy and that fiscal considerations should not be a primary factor guiding admission decisions.

In part as a consequence of BOARS’ revision, the university admitted nearly 16,000 nonresidents from academic years 2012–13 through 2014–15 who were less academically qualified on every academic indicator we evaluated—grade point averages (GPA), SAT, and ACT scores—than the upper half of residents whom it admitted at the same campus, as shown in Figure 6 on the following page. Had the university followed the Master Plan, it would not have admitted these nonresidents and could have instead admitted additional residents.

Furthermore, the university places extra weight on high school GPAs as a predictor of college performance. The average GPA for admitted domestic nonresidents for six of nine campuses has been lower than the GPA for admitted residents since academic year 2010–11.³ As we show in Table 5 on page 29, the university’s practice of admitting domestic nonresidents with lower GPAs became widespread beginning in academic year 2010–11.

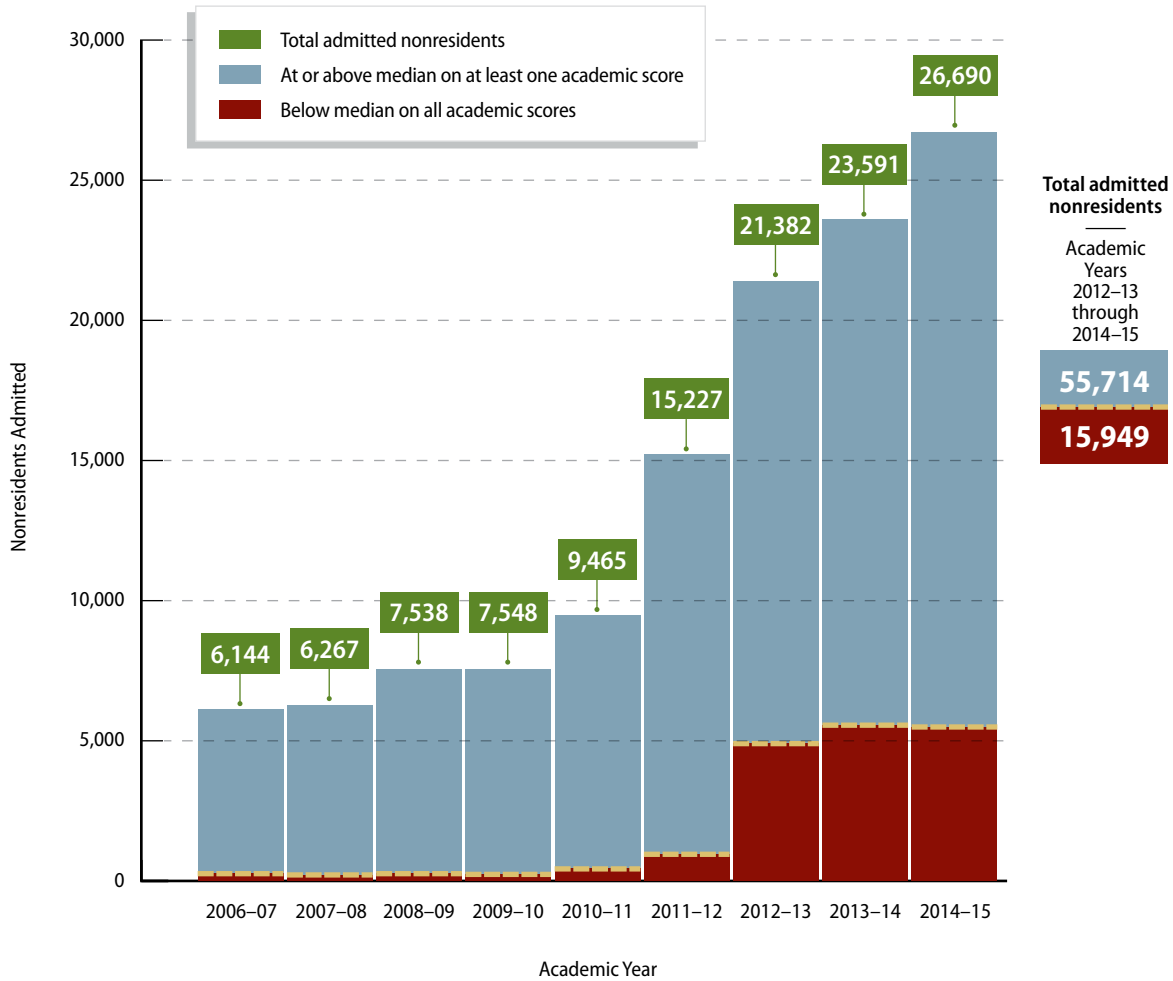
When evaluating all academic indicators separately in the context of the Master Plan’s recommendations, the university’s admission decisions have favored nonresidents. For example, as shown in Table 6 on page 30, the university has admitted nearly 61,000 nonresidents with unweighted GPA scores that fell below the upper half of residents since academic year 2006–07—nearly 36,000 of those in the past three academic years after changing its admission standard. Moreover, in academic year 2014–15 alone, the university admitted more than 9,400 nonresidents whose SAT reading math scores and more than 11,200 nonresidents whose SAT writing scores fell below the upper half of residents’ scores.

The university admitted nearly 16,000 nonresidents from academic years 2012–13 through 2014–15 who were less academically qualified on every academic indicator we evaluated—grade point averages, SAT, and ACT scores—than the upper half of residents whom it admitted at the same campus.

³ When evaluating applications, the university uses weighted GPAs that give students extra points for grades C or better in honors or advanced placement courses. We also use weighted GPAs in our analysis. We did not include international nonresidents in this analysis to address the university’s concern that weighted GPAs are not comparable to those of residents.

Figure 6

The University of California Admitted Nearly 16,000 Nonresident Undergraduates Over the Past Three Academic Years With Grade Point Averages and Scores on All Tests That Fell Below the Median of Admitted Residents



Sources: California State Auditor’s analysis of data obtained from the University of California (university) Office of the President’s Undergraduate Admissions System and other operational data.

Note 1: Academic scores include ACT Composite, ACT English Writing, ACT Math, ACT Reading, ACT Science, SAT Subject 1, SAT Subject 2, SAT Critical Reading, SAT Reading Math, SAT Writing, SAT Math, unweighted, and weighted grade point averages.

Note 2: To be consistent with Table 6 on page 30, we did not include academic year 2005-06.

Note 3: We conducted our analysis based on applicants’ scores and grade point averages at each campus. If a nonresident was admitted at more than one campus with all scores and grade point averages below the median of admitted residents, we counted that nonresident only once. We included nonresidents in the “At or above median on the least one academic score” category if they had at least one score at or above the median for every campus to which they were admitted. We also included 98 nonresidents for whom the university did not provide any scores or grade point averages as at or above the median.

According to the university’s associate president and chief policy advisor (associate president), GPAs and test scores do not necessarily correlate to campuses’ admission decisions, largely because of the campuses’ comprehensive review processes. Moreover, she expressed concerns with the reliability of nonresident GPA data because students self-enter these data when they apply

Table 5
In Recent Academic Years, Most Campuses Have Admitted Domestic Nonresident Undergraduates With Lower Weighted Grade Point Averages Than Residents They Admitted

CAMPUS	ACADEMIC YEAR									
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Berkeley										
Resident	4.14	4.15	4.15	4.16	4.16	4.18	4.19	4.19	4.20	4.20
Nonresident	4.21	4.22	4.22	4.23	4.19	4.13	4.09	4.13	4.17	4.18
Davis										
Resident	3.88	3.84	3.89	3.93	3.99	4.01	4.03	4.06	4.10	4.11
Nonresident	4.03	3.94	3.98	4.02	4.01	3.90	3.86	3.98	4.00	3.99
Irvine										
Resident	3.88	3.88	3.92	3.94	4.00	4.01	4.00	4.05	4.07	4.09
Nonresident	3.93	3.95	4.00	4.01	4.04	3.89	3.85	4.01	3.94	3.95
Los Angeles										
Resident	4.11	4.12	4.13	4.15	4.16	4.18	4.18	4.19	4.21	4.21
Nonresident	4.17	4.16	4.17	4.19	4.17	4.09	4.06	4.07	4.11	4.12
Merced										
Resident	3.53	3.53	3.54	3.52	3.55	3.56	3.54	3.58	3.60	3.63
Nonresident	3.86	3.88	3.87	3.82	3.75	3.70	3.82	3.74	3.83	3.74
Riverside										
Resident	3.58	3.56	3.54	3.55	3.63	3.64	3.68	3.72	3.73	3.78
Nonresident	3.88	3.85	3.84	3.84	3.81	3.78	3.78	3.68	3.72	3.77
San Diego										
Resident	4.05	4.03	4.06	4.06	4.09	4.10	4.13	4.15	4.17	4.18
Nonresident	4.10	4.10	4.12	4.14	4.11	4.00	3.99	3.95	4.00	4.07
Santa Barbara										
Resident	3.91	3.89	3.90	3.93	3.92	3.99	4.00	4.00	4.03	4.05
Nonresident	4.02	4.02	4.02	4.04	4.00	3.90	3.86	3.89	3.93	3.98
Santa Cruz										
Resident	3.68	3.67	3.66	3.70	3.75	3.77	3.76	3.79	3.87	3.87
Nonresident	3.89	3.81	3.93	3.94	3.92	3.81	3.80	3.79	3.72	3.68

Sources: California State Auditor's analysis of data obtained from the University of California (university) Office of the President's Undergraduate Admissions System and other operational data.

Note 1: Red highlights represent average domestic nonresident weighted grade point averages that are lower than those of resident weighted averages.

Note 2: We did not include international nonresidents in this analysis to address the university's concern that weighted grade point averages are not comparable to those of residents.

to the university. She stated that the university operates under the concept that the State must fund each resident enrolled, and because of state funding cuts, it has become more difficult for residents to gain admission. In contrast, she acknowledged that the university has made it easier for nonresidents to gain admission.

Furthermore, she told us that campuses are still coming to understand how to interpret BOARS' "compare favorably" principle and do not always interpret it correctly. She also acknowledged that the university has provided no written guidance to campuses related to interpreting the "compare favorably" principle. Nevertheless, the data suggest that the university has admitted many nonresidents who appear to be less academically qualified than residents.

Table 6
The University of California Has Admitted Increased Numbers of Nonresident Undergraduates Who Have Lower Test Scores and Grade Point Averages Than the Upper Half of Admitted Residents

TEST SCORES OR GRADE POINT AVERAGES (GPA)	ACADEMIC YEAR									TOTAL*
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	
ACT Composite							2,717	3,033	3,265	9,015
ACT English Writing	461	588	820	906	1,264	2,095	2,685	2,992	3,224	15,035
ACT Math	468	662	909	1,023	1,281	2,060				6,403
ACT Reading	479	576	965	991	1,320	2,115				6,446
ACT Science	403	528	834	777	1,105	1,764				5,411
SAT Subject 1	2,538	2,404	2,864	2,643	3,547	5,888				19,884
SAT Subject 2	2,439	2,291	2,728	2,613	3,631	6,006				19,708
SAT Critical Reading	2,549	2,498	3,138	3,054	4,237	7,475				22,951
SAT Reading Math							8,601	9,597	9,448	27,646
SAT Writing	2,645	2,631	3,162	3,050	4,248	7,199	10,267	10,950	11,241	55,393
SAT Math	1,983	1,932	2,330	2,208	2,734	4,349				15,536
Unweighted GPA	2,586	2,507	3,125	3,217	4,710	8,729	11,025	11,988	12,826	60,713
Weighted GPA [†]	2,025	1,813	2,155	2,352	4,111	7,468	9,024	9,148	9,461	47,557

Sources: California State Auditor's analysis of data obtained from University of California's (university) Office of the President's Undergraduate Admissions System and other operational data.

Note 1: To count the number of nonresidents above, we compared the grade point averages (GPA) and test scores for each admitted nonresident to the median test scores of residents admitted to the same campus that year. If a nonresident was admitted to multiple campuses and had GPAs and test scores lower than the median GPAs and test scores at those campuses, we only counted the student once. We did not include academic year 2005-06 because the university used tests that were only applicable to that year of our audit scope.

Note 2: The absence of a nonresident count indicates that there were no scores for the test in the academic year.

* Nonresidents who had lower test scores or GPAs than the upper half of admitted residents.

† We did not include international nonresidents with lower weighted GPA scores in our count to address the university's concern that those scores are not comparable to the scores of residents. However, if we had included these students, in academic year 2014-15 the total nonresidents with lower weighted GPAs would have been 17,533.

The University Established Financial Incentives That Led Campuses to Admit More Nonresidents

As discussed previously, many of the university's admission decisions in recent years appear to have been significantly influenced by its desire to increase nonresident revenue. In addition to the mandatory fees—base tuition and student services fee—of \$12,240 that both resident and nonresident undergraduates paid in 2015, each

undergraduate nonresident paid a supplemental tuition of \$24,708 for a total of about \$37,000 annually. In fiscal year 2014–15, the total revenue the university generated from nonresident supplemental tuition amounted to \$728 million. To maximize this revenue source, the university changed two key processes in 2008 that had the effect of incentivizing campuses to increase nonresident enrollment.

The university enacted the first key procedural change to allow campuses to retain the nonresident revenue they generated beginning with fiscal year 2007–08. Before that time, the university required campuses to return all nonresident revenue to the Office of the President for subsequent distribution among all campuses. Not surprisingly, when the Office of the President enacted this new policy, nonresident revenue began an unprecedented increase that continued into fiscal year 2014–15. Figure 7 on the following page shows the timing of the university’s 2008 procedure changes and its adoption of the “compare favorably” standard for nonresident admission in relation to its three reductions in state funding since fiscal year 2005–06.

Certain campuses gained more from this opportunity than others. In particular, Berkeley, Los Angeles, and San Diego benefited because of their pre-existing ability to attract nonresidents. For example, in fiscal year 2007–08, the Berkeley campus generated \$65 million in nonresident revenue, and by fiscal year 2014–15, that amount grew to \$179 million. In contrast, the Santa Cruz campus generated \$10 million in nonresident revenue in fiscal year 2007–08 and \$21 million in fiscal year 2014–15. As we will discuss in Chapter 3, the disparity in the amount of nonresident revenue the campuses generate has exacerbated per-student funding inequities.

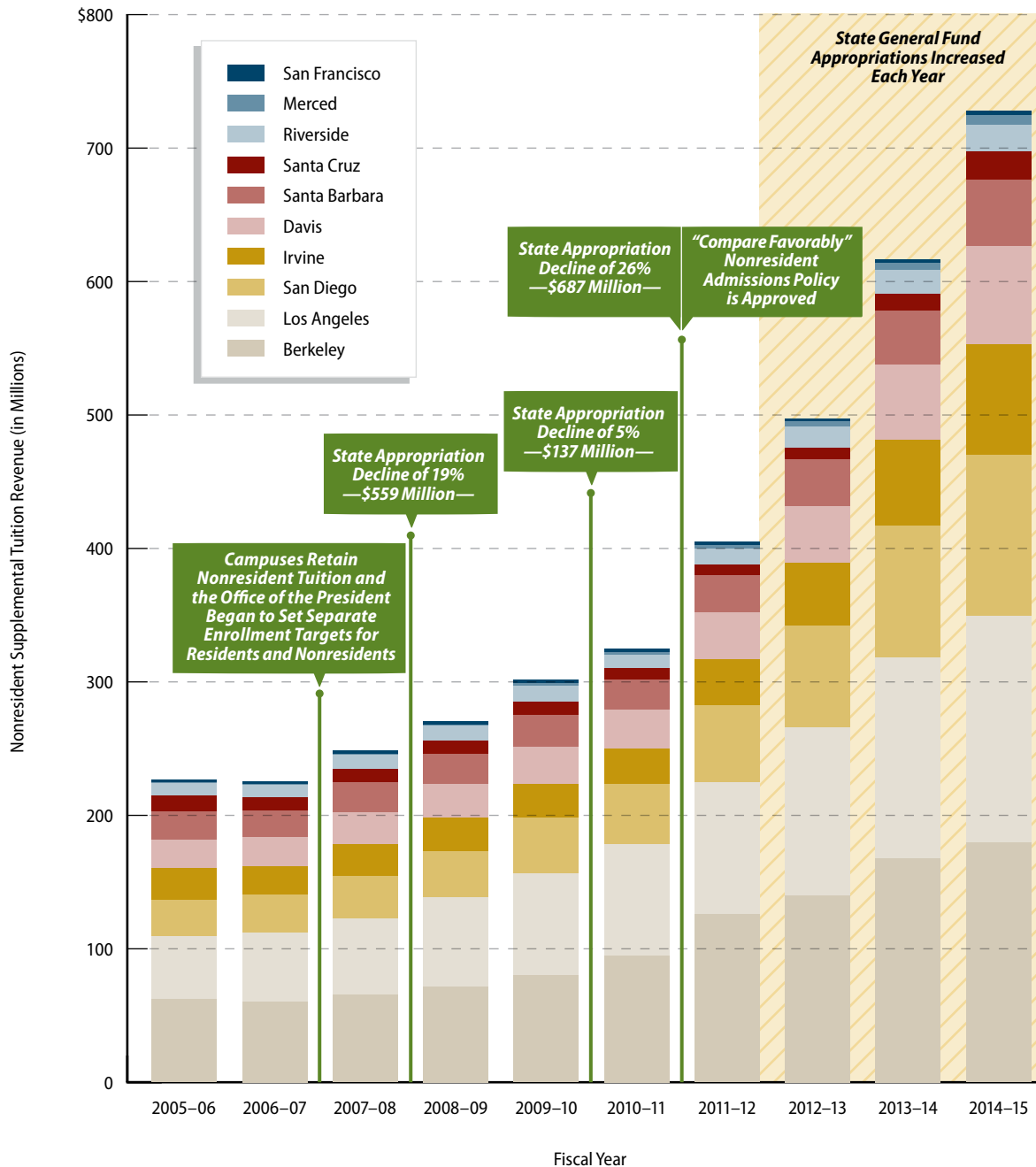
The second key procedural change occurred in 2008 when the Office of the President began to set systemwide enrollment targets for residents and nonresidents. An enrollment target is the number of students that the university and its campuses endeavor to enroll each year. Following this 2008 procedural change, three of the campuses we visited began setting separate enrollment targets for nonresidents in academic year 2010–11: Los Angeles, San Diego, and Santa Barbara; and Davis began setting nonresident enrollment targets in academic year 2011–12. This time frame corresponds to the beginning of a period of rapidly increasing nonresident enrollment at the university. The campuses we visited provided us information showing that during this period, each increased its nonresident enrollment targets more rapidly than it increased its resident enrollment targets.

Those campuses acknowledged that a desire for additional revenue was part of the reason they increased their nonresident enrollment targets. For example, the San Diego campus’s new resident freshman enrollment target increased by only 10 percent from fall 2011

The campuses we visited acknowledged that a desire for additional revenue was part of the reason they increased their nonresident enrollment targets.

through fall 2014—from 3,375 to 3,700. In contrast, it increased its new nonresident freshman enrollment target by 300 percent, from 300 to 1,200.

Figure 7
Nonresident Supplemental Tuition Revenue by Campus From Fiscal Years 2005–06 Through 2014–15



Sources: California State Auditor’s analysis of revenue data provided by the University of California’s Office of the President generated from its Corporate Financial System and other information provided by the Office of the President.

As a result of establishing separate enrollment targets, the campuses were able to admit nonresidents who were less academically qualified than residents, an outcome we substantiated in the previous section. The process for evaluating applications at a campus, known as the *comprehensive review*, involves ranking applicants on many different factors, as listed in the text box. These factors include GPA, test scores, and life experiences. After the campus has ranked applications, it selects applicants to admit in bands based on their holistic review scores and other campus-specific factors, such as the need to fill enrollment targets for departments and majors. When the campus has selected a sufficient number of students to meet those enrollment targets, it then admits additional applicants if needed to ensure that it meets its overall campus targets for resident and nonresident enrollment. Conceivably, a campus could meet its resident enrollment target before meeting its nonresident enrollment target. If this happened, the campus could cut off admission of residents but continue to admit nonresidents who were ranked lower than residents until the campus met its nonresident enrollment target. Two of the four campuses we visited confirmed that such an outcome was possible although they believed it was not likely.

Finally, in 2008 the university informed campuses that they would be responsible for any lost revenue should they decide to reduce their nonresident enrollment targets. Moreover, when the university adopted its funding streams initiative in 2011, which directed campuses to retain all tuition funds they generate, one of the stated goals of the initiative was to incentivize campuses to maximize revenue.

Factors That University of California Campuses May Consider When Admitting Students

- Grade point average for courses required by the University of California (university).
- Scores on the SAT Reasoning Test or ACT with Writing.
- Number, content, and performance in other high school academic courses.
- Number and performance in university-approved honors and Advanced Placement courses.
- Identification by the university that an applicant is in the top 9 percent of his or her high school class.
- Quality of senior-year course schedule.
- Quality of the applicant's academic performance in relation to the opportunities available at his or her high school.
- Outstanding performance in one or more academic subject areas.
- Outstanding work in one or more special projects in any academic field of study.
- Recent, marked improvement in academic performance.
- Special talents, achievements, and awards in a particular field that demonstrate the applicant's promise for contributing to the intellectual vitality of a campus.
- Completion of special projects in the context of the applicant's high school curriculum or school events, projects, or programs.
- Academic accomplishments in light of the student's life experiences and special circumstances.
- Location of the student's secondary school and residence.

Source: [The university's website.](#)

The University Has Admitted Fewer Residents to the Campuses of Their Choice and Increasing Numbers of Nonresidents Have Enrolled in the Most Popular Majors

In addition to admitting nonresidents who are less academically qualified than the upper half of admitted residents, the university also admitted fewer residents to the campuses of their choice over the past several years. Specifically, the percentage of residents to whom the university denied admission to their campuses of choice increased from 23 percent in academic year 2005–06 to 38 percent in academic year 2014–15. If residents are eligible for admission

to the university and the campuses of their choice do not offer them admission, the university offers them a spot at an alternative campus through what it calls a *referral process*. Under this process, eligible residents not admitted to any of the campuses to which they applied are placed into a referral pool. These residents can then accept admittance to an alternate campus, which is currently limited to Merced. According to the university, the referral process is critical to its meeting its Master Plan commitment to admit the top 12.5 percent of residents. However, very few residents actually enroll at the campus to which they are referred. Conversely, the university does not refer nonresidents to alternate campuses.

From academic years 2005–06 through 2014–15, the number of residents offered admission through referral to alternate campuses increased by 79 percent—from about 6,000 to 10,700 applicants—as shown in Table 7. Of particular concern is that, over the same time period, the university’s campuses denied admission to nearly 4,300 residents whose academic scores met or exceeded *all* of the median scores for nonresidents whom the university admitted to the campus of their choice. Moreover, between academic years 2005–06 and 2010–11, when the university’s policy was to refer residents to both the Riverside and Merced campuses, an average of only 6 percent of those residents enrolled at the campus to which they were referred. Since academic year 2011–12, when the university began referring residents only to the Merced campus, the number of residents it placed in the referral pool increased to an average of 10,100 per year, but the average number of residents enrolling dropped to just over 2 percent, or an average of 155 enrollees per year. In comparison, when the university admitted residents to a campus to which they applied from academic years 2011–12 through 2014–15, 55 percent of residents accepted and enrolled at that campus.

In addition to denying admission to the campuses of their choice to increasing numbers of residents, the university has also allowed increasing numbers of nonresidents to enroll in the most popular majors.

In addition to denying admission to the campuses of their choice to increasing numbers of residents, the university has also allowed increasing numbers of nonresidents to enroll in the most popular majors. As Table 8 on page 36 illustrates, from academic year 2010–11 through 2014–15, the five most popular majors that the university offers saw significant increases in nonresident growth at Berkeley, Irvine, Los Angeles, and San Diego—between about 1,100 to 2,100 students coupled with generally declining resident enrollment—about 800 to 1,200 students in three of the four campuses. The university asserts that these enrollment changes may be the result of a mixture of student behavior, increasing nonresident applications, and evolving major offerings at the campuses. For example, the university noted that the addition of several health service majors at the Irvine campus may have resulted in decreases to campus-level enrollment in biological and life science majors.

Table 7
Resident Undergraduates Whom the University of California Refers to Other Campuses Rarely Enroll

ACADEMIC YEAR	NUMBER OF RESIDENTS ADMITTED TO A CAMPUS TO WHICH THEY APPLIED	NUMBER OF RESIDENTS IN THE REFERRAL POOL	NUMBER OF RESIDENTS IN THE REFERRAL POOL WHO ENROLLED	ENROLLMENT RATE FOR RESIDENTS IN THE REFERRAL POOL	ENROLLMENT RATE FOR RESIDENTS ADMITTED TO A CAMPUS TO WHICH THEY APPLIED
2005–06	50,614	5,981	357	6%	60%
2006–07	56,556	5,784	391	7	61
2007–08	58,549	6,606	434	7	58
2008–09	60,373	9,012	579	6	58
2009–10	57,927	11,348	706	6	57
2010–11	59,099	10,545	355	3	55
2011–12	60,136	11,940	159	1	55
2012–13	62,002	8,360	134	2	55
2013–14	62,238	9,411	131	1	55
2014–15	61,697	10,688	195	2	55

Source: California State Auditor’s analysis of data obtained from the University of California (university) Office of the President’s Undergraduate Admissions System and other operational data.

Note 1: Before academic year 2011–12, the university admitted nearly all of its referral pool to either the Merced or Riverside campus. Beginning in academic year 2011–12, the university only referred applicants to its Merced campus, and Merced began contacting referral applicants to confirm their interest in attending the campus before admitting them.

Note 2: The referral pool excludes residents who were referred but later admitted to a campus to which they applied. Instead, these residents are included in the column titled *Number of Residents Admitted to a Campus to Which They Applied*.

Underrepresented Students Comprise Less Than 30 Percent of the University’s Undergraduate Student Population

The university’s recent emphasis on enrolling more nonresidents has hampered its efforts to meet its own and the Legislature’s desire that the university’s student body reflect the diversity of the State. A 1991 state law recommended that the university enroll a student body that reflected the cultural, racial, geographic, economic, and social diversity of the State. The university had issued a policy in 1988 stating a similar intention, noting its commitment to provide places for all eligible resident applicants and its desire to enroll a student body that, beyond meeting eligibility requirements, encompasses California’s broad diversity characteristics. In 1996, a constitutional amendment, Proposition 209, prohibited the university from admitting students based on a number of factors including race or ethnicity. Nonetheless, recognizing this prohibition, the university also acknowledged a need to remove barriers to the recruitment, retention, and advancement of students from underrepresented minorities.⁴

⁴ The university considers underrepresented minorities to be Chicanos/Latinos, African Americans, and American Indians.

Table 8
Changes Have Occurred in Resident and Nonresident Enrollment Growth in the Most Popular Undergraduate Majors

	RESIDENTS				NONRESIDENTS			
	ACADEMIC YEAR 2010-11	ACADEMIC YEAR 2014-15	CHANGE IN ENROLLMENT	PERCENT OF CHANGE	ACADEMIC YEAR 2010-11	ACADEMIC YEAR 2014-15	CHANGE IN ENROLLMENT	PERCENT OF CHANGE
BERKELEY								
Biological/Life Sciences	1,479	1,295	(184)	(12)%	126	264	138	110%
Social Sciences	2,371	2,123	(248)	(10)	272	668	396	146
Engineering	2,697	2,357	(340)	(13)	603	1,077	474	79
Psychology	519	508	(11)	(2)	33	79	46	139
Business and Management	510	487	(23)	(5)	95	145	50	53
Subtotals			(806)				1,104	
IRVINE								
Biological/Life Sciences	4,217	2,842	(1,375)	(33)%	90	158	68	76%
Social Sciences	2,881	2,759	(122)	(4)	98	350	252	257
Engineering	2,440	2,954	514	21	91	357	266	292
Psychology	1,884	1,933	49	3	50	138	88	176
Business and Management	1,690	1,438	(252)	(15)	135	575	440	326
Subtotals			(1,186)				1,114	
LOS ANGELES								
Biological/Life Sciences	4,773	5,227	454	10%	463	911	448	97%
Social Sciences	4,432	4,413	(19)	0	499	1,221	722	145
Engineering	2,486	2,045	(441)	(18)	506	647	141	28
Psychology	2,217	2,463	246	11	220	475	255	116
Business and Management	920	1,126	206	22	227	731	504	222
Subtotals			446				2,070	
SAN DIEGO								
Biological/Life Sciences	5,036	5,252	216	4%	215	703	488	227%
Social Sciences	3,309	2,178	(1,131)	(34)	376	824	448	119
Engineering	3,414	4,070	656	19	238	784	546	229
Psychology	1,495	966	(529)	(35)	45	155	110	244
Business and Management	765	543	(222)	(29)	77	234	157	204
Subtotals			(1,010)				1,749	

Sources: California State Auditor's analysis of data obtained from the University of California (university), Office of the President's UC Information Center Enrollment Data Mart.

Notes: We defined the most popular majors as those with the largest total undergraduate enrollment systemwide.

We focused our analysis on campuses that had the highest percentage of undergraduate nonresidents (both domestic and international) within the last five academic years.

The resident enrollment column totals include certain students whom the university Board of Regents' policy exempts from nonresident tuition consistent with Assembly Bill 540 (Chapter 814, Statutes of 2001).

As shown in Table 9 on pages 38–39, since academic year 2005–06, the university has progressively increased the percentage of underrepresented minorities among the resident undergraduates that it enrolls, raising this percentage from 19 percent in academic year 2005–06, to 24 percent in academic year 2010–11, and most recently to 30 percent in academic year 2014–15. As also shown in Table 9, the percentages

of underrepresented minorities for both resident and domestic nonresident graduate students grew slightly to 17 percent and 15 percent, respectively, by academic year 2014–15. The table also shows that the university’s graduate students predominantly identify their ethnicity as Asian or white.

The university’s effort to increase the enrollment of underrepresented minorities among resident students is commendable, but the university’s overall undergraduate student body does not yet encompass the State’s diversity characteristics. According to statistics from the Department of Finance, underrepresented minorities comprised 45 percent of California’s population in 2014. Despite raising California undergraduate enrollment of underrepresented minorities to 30 percent in academic year 2014–15, the university needs to make additional progress to raise the level of underrepresented minorities enrolled to mirror the 45 percent of the State’s overall population.

However, the university’s emphasis on enrolling increasing numbers of nonresidents has hampered its efforts to enroll more underrepresented minorities because only 11 percent of enrolled nonresident domestic undergraduate students were from underrepresented minorities as shown in Table 9. In fact, as of academic year 2014–15, roughly 86 percent of undergraduate domestic nonresident students identified their ethnicity as Asian or white. The university has more than tripled its population of undergraduate nonresidents since academic year 2005–06, resulting in underrepresented minorities comprising less than 30 percent of the university’s total undergraduate population. According to the university, its goal for resident undergraduates is to reflect the diversity of the State, while it seeks to increase geographic diversity by enrolling nonresidents. Although nonresidents bring geographic diversity to the university’s overall student population, increasing the number of nonresidents has slowed its progress in aligning the university’s percentages of underrepresented minorities with those of the State’s percentages.

Furthermore, in academic year 2005–06, the university denied admission to the campus of their choice to about 23 percent of undergraduate residents who applied, and by academic year 2014–15, that percentage had grown to 38. As shown in Figure 8 on page 40, the university increasingly denied admission to residents of all ethnicities. Figure 8 also shows the increasing trend in resident applications, which contributed to the increasing rates of denial. Although the university cannot consider race or ethnicity when making admissions decisions, the university continues to deny admission to underrepresented minorities at higher rates than residents who identify their ethnicity as Asian or white. In particular, in academic year 2014–15, the university denied admission to 47 percent of underrepresented minority applicants, and to 32 percent of applicants who identified their ethnicity as Asian or white.

The university’s emphasis on enrolling increasing numbers of nonresidents has hampered its efforts to enroll more underrepresented minorities because only 11 percent of enrolled nonresident domestic undergraduates were from underrepresented minorities.

Table 9
Enrolled California Resident Undergraduates and Graduates Include a Higher Percentage of Underrepresented Minorities Compared to Nonresidents

	PERCENTAGE OF STUDENTS BY ACADEMIC YEAR			GROWTH IN UNDERGRADUATE ENROLLMENT FROM ACADEMIC YEARS 2010-11 THROUGH 2014-15
	2005-06	2010-11	2014-15	
UNDERGRADUATES				
Residents*				
African American	3%	4%	4%	(0.04)%
American Indian	1	1	1	
Asian	38	39	39	
Chicano/Latino	15	19	25	
Other/Unknown	9	7	4	
White	35	31	27	
Underrepresented Minorities†	19	24	30	
Nonresidents (Domestic)				
African American	2%	3%	4%	80%
American Indian	1	1	1	
Asian	37	41	46	
Chicano/Latino	4	5	6	
Other/Unknown	10	7	4	
White	47	43	40	
Underrepresented Minorities†	7	9	11	
Nonresidents (International)				
American Indian	0%	0%	0%	214%
Asian	83	87	91	
Black	1	1	1	
Chicano/Latino	2	1	1	
Other/Unknown	7	5	3	
White	8	6	4	
All Undergraduates				
African American	3%	4%	4%	9%
American Indian	1	1	1	
Asian	39	41	44	
Black	0	0	0	
Chicano/Latino	14	18	22	
Other/Unknown	9	6	4	
White	35	31	25	

	PERCENTAGE OF STUDENTS BY ACADEMIC YEAR			GROWTH IN GRADUATE ENROLLMENT FROM ACADEMIC YEARS 2010-11 THROUGH 2014-15
	2005-06	2010-11	2014-15	
GRADUATES				
Residents*				
African American	3%	3%	4%	(6)%
American Indian	1	1	1	
Asian	21	21	23	
Chicano/Latino	9	10	12	
Other/Unknown	15	16	11	
White	52	49	49	
Underrepresented Minorities [†]	13	14	17	
Nonresidents (Domestic)				
African American	4%	5%	6%	18%
American Indian	1	1	1	
Asian	14	16	16	
Chicano/Latino	5	7	8	
Other/Unknown	16	11	11	
White	60	61	58	
Underrepresented Minorities [†]	10	13	15	
Nonresidents (International)				
American Indian	0%	0%	0%	24%
Asian	24	33	38	
Black	0	0	1	
Chicano/Latino	2	3	5	
Other/Unknown	69	57	47	
White	5	7	10	
All Graduates				
African American	2%	2%	3%	4%
American Indian	1	1	1	
Asian	23	24	27	
Black	0	0	1	
Chicano/Latino	7	8	9	
Other/Unknown	22	22	19	
White	45	42	40	

Sources: California State Auditor's analysis of data obtained from the University of California (university), Office of the President's UC Information Center Enrollment Data Mart.

* Residents include certain students whom the university Board of Regents' policy exempts from nonresident tuition consistent with Assembly Bill 540 (Chapter 814, Statutes of 2001).

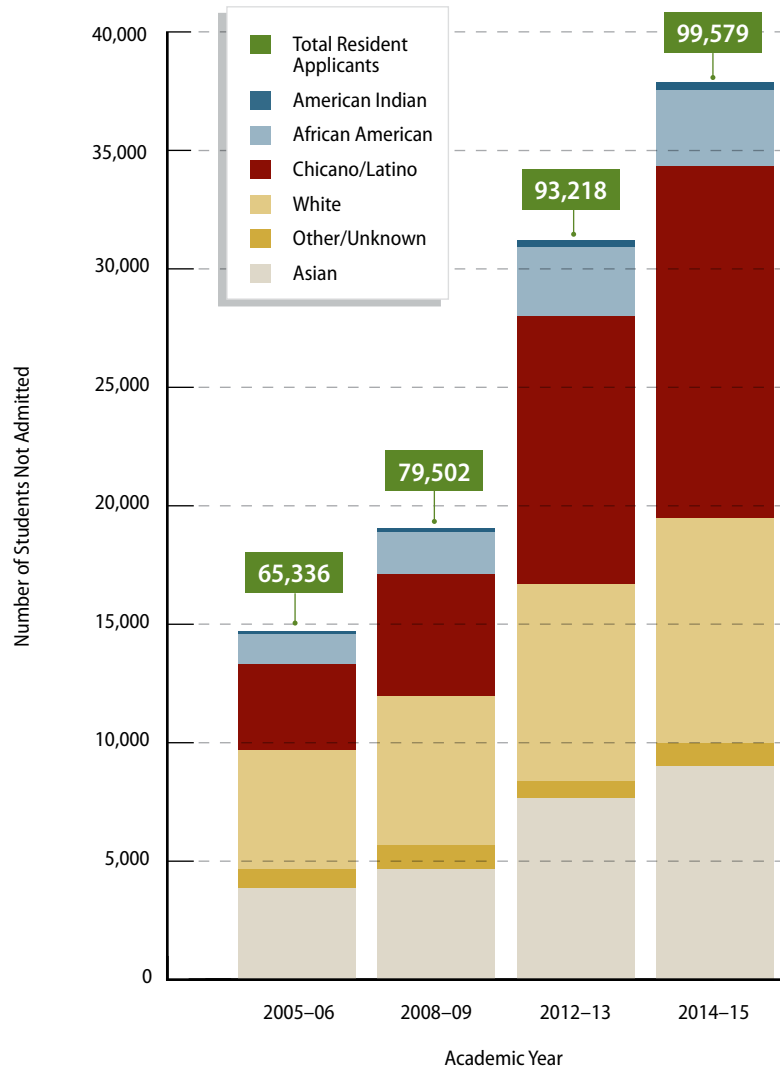
† The university considers underrepresented minorities to be African Americans, Chicanos/Latinos, and American Indians.

Note 1: The other/unknown category contains both those students with unknown ethnicity and international students that the university categorized as qualifying for resident status.

Note 2: The total percentages may not equal 100 percent due to rounding.

Note 3: We did not provide separate breakdowns of Graduate Self-Supported or Medical Resident student ethnicities because the university does not distinguish the residency status of students enrolled in those programs. However, we included students enrolled in both programs in the All Graduates table above.

Figure 8
Ethnicities of Resident Undergraduates Who Were Denied Admission to the Campuses of Their Choice



Sources: California State Auditor’s analysis of data obtained from the University of California (university) Office of the President’s Undergraduate Admissions System and other operational data.

Note 1: The university considers underrepresented minorities to be African Americans, Chicanos/Latinos, and American Indians.

Note 2: Some students to whom the university denied admission to the campuses of their choice ultimately enrolled at an alternate referral campus, as shown in Table 7 on page 35.

Moreover, many of the underrepresented minorities to whom the university denied admission to the campus of their choice might have been qualified to attend the campus to which they applied. Specifically, as noted earlier in this chapter on page 34, the university’s campuses denied admission to nearly 4,300 residents from academic

years 2005–06 through 2014–15 whose academic scores met or exceeded the median scores of admitted nonresidents on every academic indicator we evaluated. More than 450 of those were resident underrepresented minorities. This number suggests that the university denied admission to more than 450 underrepresented minorities—364 of those in the last three academic years—who were at least as academically qualified as certain admitted nonresidents.

The University Has Not Sufficiently Justified Resident Tuition Increases

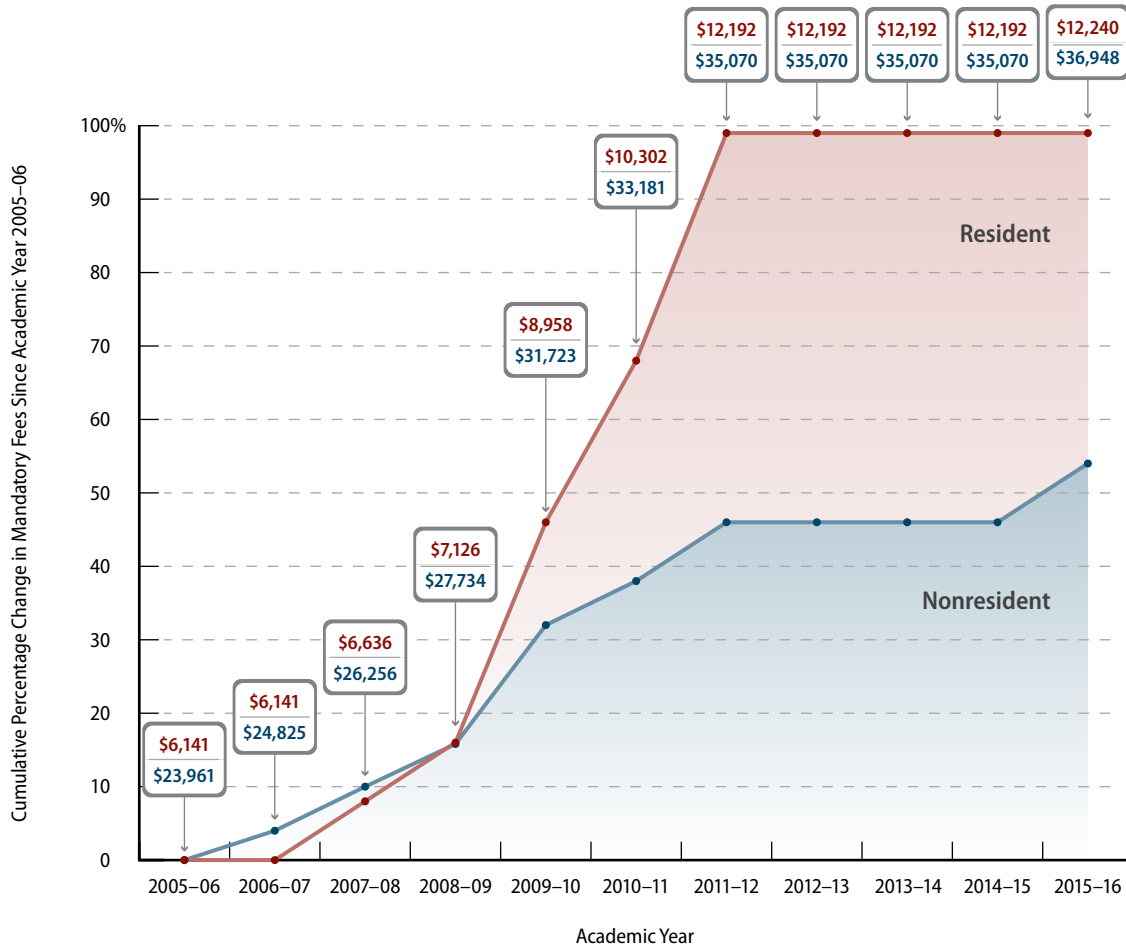
Over the past 10 years, the university has repeatedly increased the cost of tuition without sufficient justification and to the detriment of California families. Since academic year 2005–06, the university has increased mandatory fees—base tuition and the student services fee—for residents six times and at varying rates resulting in an overall increase of 99 percent, from \$6,141 in academic year 2005–06 to \$12,240 in academic year 2015–16, as shown in Figure 9 on the following page. Over the same time frame, median household income in California decreased by nearly 4 percent, from more than \$62,700 in 2005 to \$60,500 in 2014. This income decrease, coupled with the unpredictable timing and amount of tuition increases, has likely made it difficult for families to effectively budget for this important investment.

We expected the university to have based any tuition increases on its actual cost of instruction; however, according to the university’s associate vice president of budget analysis and planning (budget associate vice president), the university does not base tuition on the cost of instruction. Instead, it uses a model to estimate its future budget needs and expected revenue, then increases tuition to fill any estimated revenue gap. She explained that the university looks at how proposed tuition levels will compare with other public institutions to determine whether an increase is justified.

In fact, even though it is required, the university has not conducted a usable study to determine the costs of educating its students, thereby limiting its ability to appropriately justify tuition increases. The Legislature required the university to submit a report every two years beginning in 2014 on the total costs of education at the university, disaggregated by academic discipline. In the report issued in 2015, the university took issue with the methodology the Legislature requested and instead provided a range of costs, one based on what it called the Legislature’s “narrow definition” and a broader definition it considered more complete. However, the university cautioned that decision makers should not use the report as a solid rationale for making policy decisions or allocating resources because the assumptions, estimates, and proxies for data it had used to calculate the costs it reported could result in unreliable estimates.

Over the past 10 years, the university has repeatedly increased the cost of tuition without sufficient justification and to the detriment of California families.

Figure 9
The University of California Has Significantly Increased Undergraduate Mandatory Fees



Source: The University of California 2015-16 Budget for Current Operations.

Resident mandatory fees include base tuition and student services fee.

Nonresident mandatory fees include base tuition, student services fee, and nonresident supplemental tuition.

The university’s cost study is problematic because the source of the data it uses is not apparent, and it does not tie the costs and funding it reported to readily available and public financial data, such as its audited annual financial report. By contrast, the National Association of College and University Business Officers (national association) developed a cost model for universities to clearly outline the annual costs of education based on either the indirect cost rate study they prepare for the federal government or their audited financial statements, both of which are verified and readily available sources of financial information. The university chose not to use the national association model because it disagreed

with some of its assumptions. Despite the university's reluctance to produce a cost study because it disagrees with the prescribed methodology or because it believes the underlying cost accounting data for a detailed cost study are difficult and expensive to obtain, the university should develop a reasonable, well-supported methodology and use it as the basis for funding requests and tuition increases.

In addition to the methodology the national association created, other public university systems have developed thorough cost studies which decision makers can assess when considering tuition increases or funding requests, suggesting that such an approach is both feasible and beneficial. For instance, Texas uses actual expenditures to calculate the relative educational costs per student academic level and discipline. Every two years, the Texas state legislature uses this cost study to make funding decisions. According to the university, the cost study approach used by other states—primarily Texas—is overly complex. However, our review found that the process Texas employs is relatively straightforward because it uses operating cost elements that campuses report in their annual financial statements and enrollment data. Furthermore, the University of Texas at Austin, one of the schools within the University of Texas system, uses the results of its state's cost study as one of the main factors—along with tuition rates that other universities charge, its projected cost increases, and its priorities—to determine the tuition it charges students.

By performing a cost study, the university could find, for example, that the amount it actually costs to educate students could justify its need to increase—or decrease—the amount it charges for tuition. An accurate calculation of costs also could serve as a foundation that the Legislature and the university could use to determine reasonable levels of financial support from both the State and from students.

Legislative Intervention Could Help to Ensure That the University Meets Its Commitment to Residents

The university's decision to increase nonresident enrollment at the expense of residents will have a long-lasting impact unless the Legislature and the university take steps to restore the university's historic commitment to residents. These steps must not only ensure that the university prioritizes residents' interests in the future but also repairs the damage that its past decisions have caused. In November 2015—during the course of our audit—the university committed to enrolling an additional 10,000 more residents over the next three fiscal years. However, the enrollment

The university should develop a reasonable, well-supported methodology and use it as the basis for funding requests and tuition increases.

When discussing the prospect of increasing nonresident enrollment, the university's 2010 Commission on the Future report indicated that the university should cap the increase at 10 percent.

of 10,000 additional residents will not fully rectify the ramifications of its decision to admit nonresidents while referring or denying admission to more qualified resident applicants.

Based on the university's assertion that it increased nonresident enrollment because of decreases in state funding and rising costs, we would have expected it to decrease—or at least hold constant—its nonresident enrollment when state funding began to increase. Instead, as previously shown in Figure 3 on page 18, state funding has been increasing steadily since fiscal year 2012–13. However, the university has acknowledged that it intends to continue to admit increasing numbers of nonresidents, and in its 2016–17 operating budget, the university indicated that nonresident revenue continues to be a key part of its financial plan. Thus, until the university's financial incentive to enroll nonresidents is mitigated, it will likely continue to admit increasing numbers of nonresidents.

The university's 2010 *Commission on the Future* report acknowledged the potential benefits and challenges of increasing nonresident enrollment. This report asserted that the university had low proportions of nonresident undergraduates compared to other public and private research universities and recommended that it increase nonresident enrollment to 10 percent. Such an increase, the report stated, would generate additional revenue to sustain current instructional capacity and educational offerings for all undergraduates. Further, the report stated that increasing the number and proportion of nonresidents would enhance undergraduates' educational experience, broaden geographical diversity, and prepare students for a global society.

However, the report cautioned that campuses must establish targets for nonresident enrollment that do not displace funded enrollment of California residents and that the admission of nonresident undergraduates should not displace funded California residents who are eligible for admission. The report indicated that the university should cap this increase in nonresident enrollment at 10 percent, and it should also consider creating a systemwide referral pool for nonresidents and determining the areas to which each campus should dedicate the revenue from increased nonresident enrollment. However, the university has not taken these actions. Instead, total nonresident undergraduate enrollment stands at 13.4 percent for academic year 2014–15; the university does not put nonresidents in the referral pool; and the Office of the President has not given campuses specific direction on how to dedicate the increased revenue from nonresident enrollment.

We believe that the Legislature should consider amending state law to limit nonresident undergraduate enrollment at the university, which would ensure that the university does not displace residents.

For example, between academic years 2005–06 and 2007–08, before the drop in state funding, nonresidents comprised about 5 percent of the university’s new undergraduate enrollment.⁵ By academic year 2014–15, that percentage had climbed to more than 17 percent, which translated to 7,200 new nonresident undergraduates above a 5 percent limit on new nonresident enrollment. Decreasing new nonresident enrollment by 7,200 would make the same number of spots available for residents to maintain the 5 percent limit of new nonresident undergraduates to new resident undergraduates.

Requiring the university to enroll significantly more resident undergraduates would require an additional financial commitment from both the university and the State. As we show in Table 10 on the following page, different enrollment limits on new nonresident enrollment with a corresponding increase in resident enrollment would require additional revenue, which either the university or the State—or both—would need to provide. For example, if the university’s total expenditures remained constant and it increased enrollment by 7,200 residents to correspond to the 5 percent limit on new nonresident undergraduate enrollment, the university would require additional revenue of \$72 million, or \$10,000 per student—the amount that the university asserts it would need to fund resident enrollment growth.

If the Legislature were also to commit additional funds to the university for meeting an agreed-upon enrollment percentage, it could do so using a phased-in approach. For example, the Legislature could require the university to achieve a 5 percent limit on overall nonresident undergraduate enrollment within four years and it could provide the university with incremental increases in appropriations each year until the university reached that target. For example, year one would require a \$72 million additional investment over the fiscal year 2014–15 baseline appropriation. Similarly, following the recommendation in the university’s *Commission on the Future* report, if the cap on nonresident enrollment was set at 10 percent, year one would require \$42 million in funding. As we discuss later in this report, we believe the university could also generate additional savings internally, which could help it compensate for the lost nonresident revenue.

Finally, even though the university asserts that enrolling more nonresidents has not precluded it from meeting its Master Plan commitment to select from the highest achieving students in the State—the top 12.5 percent of all California high school graduates—the university’s admission decisions call into question whether

Requiring the university to enroll significantly more resident undergraduate students would require an additional financial commitment from both the university and the State.

⁵ New undergraduate enrollment includes incoming freshman and transfer students.

it has actually met this commitment. As we discussed earlier in this chapter, few residents accept the university’s referrals to the Merced campus; nonetheless, the university identifies its referral process as playing a major role in fulfilling the goals of the Master Plan. According to the university, it estimated admitting the top 14.9 percent of the eligible California high school graduating class in academic year 2014–15, which includes residents in the referral pool. If we exclude the residents the university placed in the referral pool and who did not ultimately enroll at the referral campus, the university would have admitted 12.4 percent of the eligible California high school graduating class—less than the 12.5 percent Master Plan commitment. Because placements in the referral pool result in significantly fewer enrollments of residents than do admissions to a campus to which a resident applied, we question whether the university should include referral admissions when computing its admission of the top 12.5 percent of California high school graduates. To remedy this problem, the Legislature should consider requiring that the university exclude placements in the referral pool when determining whether it meets the Master Plan tenet to admit the top 12.5 percent of high school graduates until more residents actually enroll at the referral campus.

Table 10
Potential Results of Capping Nonresident Undergraduate Enrollment at Levels Between 5 Percent and 20 Percent

NEW UNDERGRADUATE NONRESIDENT ENROLLMENT				➔	OVERALL UNDERGRADUATE NONRESIDENT ENROLLMENT	
DESIRED PERCENTAGE OF NEW ANNUAL UNDERGRADUATE NONRESIDENT ENROLLMENT	DESIRED NUMBER OF NEW ANNUAL NONRESIDENT ENROLLMENTS (USING ACADEMIC YEAR 2014–15 NEW ENROLLMENT)	CHANGE FROM ACTUAL ACADEMIC YEAR 2014–15 NONRESIDENT NEW ENROLLMENT TO DESIRED	ADDITIONAL FUNDING NEEDED TO ENROLL CORRESPONDING NUMBER OF RESIDENTS AT \$10,000 PER STUDENT (IN MILLIONS)		TOTAL NONRESIDENT ENROLLMENT PERCENTAGE	TOTAL ENROLLED UNDERGRADUATE NONRESIDENTS AT THAT PERCENTAGE (USING ACADEMIC YEAR 2014–15 ENROLLMENT)
5%	2,940	(7,158)	\$72	A limit on new nonresident enrollment would achieve a corresponding limit on overall nonresident undergraduate enrollment after four years	5%	9,754
10	5,880	(4,218)	42		10	19,508
15	8,820	(1,278)	13		13.4	26,200*
17	10,098†	–	–		15	29,262
20	11,760	1,662	–		20	39,016

Sources: California State Auditor analysis of fiscal year 2014–15 admission and enrollment data obtained from the University of California (university) Office of the President’s University Undergraduate Admissions System and other operational data, University UC Information Center Enrollment Data Mart, the university’s Information Center, and the university’s 2015–16 Budget for Current Operations.

Note: New undergraduate enrollment includes incoming freshman and transfer students.

* This is the actual nonresident enrollment total for academic year 2014–15 as of the third week of the fall term.

† This is the actual new nonresident enrollment total for academic year 2014–15.

Recommendations

To meet its commitment to California residents, the university should do the following:

- Replace its “compare favorably” policy with a new admission standard for nonresident applicants that reflects the intent of the Master Plan. The admission standard should require campuses to admit only nonresidents with admissions credentials that place them in the upper half of the residents it admits.
- Amend its referral process by taking steps to increase the likelihood that referred residents ultimately enroll.

To ensure that campuses’ interpretations of admission standards do not adversely impact residents, the university should implement a thorough process to annually evaluate the qualifications of students who apply and students who are admitted. These evaluations should highlight instances when campuses admit nonresidents who are less qualified than residents and should include corrective action steps. Moreover, this evaluation should include resident and nonresident undergraduate enrollment in majors at each campus. The university should make the results of this evaluation—including details of the academic qualifications of students who applied and who were admitted—publicly available.

To ensure that it has accurate information upon which to make funding decisions, the Legislature should consider amending the state law that requires the university to prepare a biennial cost study. The amendment should include requirements for the university to differentiate costs by student academic level and discipline and to base the amounts it reports on publicly available financial information. In the absence of legislative action, the university should conduct a cost study every three to five years and ensure that it is based upon publicly-available financial information. The university should use the results of the cost studies as a basis for the tuition it charges and for the proposed funding needs that it presents to the Legislature.

To ensure that the university does not base future admission decisions on the revenue that students generate, the Legislature should consider amending state law to limit the percentage of nonresidents that the university can enroll. For example, the Legislature could require that the university limit nonresident enrollment to 5 percent of total undergraduate enrollment. To accomplish this, the Legislature should consider requiring that the university’s annual appropriations be based on enrolling agreed-upon percentages of residents and nonresidents.

To ensure that the university meets its commitment to residents and to bring transparency and accountability to admission outcomes, the Legislature should consider excluding the students who the university places in the referral pool and who do not ultimately enroll at the referral campus when calculating the university's Master Plan admission rate until the percentage of students who enroll through the referral process more closely aligns with that of the other campuses.

Chapter 2

THE UNIVERSITY OF CALIFORNIA DID NOT SUFFICIENTLY REDUCE ITS COSTS BEFORE INCREASING TUITION AND NONRESIDENT ENROLLMENT

Chapter Summary

Before it increased its tuition and nonresident enrollment to address its funding shortfalls, the University of California (university) could have done more to improve its operational efficiencies and reduce costs. For example, when the Legislature required the university to enroll an additional 5,000 residents in academic year 2016–17 as a stipulation of receiving \$25 million in state funds, an action the university estimates will cost approximately \$50 million, or \$10,000 per student, the university indicated it would use other funding sources to cover the remaining \$25 million. The university indicated that it would make these funds available primarily by eliminating financial aid for nonresidents. Since the university can shift its expenditures for the purpose of enrolling additional residents, we believe that it has significant opportunities to replicate this effort.

For example, despite the State's fiscal crisis, the university increased its spending on employee salaries in eight of the last nine fiscal years. Furthermore, the university pays its top executives salaries that are significantly higher than those the State pays its employees in high-level positions in the executive branch. In fiscal year 2009–10, the university implemented a one-year salary reduction and furlough plan (furlough plan) for faculty and staff, saving an estimated \$236 million. If the university had continued this furlough plan at a reduced level, it could have saved an additional \$100 million dollars per fiscal year. The university also could improve its executive compensation practices by conducting regular compensation and benefits studies, by addressing recommendations its internal auditor made in 2013 regarding salary-setting practices, and by producing its annual executive compensation report in a timely manner.

Moreover, the university has not maximized the benefits that it could have achieved from an initiative it developed in 2010 called Working Smarter. The Working Smarter initiative's goal was to redirect the savings generated and the new revenue sources developed to the university's core academic and research missions. Although the university asserts that it generated \$664 million in combined savings and new revenue over the past five years, it could not substantiate this amount or demonstrate that the entire amount was redirected to its academic and research missions. Further, the

university does not centrally direct the savings or new revenue the campuses generate or require that campuses participate in the initiative. The university estimates that if it had achieved a campus participation rate of 80 percent for one program alone, it would have generated \$9 million of additional savings.

Finally, the university's nonresident undergraduate recruiting expenditures have increased—from \$900,000 in fiscal year 2010–11 to \$4.5 million in 2014–15. If the university had done more to limit its nonresident recruiting expenditures, this would have resulted in additional savings from fiscal years 2010–11 through 2014–15.

During the State's Fiscal Crisis, the University Significantly Increased Its Spending on Employee Costs

As we discuss in the Introduction, the State's 2008 fiscal crisis resulted in a series of significant cuts to the university's state appropriations. We expected that the university would have reviewed the efficiency of its internal operations and expenditures in response to these cuts to ensure its ability to continue to provide residents with a high-quality, low-cost education. Instead, the university increased its staff who belong to one or more of the personnel programs described in Table 11, and it increased spending on salaries in eight of the last nine fiscal years. Additionally, during the past 10 fiscal years, the university increased mandatory fees for residents—base tuition and the student services fee—six times, and increased total nonresident enrollment by 118 percent.

From fiscal year 2005–06 to 2014–15, the gross earnings of the university's employees systemwide increased 64 percent, from nearly \$8 billion a year to nearly \$13 billion a year.

From fiscal year 2005–06 to 2014–15, the gross earnings of the university's employees systemwide increased 64 percent, from nearly \$8 billion a year to nearly \$13 billion a year. During that time, the number of university employees and gross earnings increased within each personnel program except the senior management group, as depicted in Table 11. Although the senior management group experienced a reduction of 133 employees, or 40 percent, its gross earnings only decreased by 4 percent during the 10 years, indicating that the average gross earnings of employees in this group also increased. Further, the reduction in the number of employees occurred not because the university reduced the number of senior managers, rather because it reclassified and transferred approximately 100 deans from the senior management group program into the academic personnel program. The managers and senior professionals personnel program experienced the largest increase in employees at 51 percent, or an increase of 4,408 employees, accompanied by a more than \$765 million increase in gross earnings, or 104 percent.

Table 11
The Number of University of California Employees and Their Gross Earnings Increased Significantly From Fiscal Years 2005–06 Through 2014–15

PERSONNEL PROGRAM	TYPE OF POSITIONS	NUMBER OF EMPLOYEES*			GROSS EARNINGS			PERCENTAGE OF TOTAL EARNINGS		
		FISCAL YEAR 2005-06	FISCAL YEAR 2014-15	PERCENTAGE CHANGE IN NUMBER OF EMPLOYEES	FISCAL YEAR 2005-06	FISCAL YEAR 2014-15	CHANGE IN GROSS EARNINGS	PERCENTAGE CHANGE IN GROSS EARNINGS	FISCAL YEAR 2005-06	FISCAL YEAR 2014-15
Senior Management Group	President, chancellors, vice chancellors, provosts, vice provosts, vice presidents	336	203	(133) [†]	-\$69,500,000	\$66,500,000	-\$3,000,000	-4%	1%	1%
Managers and Senior Professionals	Managers, directors, senior professionals, high-level analysts, physicians, nurse managers, high-level programmers, coaches	8,671	13,079	4,408	737,900,000	1,503,300,000	765,400,000	104	9	12
Academic	Faculty, academic administrative officers, student appointees, medical residents, librarians, research appointees	74,886	84,349	9,463	3,144,600,000	4,913,400,000	1,768,800,000	56	40	38
Professional and Support Staff	Clerical and administrative staff, research assistants, analysts, computer programmers, custodians, nurses	157,494	178,968	21,474	3,967,800,000	6,504,200,000	2,536,400,000	64	50	50
Totals		241,387	276,599	35,212	\$7,919,800,000	\$12,987,400,000	\$5,067,600,000	64%	100%	100%[‡]

Sources: California State Auditor's analysis of data obtained from the University of California (university) Office of the President's Corporate Data Warehouse and Decision Support System. The summaries contain payroll transactions, reported as of September 30, 2015.

Note: This table includes all of the university's staff at each campus, the Office of the President, and medical centers. Dollars are rounded to the nearest hundred thousand.

* Employee counts are based on employees rather than positions, which includes both full- and part-time employees. Also, an employee may be counted more than once if the employee moved from one personnel program to another during the year or held more than one position concurrently.

† The reduction in the number of senior management group employees occurred because the university reclassified and transferred approximately 100 deans from the senior management group into the academic personnel program.

‡ Total exceeds 100 percent due to rounding.

The only fiscal year in which the university decreased its spending on employee salaries was in fiscal year 2009–10, when it implemented a furlough plan for faculty and staff from September 2009 to August 2010. The university estimated that this plan, in which it furloughed employees for 10 to 26 days during those 11 months, saved \$236 million from all funding sources. However, in the following year, it negated this one-time cost savings from the furlough plan when it increased its spending on employee salaries by \$526 million. Had it continued its furlough plan, the university could have achieved additional savings to offset its loss of state funding. For example, had it continued the furlough program at even less than half the fiscal year 2009–10 savings rate, it could have saved an additional \$100 million per fiscal year. Instead, the university's expenditures for employee salaries continued to increase in each of the fiscal years after the furlough plan ended, for a total of \$3.1 billion. In a 2015 analysis of its employee costs, the university attributed 60 percent of its growth in employees from 2007 to 2014 to health science employees, who are paid from other funds besides the State's General Fund and tuition and fees. It attributed the remaining 40 percent in employee growth to the campuses and the Office of the President, split about evenly between university staff and student workers. However, the university's analysis does not address the increased cost associated with its employment growth. Although the university indicated that it reduced the number of employees it paid from state funds, the university also increased the number of employees it paid from other funds such as tuition and fees, indicating that the fund sources with which it uses to pay its employees changed.

The University Provides Salaries and Benefits That Significantly Exceed the Compensation of Other High-Level State Positions

In addition to increasing its total number of staff and their gross earnings during the State's fiscal crisis, the university also paid salaries to its executives that significantly exceeded the amounts earned by employees in high-level state executive branch positions. As shown in Table 12, the salaries of the university's top executives—including the president, four officers of the Regents of the University of California (regents), and the 10 campus chancellors—significantly exceeded those of employees in high-level executive branch positions. The university paid all but one of its executives in these positions a base salary of at least \$400,000 in fiscal year 2014–15, which was more than double the amount the executive branch paid the governor and the directors of several large state departments. Additionally, all university positions exceeded the salary level of the executive branch's highest career executive assignment (CEA). CEAs at this level include directors of small departments, chief deputy

The university paid all but one of its top executives a base salary of at least \$400,000 in fiscal year 2014–15, which was more than double the amount the executive branch paid the governor and the directors of several large state departments.

directors of large departments, or positions with specialized skills within the executive branch. Effective June 2015, state law requires the university to revise its existing process for establishing the salary ranges for its top executives, specifically those in the senior management group, so that its process includes, at a minimum, comparable positions in state government.

Table 12
The University of California’s Top Executives Earn More Than High-Level Positions in the State’s Executive Branch

ENTITY	POSITION	FISCAL YEAR 2014–15 BASE SALARY EARNED*
University of California	Chief Investment Officer and Vice President of Investments [†]	\$615,000
University of California	Chancellor, San Francisco	579,825
University of California	President	570,000
University of California	General Counsel and Vice President for Legal Affairs [†]	428,480
University of California	Senior Vice President - Chief Compliance and Audit Officer [†]	417,150
California State Teachers’ Retirement System	Chief Investment Officer	415,377
California Public Employees’ Retirement System	Chief Investment Officer	406,785
University of California	Chancellors, average of remaining nine campuses [‡]	404,313
California Department of Corrections and Rehabilitation	Agency Secretary	233,611
California Department of Public Health	Director	225,078
University of California	Secretary and Chief of Staff to the Regents [†]	225,000
California State Teachers’ Retirement System	General Counsel	224,196
California Department of Finance	Director	178,111
Top allowable executive branch career executive assignment (CEA) salary for positions requiring licensure as a physician, attorney, or engineer		\$172,908
State of California	Governor	169,559
California Department of Water Resources	Director	168,890
California Department of Education	Superintendent of Public Instruction	152,998
California Department of General Services	Director	150,277
California Department of Consumer Affairs	Director	136,496
Top allowable CEA Level C salary		\$135,948
California State Controller’s Office	Controller	134,325

Sources: California State Auditor’s analysis of data obtained from the University of California (university) Office of the President’s Corporate Data Warehouse and Decision Support System. The data contain payroll transactions reported as of September 30, 2015. State employee data are from the California State Controller’s Office website.

Note: All university positions listed in the table had additional cash earnings during fiscal year 2014–15, which were excluded from the table. The base salary for the chancellor of the San Francisco campus excludes amounts paid by endowment funding.

* State employee salaries were for 2014, with the exception of the Director of the California Department of General Services and the General Counsel of the California State Teachers’ Retirement System, whose salaries are from 2013.

[†] The university refers to these four positions as its principal officers of the Regents of the University of California.

[‡] Excluding the San Francisco campus, the salaries of the chancellors of the other nine campuses ranged from \$369,000 to \$501,000. The chancellor for the Irvine campus served in his position for part of the fiscal year.

In addition to salaries that exceed those of employees in high-level executive branch positions, the university provides certain generous benefits to its president and chancellors.

We reviewed the university's progress toward this state requirement and found that as of February 2016 it matched 32 of its 92 total senior management group positions to positions existing within state government, the California State University, and local governments. The university indicates it was unable to identify comparable positions for the remaining 60 positions because it either found no comparable positions at these entities or needed more time to assess the comparability of the positions. Of the 32 comparable positions it found, the university only matched 23 to positions in state government. The university intends to present this analysis to the regents in March 2016 for approval. If approved, 60 of the university's salary ranges for its senior management positions will not include comparable positions from the State, local governments, or California State University. As such, the university's analysis is limited and more work is needed to identify additional positions at these entities for inclusion in its salary ranges.

In addition to salaries that exceed those of employees in high-level executive branch positions, the university provides certain generous benefits to its president and chancellors. Specifically, the university makes contributions to the retirement savings plans of senior management group employees with full-time, nontenured academic appointments at the rate of 3 to 5 percent of their monthly base salaries. For instance, the president of the university earned a base salary of \$570,000 in fiscal year 2014–15. Because she receives the retirement plan benefit at 5 percent, the university contributed \$28,500 that year to her elected retirement savings plan. This retirement benefit is in addition to the university's regular pension plan, to which it contributes 14 percent and employees contribute 8 percent of their gross pay.

Additionally, while the salaries of the university's top executives ranked below those at similar research institutions, the comparative data did not include all elements of compensation for the participating university executives. Specifically, using *The Chronicle of Higher Education's* annual survey of chief executive compensation at public and private universities (Chronicle survey), we found that the salaries of the university's president and chancellors in fiscal year 2013–14 ranked in the bottom half when compared to similar positions at peer research institutions.⁶ These peer institutions are members of the Association of American Universities, an organization composed of 62 leading public and private research universities located throughout the United States and Canada. According to the Chronicle survey and our additional analysis of the university's payroll data, the salaries of the university's chancellors fell among the lower third of its public and

⁶ *The Chronicle of Higher Education* is a newspaper that presents news, information, and jobs for university faculty and administrators.

private peer institutions in fiscal year 2013–14, while the president of the university ranked above the middle, placing 10th out of 28 public universities that participated in the survey. The university reported that all but one of its chancellors' annualized base salaries for 2014 had increased by \$12,000 to \$93,000, while the president's base salary remained unchanged.⁷

Although the salaries of the university president and chancellors generally lagged behind those paid by comparable public universities, the Chronicle survey did not report the total value of the public universities' compensation packages. Specifically, it excluded benefits and other noncash elements of compensation for executives of public universities, which may or may not be similar to what the university provides. Examples of other benefits are shown in the text box.

The University Needs to Take Additional Steps to Justify Its Salaries and Benefits

The university could do more to justify the salaries and benefits it provides to its employees. Specifically, it has not conducted regular compensation and benefit studies that would enable it to assess the reasonableness of its executive compensation. Further, it has failed to address its own internal recommendations related to improving its executive compensation practices. Finally, it has not produced timely reports that would increase transparency regarding the salaries and benefits it offers to its top executives and senior managers.

The university has not been proactive in assessing the total value of benefits it provides to its top executives and managers. In 2009, a university consultant performed an analysis to value the competitiveness of certain elements of the university's executive compensation packages by comparing its base salaries, health and welfare benefits (health benefits), and retirement with those offered by 26 public and private universities, 12 national academic medical centers, and 10 California medical providers. The consultant found the base salaries of employees in its senior management program and its managers and senior professionals program lagged behind the market by 22 and

Examples of Benefits the University Commonly Offers Its President and Chancellors

- Monthly contribution ranging from 3 to 5 percent of the employee's base salary to one of three types of retirement savings plans, only if the employee does not have an underlying faculty appointment.
- Accrual of sabbatical leave credit if the employee has an underlying faculty appointment.
- Executive life insurance up to two times the employee's annual base salary to a maximum of \$800,000.
- University-provided housing.
- Monthly cash automobile allowance for university business use of a privately-owned vehicle.
- Eligibility for a low-interest home loan upon leaving the position if the employee assumes a tenured position at a university campus.
- Relocation of personal belongings to a California location of the employee's choice when the employee leaves the position if the employee continues employment at the university.

Sources: California State Auditor's analysis of compensation packages and University of California compensation policy.

⁷ For the San Francisco campus chancellor, this increase does not include pay from endowment funding.

A consultant study demonstrated that although base salaries for university officials were generally lower than the market, the additional value of its health benefits and retirement brought its compensation closer to comparable universities and industries.

16 percent, respectively. However, when the consultant added the total value of the university's health benefits and retirement, the compensation disparity was reduced to approximately 14 percent below market for the senior management group and 4 percent below market for managers and senior professionals.

This consultant study—which did not include other perquisites that the university provides including housing, stipends, honorariums, bonuses, lump sum awards, and automobile allowances—demonstrates that although base salaries for the university's top executives and managers were generally lower than the market in 2009, the additional value of its health benefits and retirement brings its compensation packages for the university's top executives and managers closer in line with other comparable universities and industries included in the consultant's study. However, this study was conducted more than six years ago, calling into question whether it accurately reflects the university's current compensation practices and the value of its executive compensation packages. To ensure that the university considers all compensation that its executive and management staff receive, to the extent possible, any future study should not only include the value of the base salaries, health benefits, and retirement but also all forms of compensation and perquisites that the university provides.

Further, the university has yet to implement five recommendations from a February 2013 internal review by its internal audit unit (internal review) of its process for establishing salary ranges for its senior management group (senior management) employees. The objectives of the internal review were to identify opportunities to improve the university's methodology for establishing salary ranges for senior management employees and validate that the ranges align with survey data. The university uses salary ranges as a basis to hire, offer salary adjustments, and monitor the compensation of its top executives. To establish the reasonableness of its salary ranges, the university compiles national salary information from comparable positions at participating universities and industries using predefined criteria, such as job functions and characteristics. The five recommendations still outstanding from the internal review advised the university to establish a variety of procedures and limits for creating, adjusting, and reviewing salary ranges. According to the university, it has not implemented these recommendations because of time and resource constraints, but it is in the process of addressing them by August 2016. By failing to implement these recommendations promptly, the university has delayed an opportunity to improve its compensation practices and ensure that its methodology for establishing the salary ranges for its top executives is reasonable.

The university could also be more transparent in reporting executive compensation. Specifically, the Budget Act of 2006 requested that the university provide an annual report on executive compensation to the California Department of Finance and several legislative

committees by March 1 of each year through fiscal year 2010–11. However, the university missed this deadline in four of the five fiscal years, and it was unable to demonstrate that it produced this report at all in fiscal year 2007–08. In addition, the university currently publishes an annual report on executive compensation that provides the salaries and benefits it pays to certain of its highly compensated employees. The regents' bylaws require the university to submit this report by July each year, covering the previous calendar year. However, the university did not submit its report for calendar year 2014 compensation until December 2015, nearly 6 months after the required submission date. The university told us that it was late in submitting the report because of staff constraints, competing priorities, and the need to resolve two discrepancies it found while validating the compensation information. Nevertheless, by not promptly submitting the 2014 report, the university denied the regents and the public timely information that would allow them to scrutinize the pay of highly compensated university staff.

The University Has Lent a Significant Amount of Funds to a Home Loan Program for the Benefit of Its Faculty and Senior Managers

The university uses the University of California Home Loan Program Corporation (home loan program) to recruit and retain certain university faculty and senior managers by providing them with home loans for the purchase of principal residences near their campus. The home loan program offers a number of advantages to employees, including no lender fees, private mortgage insurance requirements, or impound accounts; interest rates that are competitive with market rates; and the requirement for a down payment of only 10 percent on loans that are \$1.3 million or less. As of June 2015, the home loan program reports a portfolio of 3,048 loans, with an outstanding balance of \$1.27 billion.

Although the home loan program indicates that it is self-supporting, the university and campuses lend it the money that funds the home loans. As of June 2015, the university owned 602 of the 3,048 loans at a value of \$252.1 million. The university sold the remainder of the loans to outside investors, but it still services those loans. Since 1985, the university has provided funding to the home loan program from its short-term investment pool, a highly liquid portfolio of investments that the university uses to fund its day-to-day operations. The home loan program compensates the university for the loans at a monthly rate of return that is tied to the current earnings of the short-term investment pool, which was 1.28 percent on June 30, 2015.

However, because the home loan program is financially dependent on the university, it ties up a substantial amount of funds in a long-term investment that the university could otherwise use elsewhere. According to the university, it considers the funds it lends to the home

Because the university's home loan program is financially dependent on the university, it ties up a substantial amount of funding—more than \$252 million—in a long-term investment that the university could use elsewhere.

loan program as an investment of the short-term investment pool, which, it indicated, the regents approved as an exception to this pool's normal uses. The university compared the average annual rate of return for the home loan program's loans—2.61 percent—with the short-term investment pool's gross rate of return of 1.5 percent for fiscal year 2014–15 and cited excess earnings of about \$1.9 million. However, the university is comparing a *long-term* home loan investment rate of return with that of its *short-term* investment pool. The mortgage loans it issues may have a term of up to 40 years, while the short-term pool contains investments with a maximum maturity of 5.5 years. A more accurate comparison to assess the opportunity costs of investing in the home loan program would be to compare it to the rate of return of its intermediate-term investment pool.

According to the university, the intermediate-term investment pool had an annualized net return of 8.6 percent over the past five years, more than four times greater than the short-term investment pool's five-year net return of 2 percent. Had the university invested its \$252.1 million in outstanding home loan balances at the intermediate-term investment portfolio's annualized five-year rate of return at 8.6 percent, the university could have generated nearly \$21.7 million. Although the university believes the home loan program is beneficial for the recruitment and retention of certain faculty and senior managers, it needs to consider whether the low return on its investment is worth the cost.

Goals of the University of California's Working Smarter Initiative

- Redirect \$500 million from administrative costs to academic and research missions within five years.
- Streamline operations to address state funding cuts and the need for commonality among the campuses.
- Implement operational efficiencies that enhance the quality of services provided to students, faculty, and staff.
- Build a sustainable financial model to carry forward.

Source: University of California's Working Smarter website.

The University Could Not Substantiate the Savings or New Revenue Generated From the Working Smarter Initiative

The university has reported that it met the goals of an initiative it developed to redirect more than \$500 million in savings resulting from administrative efficiencies and new revenue sources to the university's core academic and research missions. However, our review found that the university could not substantiate that the savings or new revenue it claims to have generated actually occurred. In 2010, in response to a regents' policy, the university formalized an initiative called Working Smarter—described in the text box—to identify new revenue and to reduce its administrative costs

by increasing systemwide efficiency. The Working Smarter initiative includes 34 projects. The university has reported that 13 of these projects generated \$664 million in combined savings and new revenue over the past four years and that the Office of the President passed most of these funds to the campuses to pay for academics and research. We show the 13 projects and their reported savings and revenue in Table 13.

Table 13
The University of California Has Claimed Significant Savings From Working Smarter Initiative Projects

PROJECT NAME	DESCRIPTION	SAVINGS OR REVENUE REPORTED (IN MILLIONS)
Projects With Proceeds That Directly Contributed to Academics and Research		
Liquidity Management	Optimizes the allocation of campus working capital between the University of California's (university) Short Term Investment Pool and its longer-term Total Return Investment Pool.	\$130.4
Parent Giving	Places increased emphasis on donations from parents of university students.	44.5
Purchase Card Program	Uses electronic payments to reduce administrative costs.	21.9
Subtotal		\$196.8
Projects With Proceeds That Indirectly Contributed to Academics and Research		
Banking and Treasury Services	Redesigns banking and treasury functions and renegotiation of merchant credit card fees.	\$1.6
Benefits Redesign	Validates dependents covered by the university's health benefits and put in place a more stringent set of measures to verify changes in dependents.	35.0
Campus Connexions	Provides a central source to purchase lower-cost insurance for events or activities that small businesses, students, or other organizations hold on university property.	4.2
Managed Travel Program	Provides a central source to reserve and purchase travel at lower-cost rates, as well as access to travel insurance and automated billing to the university.	23.6
Enterprise Risk Management	Takes a strategic approach to managing enterprise-wide risks, including workers' compensation, liability, and property claims.	183.3
Legal Services	Reduces legal costs by relying more on in-house counsel and outside firms with prenegotiated rates.	4.6
Procurement Transformation	Leverages the university's buying power to negotiate savings with vendors.	165.9
Statewide Energy Partnership	Identifies, qualifies for, and implements energy efficiency projects to reduce energy usage and cost.	43.5
Equipment Maintenance Insurance Program	Provides a systemwide management tool to manage and plan for scheduled preventative and unscheduled emergency maintenance.	2.7
Travel Insurance Program	Provides lower-cost and higher quality travel insurance as well as access to travel assistance resources.	2.6
Subtotal		\$467.0
Total savings and revenue reported		\$663.8

Sources: California State Auditor's analysis of the university's Working Smarter Initiative website, its 2015-16 Budget for Current Operations, and the Office of the President's November 19, 2014 progress report on the Working Smarter initiative.

We attempted to validate the savings or new revenue the university reported for these 13 projects but the Office of the President could not provide information to substantiate these amounts. According to the director of the Working Smarter initiative (initiative director), she determines the savings and revenue amounts from either summary or detailed information that each project reports to her. However, the information that she was able to provide us was not supported by financial documents to allow us to confirm the accuracy of the savings or revenue that the university claimed.

In addition, even though the university publicly claimed that it redirected most of the administrative savings it achieved or the new revenue it generated from the Working Smarter initiative to its academic and research missions, the university cannot fully substantiate this claim. According to the initiative director, the university encouraged participation in the initiative by allowing any campus or Office of the President department that generated savings or revenue to retain those funds for all projects except five: Liquidity Management, Parent Giving, Purchase Card, Enterprise Risk Management, and Statewide Energy Partnership. For the first three of these projects, the university indicated that it redirected the proceeds to its academic and research missions by applying them to the university's budget. For the other two projects, the university reinvested the savings back into the projects.

When we asked three campuses to demonstrate through financial records that they redirected savings or new revenue generated by the remaining eight projects from an administrative use to an academic or research use, none could do so. Instead, each campus explained that the efficiencies that their departments gained from the additional revenue indirectly enhanced the university's academic and research missions in immeasurable ways. As a result, the savings and new revenue generated through the remaining eight projects along with the Enterprise Risk Management and Statewide Energy Partnership—which totaled a combined \$467 million of the \$664 million total—were not redirected to the university's academic and research missions but instead, according to the initiative director, indirectly benefited students. Thus, although the university may be generating cost savings and additional revenue through Working Smarter initiative projects, we question whether it met the goal of redirecting \$500 million from administrative costs to academic and research missions.

Although the university may be generating cost savings and additional revenue through Working Smarter initiative projects, we question whether it met the goal of redirecting \$500 million from administrative costs to academic and research missions.

Moreover, although allowing the department that generated the savings or new revenue to keep those funds may create more support for the Working Smarter initiative, this practice does not allow the university to centrally and effectively manage the new

savings and revenue to put towards the university's academic and research missions. The initiative director indicated that the nature of three of the projects—Liquidity Management, Parent Giving, and Purchase Card—allowed for central management of the savings and new revenue they generated. Ultimately, the university should not have included proceeds from projects that did not directly contribute to its core academic and research missions toward its measure of meeting the goal to redirect \$500 million from administrative costs to its academic and research missions.

Further, the Office of the President did not follow the regents' direction that it obtain full participation by all campuses in the Working Smarter initiative and that it only allow campuses to opt out if they demonstrate that participating would result in materially higher costs or less functionality. According to the initiative director, the Office of the President believed that the Working Smarter initiative would have better results if the campuses' participation in each project was voluntary and the university rewarded them for participating. For this reason, the Office of the President did not develop campus savings and revenue targets for each project. However, by setting participation goals along with savings or revenue targets for the projects, the Office of the President could have evaluated whether each project had realized its full savings or revenue potential.

For example, the University Travel Council established an 80 percent usage goal for the Managed Travel Program (travel program), which illustrates how the Office of the President could have used participation goals to better hold campuses accountable for the Working Smarter initiative. The travel program provides discounted airline fare, car rental, and hotel reservations to university staff, along with streamlined billing and automatic registration into the university's travel insurance program. Campuses retain any savings they generate, which they can use to offset other costs or provide more services to students. However, in 2014, university staff purchased only 46 percent of their travel through the program, with four campuses having participation rates of 27 percent or less. Even with this low level of participation, the university reported that the travel program achieved savings of \$15 million in 2014. Nonetheless, the university projects that it could have saved another \$9 million if campus participation had reached the 80 percent usage goal. Had the Office of the President mandated that all university staff use the travel program, the savings would have been even greater.

The Office of the President did not follow the regents' direction that it obtain full participation by all campuses in the Working Smarter initiative.

Expenditures for Nonresident Undergraduate Recruiting Have Increased Substantially, Resulting in Increased Nonresident Enrollment

In recent years, campuses have reported increased spending to recruit nonresidents, reflecting their increased nonresident enrollment rates. This change in the campuses' recruiting efforts has negatively affected their ability to mirror the diversity of the State, as discussed in Chapter 1. Specifically, as shown in Table 14, campuses spent \$900,000 recruiting undergraduate nonresidents in fiscal year 2010–11. However, by fiscal year 2014–15, their nonresident recruitment expenditures had reached \$4.5 million, a 400 percent increase over five years. As shown in Table 9 beginning on page 38 in Chapter 1, the percentage of domestic and international undergraduate nonresidents enrolled in academic years 2010–11 through 2014–15 grew by 80 and 214 percent, respectively, while resident enrollment growth decreased by 1 percent. During this same period, the percentage of the university's undergraduate residents from underrepresented minority groups—which the university identifies as Chicanos/Latinos, African Americans, and American Indians—ranged from 24 to 30 percent, while the percentage of its domestic undergraduate nonresidents from underrepresented minority groups only ranged from 9 to 11 percent. Although the university stated that nonresident enrollment serves to help residents by exposing them to students from geographically diverse backgrounds and perspectives, the campuses' efforts to recruit nonresidents divert already limited resources from the recruitment of residents.

Although we were able to identify that campuses have significantly increased their expenditures for nonresident recruitment, the campuses do not accurately track their spending between nonresident and resident recruiting.

Although we were able to identify that campuses have significantly increased their expenditures for nonresident recruitment, the campuses do not accurately track their spending between nonresident and resident recruiting. Most notably, the university, with the exception of its San Diego campus and the Office of the President, was unable to determine whether expenditures for salaries of staff involved in recruiting activities—which totaled \$26.7 million from fiscal years 2010–11 through 2014–15—were for resident or nonresident recruiting. Furthermore, during that same time, Davis was unable to determine whether it spent \$3.3 million of its recruiting expenditures on residents or nonresidents. Similarly, Berkeley, Merced, and Santa Cruz noted that some of their resident recruiting expenditures included costs related to recruiting nonresidents, but they were unable to determine the specific amounts. This inability to accurately determine their resident and nonresident recruiting expenditures prevents the campuses from ascertaining the costs associated with attracting nonresidents to their campuses.

In addition, the university underreported its fiscal year 2013–14 recruiting expenditures to a state senator by almost \$8.0 million. To understand how the university was funding nonresident

recruiting, a state senator requested in November 2014 that the university provide a breakdown of resident and nonresident undergraduate recruiting expenditures for fiscal year 2013–14. The university provided this information to the state senator in December 2014. However, when we compared the recruiting expenditures that the university reported to the state senator to those it provided us for that same fiscal year, we found errors totaling \$1.7 million. Further, the university excluded the combined salaries of staff involved in resident and nonresident recruiting activities, which totaled \$6.3 million, from the amount it reported to the state senator. As a result of these errors and exclusions, the state senator did not receive accurate information related to the university’s expenditures on recruiting efforts.

Table 14
Undergraduate Recruiting Expenditures Have Increased Significantly, Particularly for Nonresident Recruiting
(In Millions)

FISCAL YEAR	RESIDENT EXPENDITURES	NONRESIDENT EXPENDITURES	SALARIES	TOTAL
2010–11	\$2.8	\$0.9	\$3.5	\$7.2
2011–12	3.9	1.8	4.6	10.3
2012–13	4.6	3.6	5.5	13.7
2013–14	5.5	4.0	6.3	15.8
2014–15	6.3	4.5	6.8	17.6
Totals	\$23.1	\$14.8	\$26.7	\$64.6
Growth Rate	125%	400%	94%	144%
Expenditure Increase From Fiscal Year 2010–11 Through 2014–15	\$3.5	\$3.6	\$3.3	\$10.4

Source: California State Auditor’s analysis of recruiting expense data provided by campuses. Each campus indicated that no state funding was used to fund recruitment activities for nonresidents.

Note: Because most campuses could not distinguish salary expenses between resident and nonresident, we listed the combined totals separately. This table also excludes \$3.3 million that the Davis campus could not distinguish as either resident or nonresident expenses, which related primarily to admission events, recruitment vendor services, and publications.

Note: We did not include the San Francisco campus because it does not have undergraduate students.

Finally, the university also provides developmental outreach to high school and community college students. The university accomplishes this through a variety of programs within its Student Academic Preparation and Educational Partnerships (SAPEP) programs, with funding of \$24.6 million in fiscal year 2014–15. The purpose of SAPEP is to prepare California’s kindergarten through twelfth-grade student population for postsecondary education and community college students for transfer to a four-year university.

SAPEP is a statewide effort to raise California student achievement generally and to close achievement gaps among groups of California students from the kindergarten through community college levels by focusing on first-generation, socioeconomically disadvantaged, and English-language learners.

Recommendations

To improve its internal operations and promote cost savings related to the nearly \$13 billion it spent on employee salaries in fiscal year 2014–15, the university should conduct a systemwide assessment to identify ways to streamline and reduce its employee costs.

To ensure the reasonableness of the compensation the university pays its executives, it should include—to the extent possible—all items of compensation when setting or adjusting salaries and benefits, when conducting surveys and studies, and when comparing the compensation packages of its executives to those in similar positions outside the university.

To ensure that its process for establishing and revising salaries for its top executives is documented, thorough, and consistently applied, the university should implement the five outstanding recommendations from its 2013 internal review report by August 2016.

To improve the transparency and timeliness of its annual compensation report, the university should streamline the process it uses to prepare the report so it can be issued by April of each year.

To ensure that the home loan program is the best use of the university's investment funds, it should conduct a cost benefit analysis that factors in the opportunity costs of investing in the home loan program as opposed to other higher-returning assets.

To maximize the savings and new revenue from the Working Smarter initiative and ensure that the university uses them for its academic and research missions, the Office of the President should take the following actions:

- Immediately require that the campuses fully participate in all projects unless they can provide compelling evidence demonstrating a harmful effect.
- By June 30, 2016, to the extent possible, implement a process to centrally direct these funds to ensure that campuses use them to support the core academic and research missions of the university.

- Ensure that it substantiates that projects are actually generating savings and new revenue and that it can demonstrate how the university uses these funds.

To ensure that its recruiting efforts benefit residents, the university should prioritize recruiting residents over nonresidents. In particular, the university should focus its recruiting efforts broadly to ensure that it effectively recruits resident underrepresented minorities. For example, the university could establish a limit on the amount of funds it dedicates to nonresident recruiting. Further, it should develop a process to better track its nonresident and resident recruiting expenditures.

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Chapter 3

THE UNIVERSITY OF CALIFORNIA HAS NOT ADEQUATELY MONITORED CAMPUS SPENDING AND HAS NOT COMPLETELY EQUALIZED PER-STUDENT FUNDING

Chapter Summary

The University of California's (university) total nonresident supplemental tuition revenue (nonresident revenue) increased by more than \$403 million from fiscal years 2010–11 through 2014–15. The university claims that increased enrollment of nonresidents allows it to enroll more residents. However, the number of residents enrolled at the university actually decreased by 2,200—or 1 percent—from academic years 2010–11 through 2014–15, while total nonresident enrollment increased by 82 percent, or 18,000. Thus, contrary to the university's claim, the amount of nonresident revenue the campuses received appears to have had little impact on the number of residents that they enrolled. In fact, our review of each campus's spending of nonresident revenue revealed that they spent these funds across a variety of functional areas, some of which do not directly benefit residents. We also found that the university's Office of the President did not regulate or monitor the campuses' use of this revenue.

The Office of the President also exercised insufficient oversight of campuses' use of state funds for programs that represent a considerable expense to the State. The university spends a significant portion of its state appropriation—\$337 million of the \$2.8 billion in state funds in fiscal year 2014–15 alone—on 18 programs that do not directly relate to teaching students. However, the Office of the President does not regularly evaluate whether continued funding of these programs is warranted or if other funding sources are available to support these programs.

In addition, the university's efforts to equalize per-student state funding across its campuses were flawed and did not completely address past concerns regarding its methods for allocating state funding. After our 2011 audit identified inequity in per-student funding among the campuses and a lack of transparency in how the university distributes funds to campuses, the university embarked in 2012 on an effort to address these concerns, which it refers to as *rebenching*. However, we identified several problems with rebenching, including the fact that the university based the formula it uses to redistribute funds not on the amounts it actually costs to educate different types of students but instead on costs it judgmentally assigned. The university recently addressed two of the

flaws we identified, and it is now basing the rebenching allocation on actual enrollment and shortening the time to complete the rebenching period from six fiscal years to five.

Further, the university made rebenching allocation decisions that excluded \$886 million from the amount it distributed to campuses through per-student funding for fiscal year 2014–15. This amount represented nearly one-third of the university’s total state funding for that year, significantly affecting the amount of per-student funding that campuses would receive from state funds. For example, if the university had included all the funds that the State provided, per-student funding could have been as much as \$10,900 per student, instead of the \$7,600 per-student amount for fiscal year 2014–15 that resulted from the university’s formula. Although the university’s actions may be justified, this information is not transparent or easily available to stakeholders.

Increases in Nonresident Tuition Revenue Did Not Result in Increases in Resident Enrollment

Contrary to the university’s public statements, the revenues from the increased enrollment of nonresidents from academic years 2010–11 through 2014–15 did not result in increased resident enrollment. The university asserted in its fiscal year 2015–16 operating budget that the increased revenue from nonresident tuition provides funds to improve the education for all students and enabled campuses to maintain and increase its enrollment of California residents. The Legislature also recently stated in an amendment to the Budget Act of 2015 that it intends for the university to use the revenue generated by the increased nonresident enrollment in academic year 2015–16 to support a growth in the number of residents enrolled. However, even though total nonresident revenue increased by \$403 million—or 124 percent—from fiscal years 2010–11 through 2014–15, the number of residents enrolled at the university actually decreased by more than 2,200—or 1 percent—from academic years 2010–11 through 2014–15, as Table 15 shows. During this same five-year period, total nonresident enrollment increased by 82 percent, or more than 18,000.

Even though total nonresident revenue increased by \$403 million (124 percent) from fiscal years 2010–11 through 2014–15, the number of residents enrolled at the university decreased by more than 2,200 (1 percent) and nonresident enrollment increased by more than 18,000 (82 percent).

Of particular note, resident enrollment at the Berkeley, Los Angeles, and San Diego campuses decreased by between 2 and 9 percent from academic years 2010–11 through 2014–15, even though these three campuses received the greatest amount of nonresident revenue in fiscal year 2014–15. Therefore, even though these three campuses received significantly more revenue from nonresident tuition than the other campuses, they did not enroll

more residents; rather they each enrolled fewer. The Office of the President asserts that the declining trend in the enrollment of California residents during the past five academic years is completely tied to a reduction in state funding.

Table 15
Despite Large Increases in Nonresident Supplemental Tuition Revenue, Systemwide Resident Enrollment Has Declined Over the Past Five Academic Years
(In Millions)

	2010-11			2014-15		
	NONRESIDENT TUITION REVENUE	RESIDENT ENROLLMENT	NONRESIDENT ENROLLMENT	NONRESIDENT TUITION REVENUE	RESIDENT ENROLLMENT	NONRESIDENT ENROLLMENT
Berkeley	\$94.8	28,894	5,829	\$179.3	26,441	9,743
Los Angeles	83.3	30,811	5,729	169.8	30,158	9,078
San Diego	45.5	25,991	2,876	120.9	23,695	6,501
Irvine	25.9	24,443	1,895	82.8	24,718	4,640
Davis	29.3	28,714	2,162	73.8	29,668	4,261
Santa Barbara	23.1	20,663	1,555	49.5	20,369	2,682
Santa Cruz	8.0	16,619	556	21.3	16,671	1,195
Riverside	10.5	19,646	1,025	20.4	19,905	1,448
Merced	1.8	4,268	113	7.0	6,124	144
San Francisco	2.4	2,525	235	3.1	2,588	353
Totals	\$324.6	202,574	21,975	\$727.9	200,337	40,045

SYSTEMWIDE TRENDS IN NONRESIDENT TUITION REVENUE AND RESIDENT AND NONRESIDENT ENROLLMENT
2010-11 THROUGH 2014-15

Change in nonresident tuition revenue	\$403.3
Percentage change in nonresident tuition revenue	124%
Change in resident enrollment	(2,237)
Percentage change in resident enrollment	(1)%
Change in nonresident enrollment	18,070
Percentage change in nonresident enrollment	82%

Sources: California State Auditor's analysis of revenue data provided by the University of California's (university) Office of the President generated from its Corporate Financial System, and enrollment data obtained from the Office of the President's UC Information Center Enrollment Data Mart.

Notes: This table reports revenue data on a fiscal year basis and enrollment data on an academic year basis as of the third week of Fall term. Dollars in table rounded to nearest hundred thousand.

The *Resident Enrollment* column includes certain students whom the university Board of Regents' policy exempts from nonresident tuition consistent with Assembly Bill 540 (Chapter 814, Statutes of 2001). This column excludes medical residents and students enrolled in self-supporting programs because the university does not currently distinguish them as residents or nonresidents.

Our review of each campus's cumulative expenditures of nonresident revenue for fiscal years 2007–08 through 2014–15 revealed that the campuses spent nonresident revenue across a variety of functional areas, some of which did not relate to the instruction and education of students. The university defines its direct instructional costs as instruction, academic support, student services, and financial aid. For example, as Table 16 on pages 72 and 73 shows, Irvine and Riverside spent 92 percent and 94 percent, respectively, of their nonresident revenue on functions related to the *direct* costs of instruction. In contrast, Davis spent nearly 58 percent of its nonresident revenue on functions related to the *indirect* costs of instruction. Even though the campuses' accounting systems can track their spending of nonresident revenue separately from other funding sources, in practice the campuses do not prioritize or budget their spending based on a particular funding source.

Because as recently as December 2014 the university publicly declared that nonresident revenue allows campuses to maintain and increase enrollment of residents, we expected the Office of the President to have directed the campuses to spend nonresident revenue on activities that result in enrolling additional residents. At the least, we expected the Office of the President to be monitoring how campuses spend nonresident revenue to ensure the prudence of their decisions. However, the only specific guidance that the Office of the President has given campuses was in February 2008 stating that they should use nonresident revenue to support nonresidents by covering their instructional costs and financial aid because the State does not provide funding for them. Other than this 2008 guidance, the Office of the President has given campuses broad flexibility to spend their nonresident revenue on their own priorities. Further, aside from a high-level collection of financial information that it uses primarily to detect spending anomalies, the Office of the President does not systematically monitor how each campus uses its nonresident revenue separately from other revenue sources at the campuses. In February 2016, in response to our questioning of this practice, the budget associate vice president indicated that the inclusion of this statement in the university's past two operating budgets was an error. To clarify, she indicated that nonresident revenue has enabled campuses to continue to enroll California residents above state-funded levels and that it also contributes to the quality of the educational experience for all students. However, she stated that the university did not intend for nonresident revenue to serve as a substitute for state funds to further grow the enrollment of residents.

The Office of the President has given campuses broad flexibility to spend their nonresident revenue on their own priorities.

Lastly, we noted that although the Office of the President may receive nonresident revenue as part of an administrative assessment it levies on each campus, it cannot track either the revenues received or the expenditures made from this source. According to the Office of the President, its budget is primarily funded by this assessment and each campus pays its assessment using a variety of funding sources, such as

nonresident revenue, state appropriations, and other student tuition and fees. For example, in fiscal year 2014–15, San Diego used \$13 million in nonresident revenue to pay part of its \$41 million assessment. However, because the Office of the President cannot identify the funding sources that campuses use for paying their assessments, it could not identify its expenditures made from the specific fund sources used by the campus. As a result, we could not evaluate how the Office of the President spent these nonresident revenues or any other funding source that the campuses use to pay their assessment.

The University Does Not Sufficiently Monitor Programs That Represent a Significant Use of State Funds

Although the Office of the President accounts for the use of state funds in the aggregate at the campus level, it does not sufficiently track and monitor how campuses use those funds. Rather, it gives campuses discretion in determining their own priorities for spending state funds within guidelines and policies that it has established. Each of the four campuses we visited indicated that its campus leadership decides its spending priorities. Although the university outlines its strategic budget priorities in its long-range financial plan, the plan does not specifically address the use of state funds and is not specific to individual campuses. Further, although the Office of the President collects high-level financial information that it uses mostly to detect spending anomalies, it does not know with any specificity how campuses use state funds.

Both the university and the campuses spend a significant portion of state appropriations—\$337 million in fiscal year 2014–15 alone, as shown in Table 17 on page 75—on 18 programs that do not directly relate to teaching students. When we inquired about these programs, the Office of the President took four months to provide us a list and supporting documentation because it does not actively track the programs' funding allocations. In the absence of such tracking and monitoring of campus expenditures, the Office of President cannot know if campuses are using these state funds efficiently and effectively.

The State initiated many of the programs listed in Table 17 through specific budget appropriations. However, to give the university additional flexibility to manage budget reductions during the State's recent fiscal crisis, the governor eliminated most dedicated funding from the state budget. For example, in fiscal year 2012–13, the governor eliminated dedicated funding totaling \$27 million for the Charles R. Drew University of Medicine and Science, the California State Summer School for Mathematics and Science program, the Science and Math Teacher Initiative, the Programs in Medical Education, the California Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome Research (AIDS Research) program, and the California Subject Matter Project.

Although the Office of the President collects high-level financial information that it uses to detect spending anomalies, it does not know with any specificity how campuses use state funds.

Table 16
Campuses Spent Nonresident Supplemental Tuition Revenue Across a Variety of Functions
Fiscal Years 2007–08 Through 2014–15
(Dollars in Millions)

FUNCTION	BERKELEY		LOS ANGELES		SAN DIEGO		IRVINE		DAVIS	
	DOLLARS	PERCENTAGE SPENDING	DOLLARS	PERCENTAGE SPENDING	DOLLARS	PERCENTAGE SPENDING	DOLLARS	PERCENTAGE SPENDING	DOLLARS	PERCENTAGE SPENDING
Direct Costs for Instruction										
Instruction	\$440.8	48.2%	\$456.1	59.0%	\$63.3	17.2%	\$194.6	60.7%	\$103.3	33.1%
Academic support	122.5	13.4	140.5	18.2	28.0	7.6	90.3	28.2	6.8	2.2
Student financial aid	34.7	3.8	0.3	0.0	76.3	20.7	10.1	3.2	13.0	4.2
Student services	1.4	0.2	9.4	1.2	9.0	2.4	0.6	0.2	8.1	2.6
Direct Costs Subtotals	\$599.4	65.6%	\$606.3	78.4%	\$176.6	47.9%	\$295.6	92.3%	\$131.2	42.1%
Indirect Costs for Instruction										
Operation and maintenance of plant	\$164.7	18.0	\$65.5	8.5	\$162.1	44.0	\$24.8	7.7	\$16.9	5.4
Institutional support	51.7	5.7	96.7	12.5	5.3	1.4	–	0.0	161.7	51.9
Research	97.6	10.7	4.2	0.5	24.1	6.5	0.1	0.0	2.0	0.6
Public service	1.3	0.1	–	0.0	0.7	0.2	–	0.0	–	0.0
Auxiliary enterprises	–	0.0	–	0.0	–	0.0	–	0.0	–	0.0
Indirect Costs Subtotals	\$315.3	34.5%	\$166.4	21.5%	\$192.2	52.1%	\$24.9	7.7%	\$180.6	57.9%
Total Expenditures	\$914.7	100.0%	\$772.7	100.0%	\$368.8	100.0%	\$320.5	100.0%	\$311.8	100.0%

FUNCTIONS SUPPORTING DIRECT COSTS OF INSTRUCTION	DESCRIPTION
Instruction	All current expenses of instructional departments, including expenses for research done as part of regular instructional programs.
Academic support	Expenses for activities related to educational departments, such as optometry and dental clinics. Also, the category includes expenses of all central and branch libraries administered by the campus general libraries.
Student financial aid	Expenses for scholarships, fellowships, and prizes.
Student services	Expenses for services to the student body as a whole, such as health services and counseling programs.
FUNCTIONS SUPPORTING THE INDIRECT COSTS OF INSTRUCTION	DESCRIPTION
Operation and maintenance of plant	All expenses (including salaries and wages) required to maintain and operate the physical plant.
Institutional support	Expenses of the general administrative offices, such as the Regents of the University of California, president, vice presidents, and chancellors.
Research	Expenses of all separately organized research units, including research institutes, centers, bureaus, laboratories, and stations.
Public service	Expenses for activities intended to serve the general public, such as campus cultural events, operating museums, and providing cooperative extensions.
Auxiliary enterprises	Expenses of the auxiliary enterprises, intended to be self-supporting, operated primarily to serve the students.

SANTA BARBARA		SANTA CRUZ		RIVERSIDE		SAN FRANCISCO		MERCED		SYSTEMWIDE TOTALS	
DOLLARS	PERCENTAGE SPENDING	DOLLARS	PERCENTAGE SPENDING	DOLLARS	PERCENTAGE SPENDING	DOLLARS	PERCENTAGE SPENDING	DOLLARS	PERCENTAGE SPENDING	DOLLARS	PERCENTAGE SPENDING
Direct Costs for Instruction											
\$140.3	64.7%	\$24.8	33.6%	\$14.8	41.8%	\$5.0	23.1%	–	0.0%	\$1,443.0	47.3%
13.9	6.4	6.6	8.9	2.3	6.5	–	0.0	\$0.4	2.5	411.3	13.5
7.4	3.4	30.4	41.1	14.1	39.8	1.8	8.3	14.9	93.7	203.0	6.7
7.3	3.4	–	0.0	2.2	6.2	–	0.0	0.3	1.9	38.3	1.3
\$168.9	77.9%	\$61.8	83.6%	\$33.4	94.3%	\$6.8	31.4%	\$15.6	98.1%	\$2,095.6	68.8%
Indirect Costs for Instruction											
\$16.5	7.6	\$5.2	7.0	\$2.0	5.6	–	0.0	–	0.0	\$457.7	15.0
17.2	7.9	6.8	9.2	–	0.0	\$14.8	68.5	\$0.3	1.9	354.5	11.6
12.1	5.6	0.1	0.1	–	0.0	–	0.0	–	0.0	140.2	4.6
1.9	0.9	–	0.0	–	0.0	–	0.0	–	0.0	3.9	0.1
0.2	0.1	–	0.0	–	0.0	–	0.0	–	0.0	0.2	0.0
\$47.9	22.1%	\$12.1	16.3%	\$2.0	5.6%	\$14.8	68.5%	\$0.3	1.9%	\$956.5	31.3%
\$216.8	100.0%	\$73.9	100.0%	\$35.4	100.0%	\$21.6	100.0%	\$15.9	100.0%	\$3,052.1	100.0%

Sources: California State Auditor's analysis of expenditure data provided by the University of California's (university) Office of the President. The Office of the President generated this information directly from its Corporate Financial System. The definitions of *direct and indirect instructional costs* were sourced from the university's report titled *University of California: Expenditures for Undergraduate and Graduate Instruction and Research Activities*, February 2015.

Note 1: Highlights correspond to the three functional areas in which the campus or the university system spent the greatest amount of its cumulative expenditures from nonresident supplemental tuition during fiscal years 2007–08 to 2014–15. Dollars rounded to the nearest hundred thousand.

Note 2: The Office of the President receives nonresident supplemental tuition revenue from campuses but could not provide us with a report of its expenditures from that source.

Note 3: Percentages may not total 100 percent due to rounding.

When the State eliminated dedicated funding for these programs, the university did not take advantage of the additional financial flexibility to evaluate whether to reduce or eliminate the use of state funding to support these programs. Most importantly, the university did not systematically or regularly analyze the programs to determine whether it could identify more effective ways of financing them. For example, the university's chief financial officer noted that one program—the Neuropsychiatric Institute with locations at the Los Angeles and San Francisco campuses, which received almost \$33 million in state funding in fiscal year 2014–15—is financially successful and could potentially find alternative sources of funding.

According to the budget associate vice president, the Office of the President reevaluates funding for a program if an issue arises, if state support is cut, or if other developments require setting priorities that could ultimately result in the program's elimination. The Office of the President indicated that a committee performed such an evaluation in fiscal year 2011–12. However, because this review focused on research programs, the two resulting reports the committee issued in 2014 reviewed only four of the programs in Table 17: the California Institutes for Science and Innovation, AIDS Research, the San Diego Supercomputer Center, and the Medical Investigation of Neurodevelopmental Disorders (MIND) Institute. Based on its review, the committee recommended reducing funding for AIDS Research over several years while the program identified other funding sources, and it recommended eliminating funding for the MIND Institute because it was operating successfully. However, the Office of the President did not implement either of these recommendations and instead continued to fund both programs at the same levels. Thus, the evaluation resulted in no substantial change to the university's spending priorities.

In addition to not fully evaluating whether dedicated state funding is appropriate for these programs, the university made a questionable decision about its retirement plan that has increased its need for state funding. The university's retirement plan is the second largest recipient of state funds, as listed in Table 17. Beginning in 1990, the university suspended both its and its employees' contributions into the university retirement plan. The State also suspended its executive branch contributions to the state retirement system but only for one year. The university indicated that it made this decision based on an actuarial study that concluded that the retirement plan was adequately funded for many years into the future. However, the university acknowledged that this decision created a serious problem: Its retirement plan was unfunded by \$12.1 billion as of July 2014.

The university's decision to suspend contributions into its retirement plan created a serious problem: Its retirement plan was unfunded by \$12.1 billion as of July 2014.

Table 17
The University of California Failed to Monitor and Evaluate Programs That Cost \$337 Million in State Funds Annually

PROGRAM	MISSION	CAMPUS/LOCATION	FISCAL YEAR 2014-15 FUNDING AMOUNT (IN MILLIONS)
Agricultural Experiment Station*	Researches maintaining an economically viable and environmentally sustainable agricultural production system.	Berkeley, Davis, Riverside	\$100.6
University of California Retirement Plan†	Continues the one-time funding of \$89.1 million the State appropriated for the University of California's (university) retirement plan in fiscal year 2012-13.‡	Office of the President	89.1
Neuropsychiatric Institute*	Provides education and training of psychiatric resident medical students and other mental health professionals.	Los Angeles, San Francisco	32.8
Scripps Institution of Oceanography*	Promotes scientific understanding of the oceans, atmosphere, Earth, and other planets.	San Diego	25.9
University of California, Riverside Medical School Startup	Establishes a medical school at the Riverside campus.	Riverside	15.0
Mental Health Teaching Support*	Provides teaching program in a clinical setting run in conjunction with the Neuropsychiatric Institutes.	Los Angeles, San Francisco	13.6
Online Education Initiatives†	Increases the number of high-demand courses available to undergraduate students through the use of online courses.	All campuses and the Office of the President	10.0
Student Academic Preparation and Educational Partnerships*	Provides a variety of separate programs that work to raise student achievement levels for K-20 students.	All campuses	9.3
California Human Immunodeficiency Virus/ Acquired Immune Deficiency Syndrome Research†	Fosters research in the prevention, education, care, treatment, and cure for human immunodeficiency virus/acquired immune deficiency syndrome.	Berkeley, Davis, Los Angeles, San Diego, San Francisco, and the Office of the President	8.8
Charles R. Drew University of Medicine and Science†	Supports a medical student education program and a separate public service program, both in South Central Los Angeles.	Los Angeles	8.3
California Subject Matter Project†	Establishes nine discipline-based statewide projects that support professional development for K-12 teachers.	All campuses and the Office of the President	5.0
California Institutes for Science and Innovation†	Provides a multidisciplinary effort that focuses on research areas critical to sustaining California's economic growth and competitiveness.	Berkeley, Davis, Irvine, Los Angeles, Merced, San Diego, Santa Barbara, Santa Cruz	4.8
Medical Investigation of Neurodevelopmental Disorders Institute*	Examines and treats neurodevelopmental conditions, such as autism and attention-deficit/hyperactivity disorder.	Davis	3.8
American Federation of State, County, and Municipal Employees Salary Language†	Funds the terms of a February 2009 memorandum of understanding between the university and the American Federation of State, County, and Municipal Employees.	All campuses and the Office of the President	3.0
San Diego Supercomputer Center†	Provides resources, services, and expertise in data-intensive computing and cyberinfrastructure.	San Diego	2.6
Programs in Medical Education†	Trains physicians who will serve in underrepresented communities.	Davis, Irvine, Los Angeles, Merced, San Diego, San Francisco, Los Angeles	2.0
California State Summer School for Mathematics and Science†	Provides a four-week summer residential program for high school students who have demonstrated an aptitude for academic and professional careers in science, technology, engineering, and mathematics.	Davis, Irvine, San Diego, Santa Cruz	1.6
Science and Math Teacher Initiative†	Recruits and prepares undergraduates to explore careers as math or science educators.	All campuses except San Francisco	1.1
Total			\$337.3

Source: California State Auditor's analysis of data provided by the University of California's (university) Office of the President. The Office of the President indicates that the amounts for these programs should be considered base amounts because campuses may use other state funds to operate these programs.

Note: We excluded the university's allocation of \$52.1 million for student financial aid from this list because, unlike the other programs listed, it directly benefits students.

* This program was excluded from the rebenching formula.

† This program formerly had dedicated funding in the annual state budget act.

‡ Although technically not a program, the State appropriated \$89.1 million in fiscal year 2012-13 to help fund the university's retirement plan. We included it in this table because the university has continued this allocation of \$89.1 million per year to fund its retirement plan using state funds.

The university could have minimized the unfunded liability for its retirement program—and thus the need for large retirement contributions, including those from the State—had it not suspended the university’s and its employees’ contributions into the program and then delayed their resumption for several years after recognizing this problem.

According to the university, it knew as early as 2005 that the university and its employees needed to resume their contributions to the retirement plan, but it delayed acting because of the State’s unwillingness to fund the university’s contribution. In particular, the university continues to seek parity with the California State University and California Community Colleges, which it notes receive funding for their employer shares above their base budget allocations from the State. As a result, the university did not restart contributions to the retirement fund until 2010—five years after it recognized the problem it had created. Even now, the university contributes to its retirement plan at a lower rate than state agencies pay into the California Public Employees Retirement System (CalPERS). CalPERS requires state agencies to contribute nearly 25 percent of the gross pay of all their nonpublic-safety employees, while the university contributes only 14 percent. The university indicates that it has a plan in place that uses borrowing from its investment pool and additional state funds, along with other actions, to achieve full funding of its retirement plan by 2040.

The State provided \$89 million for the university’s retirement plan in fiscal year 2012–13, an amount the university states it continues to fund from the annual state funding it receives, but the university believes the State’s share of these contributions should be much higher—as much as \$354 million for fiscal year 2015–16. Although this is a matter for the university, governor, and Legislature to decide, the university could have minimized its unfunded liability—and thus the need for large retirement contributions—had it not suspended contributions into the program and then delayed their resumption for several years after recognizing this problem.

Despite the University’s Recent Efforts, Per-Student State Funding Inequities Persist Among the Campuses

The university has taken steps intended to address unequal per-student state funding at different campuses, but it will need to make changes to its funding formula to achieve genuine per-student funding equity. Specifically, some of the key elements the university adopted in its effort to equalize state funding are problematic and distort the formula’s effects. As a result, the methodology the university used for the first three years of its efforts to equalize per-student state funding had fundamental flaws. The university announced in November 2015 that it intended to address some of the problems with its formula that we identified in the course of this audit. However, it will need to address these issues and factor in the effect of rapidly increasing nonresident enrollment on its per-student state funding before it can ensure genuine funding equity among the campuses.

The University Used a Flawed Funding Formula in Its Initial Efforts to Equalize Its Per-Student Distribution of State Funds

The university's effort to change how it distributes state funds to campuses has not completely addressed historical concerns about the inequity of its per-student distribution of state funds. Our July 2011 audit titled *University of California: Although the University Maintains Extensive Financial Records, It Should Provide Additional Information to Improve Public Understanding of Its Operations*, Report 2010-105, found problems with the university's method of distributing funds to campuses as well as significant discrepancies in per-student funding levels among campuses.

In particular, we determined that campuses with a higher proportion of underrepresented minority students had a lower than average per-student base funding. As a result of these and other concerns, the university formed a committee in June 2011 to consider how to make its formula for distributing state funds to campuses more transparent and equitable. The committee recommended a six-year process that would start in fiscal year 2012–13, and would require additional state funding to avoid reducing State funding to any campus. The university believes that equal per-student state funding across campuses is important to ensure that all university students receive a high-quality education regardless of the campus they attend and to maintain the integrity of the system. The university adopted the committee's recommendations the following year, in 2012.

As the first step, the committee determined that the Los Angeles campus had the highest level of per-student state funding among the campuses. To raise the level of state funding other campuses should receive to the same level, the university assigned specific funding for underfunded campuses over a six-year period. This effort, referred to as *rebenching*, required the university to allocate a total of \$37 million per year to the underfunded campuses from fiscal years 2012–13 through 2017–18.⁸ The formula the university used to arrive at the \$37 million is depicted in Table 18 on the following page.

However, a number of the key assumptions the university used in its formula lacked justification. In particular, the university set aside the state funding used for six programs—amounting to \$186 million per year in fiscal year 2014–15—from the rebenching formula. According to the budget associate vice president, the committee did not include the programs' state funding as part of each respective campus's base allocation because they do not directly relate to student instruction

The university assigned specific funding for underfunded campuses over a six-year period—an effort known as rebenching—however, a number of the key assumptions it used in its formula lacked justification.

⁸ The university excluded Merced and San Francisco from its rebenching process because of their unique funding needs.

and including that funding would make certain campuses appear better funded than others. For instance, had the university not excluded these six programs from the rebenching formula, its per-student funding target amount would have increased from \$6,458 to \$7,747. Further, the annual amount of funds that the university would have needed to allocate under rebenching would have increased from \$37 million to \$52 million.

Table 18
Formula for Determining Annual Rebenching Amounts Per Campus

1	2	3
Weighted enrollment, fiscal year 2011–12 budgeted*	Required funding if each campus was funded at the Los Angeles campus level of \$6,458 per weighted student [†]	C \$1,778,000,000
A 275,266 students	A x B =	
-----	Estimate by the Office of the President of the base allocation of state funding to the 8 campuses, fiscal year 2011–12	\$1,819,000,000
Highest funding per weighted student among the 8 campuses (Los Angeles)	Less funding for selected set-aside programs [‡]	(\$143,000,000)
B \$6,458 per student	Less funding of a fixed cost of \$15 million for each of the 8 campuses	(\$120,000,000)
	State funding available to distribute	D \$1,556,000,000
	Required funding increase to bring all campuses up to the Los Angeles campus level of funding per weighted student	E \$222,000,000
	Required annual funding increase to implement rebenching over 6 years (fiscal years 2012–13 through 2017–18) [§]	E ÷ 6 = \$37,000,000

Source: University of California Office of the President.

Note: Excludes the Merced and San Francisco campuses because of their unique funding needs.

* Weighted enrollment is based on enrollment multiplied by a weight of 1, 2.5, or 5 depending on the type of student—their grade level and course of study.

[†] Funding per weighted student at the other 7 campuses in the fiscal year 2011–12 base year ranged from \$4,275 at Santa Barbara to \$6,270 at Davis.

[‡] By fiscal year 2014–15, the total allocation for these excluded (set aside) programs increased to \$186 million because of cost adjustments.

[§] Annual funding increases per campus—excluding Los Angeles, Merced, and San Francisco—ranged from \$1.3 million for Davis to \$9.1 million for Santa Barbara. Los Angeles was excluded because it had the highest base-year per-student costs and other campuses were being brought up to its funding level.

Although we believe excluding programs from the rebenching formula is reasonable, the committee generally excluded only the more costly programs. To calculate per-student funding at the campuses accurately, the university should exclude all programs that do not relate to instruction from the rebenching formula rather

than just some. In addition to the six programs that the university did exclude, our review identified another 12 similar programs, the funding for which totaled \$151 million in fiscal year 2014–15.

Another feature of the rebenching formula also raises questions: The committee’s assignment of student weights to different student types was based on the consensus of the committee instead of actual costs. The university uses weighting to represent the varying costs of educating different types of students; in effect, the university assigns a number to each student type depending on course of study and grade-level. For example, as shown in Table 19, the university assigns a weight factor to resident undergraduate students of 1 but assigns a weight factor of 5 to health science students preparing for medical professions, indicating that educating medical professional health science students is five times more costly than educating undergraduate students. However, the university did not base those weight factors on the actual costs of educating different student types because its rebenching committee believed that performing a cost study would be difficult and expensive, and that the results would be predictable. As a result, the university’s per-student allocations of state funds to each campus may not reflect the campuses’ actual costs of educating those students.

Table 19
Weight Factors Used to Determine Per-Student Funding Under Rebenching

STUDENT TYPE	ASSIGNED WEIGHT FACTOR
Undergraduate (General and Health Sciences)	1
Master’s (General)	1
Graduate Professional (Business and Law)	1
Doctoral (General and Health Sciences)	2.5
Health Sciences (Medical Doctors, Dentists, Nurses, and Pharmacists)	5

Source: *Committee Report and Recommendations*, Rebenching Budget Committee, University of California, 2012.

Note: Some smaller categories were excluded from the descriptions in the table.

In contrast, the state of Texas has a board that conducts formal cost studies in order to guide its allocations of state funding to its public universities. The Texas Higher Education Coordinating Board’s (Texas board) methodology—which the rebenching committee considered when determining the weight factors the university eventually implemented—is relatively simple and determines costs at that state’s public universities using data that campuses include in their annual financial reports. Using this cost study, the Texas board assigns weight

factors for various categories of students depending on their area of study and college grade level. Had the university followed a similar approach, it could better justify the weight factors in its formula.

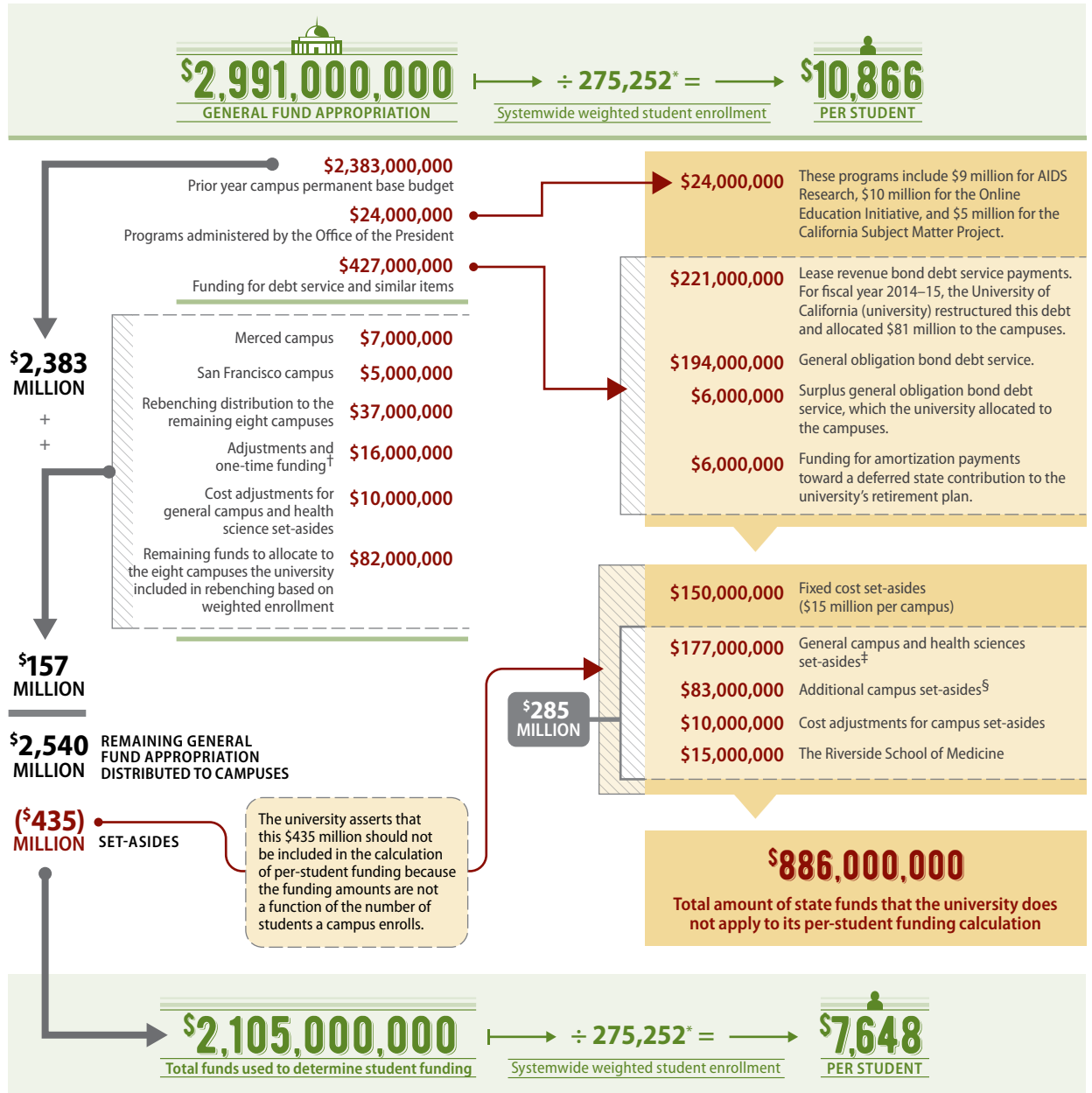
In addition to addressing past state funding inequities by redistributing the \$37 million annually to campuses over six years, the university also intended its rebenching formula to provide a process for equitably and transparently allocating future state funding to campuses. In fiscal year 2014–15, the university did not include \$886 million—nearly one-third of the university’s total state funding for that year—in its calculation of per-student funding. As shown in Figure 10, the university excluded from its rebenching process \$427 million in state funding that it used for debt service payments. In addition, the university excluded \$24 million in state funding that it used for programs that the Office of the President administers. Finally, the university set aside \$435 million in funding the university asserts is not related to the number of students the campuses enroll, which includes \$150 million for fixed costs at each campus and \$285 million for specific campus programs.

After the university removed those funds from the per-student funding calculation, \$2.1 billion remained, which the university indicates is the basis that should be used to calculate per-student funding at each campus. However, campuses spend an indeterminate portion of these funds on other programs—such as those described earlier and listed in Table 17 on page 75—and for assessments to the Office of the President. The amounts of state funding that the four campuses we visited used to pay this assessment in fiscal year 2014–15 were San Diego—\$389,000; Los Angeles—\$35 million; Santa Barbara—\$6 million; and Davis—\$8 million.

The impact of the university’s allocation is that almost one-third of its state funding is allocated to various programs and purposes that are not based on student enrollment, thereby decreasing the amount of funding available to allocate per student.

The impact of the university’s allocation is that almost one-third of its state funding is allocated to various programs and purposes that are not based on student enrollment, thereby decreasing the amount of funding available to allocate per student. Determining the amount of state funding that the university actually allocates per student will result in different answers depending on which amounts are excluded. As shown in Figure 10, if the university allocated all of its state funding based on student enrollment, the amount of state funding allocated per student would have amounted to almost \$10,900 in fiscal year 2014–15. However, under the university’s rebenching formula, the amount left to educate students after the university’s exclusions equated to about \$7,600 per student in that fiscal year. When the university publishes its per-student spending amount in its annual *Budget for Current Operations*, it uses yet a different methodology, which further complicates determining the amount of state funding it actually spends per student.

Figure 10
The University of California Did Not Apply About a Third of Its Fiscal Year 2014–15 State Allocation to Its Calculation of Per-Student Funding



Source: California State Auditor's analysis of the university's rebenching methodology.

* Total number of students based on the university's 2014–15 budgeted weighted enrollment.

† Adjustments include funds for Centers for Labor Research and Education, debt service for Merced's Classroom and Academic Office Building, the university's California Blueprint for Research to Advance Innovation in Neuroscience, and for improving graduation rates for disadvantaged students.

‡ The university does not know how much state funds campuses use to pay for these set asides. Nevertheless, the university excludes these amounts from the per-student funding calculation.

§ The additional set-asides are set-asides that do not receive cost adjustments every year. These are excluded from the university's per-student funding calculation and include \$52.2 million for financial aid, \$7.3 million for research projects such as the San Diego Supercomputer Center, \$8.3 million for the Charles R. Drew University of Medicine and Science, and \$15 million for the Merced campus.

The university does not include these funds in its calculation of per-student funding for rebenching purposes.

We believe the manner in which the university chooses to allocate the state funding it receives is invaluable information for both decision makers and the public.

Although we agree the university can justifiably exclude from its rebenching formula the state funding it uses for certain programs that do not directly relate to educating students, it has not been transparent about the amounts it excludes because it has not made its allocation amounts publicly available. According to the budget associate vice president, the university believes that the process is too complicated for the public to understand. However, we believe the manner in which the university chooses to allocate the state funding it receives is invaluable information for both decision makers and the public. Further, as shown in Figure 10 on the previous page, the university can present the formula in a way that fully and accurately represents the methodology it uses.

In addition, we also believe that the university's exclusion of stakeholders from the rebenching committee may have contributed to the perception that its funding formula lacks transparency. According to the budget associate vice president, the university decided that the committee should include only high-level university staff and faculty in part because it does not typically involve students or the State in decisions concerning its use of state funding. The chief financial officer, who co-chaired the committee, indicated that the committee had numerous viewpoints because it included university staff from all campuses and the Office of the President. However, stakeholders have expressed concern about ensuring equitable funding among the campuses; and legislators, the governor, and students have also raised questions regarding tuition increases and the general lack of transparency of the university's operations. Given these circumstances, the university could have made the rebenching committee's work more transparent by allowing some level of involvement by key stakeholders. Such an approach would have also ensured that the university considered all stakeholders' viewpoints in the rebenching process.

Increases in Nonresident Enrollment Have Exacerbated Per-Student Funding Inequities, Especially for Underrepresented Students

The university does not include nonresident revenue in the rebenching formula. Nevertheless, this revenue significantly impacts actual per-student funding levels among the campuses. In the Budget Act of 2015, the Legislature expressed its intent that the university use nonresident revenue to support resident enrollment growth. However, the university's practice of increasing nonresident enrollment has instead amplified inequities in per-student funding among the campuses because the university allows campuses to retain the nonresident revenue they generate. As we discuss on pages 68 and 69, three campuses have increased their nonresident revenue by far greater amounts than the other campuses.

Specifically, the Berkeley, Los Angeles, and San Diego campuses each generate more than \$100 million in nonresident revenue per year, while the remaining five undergraduate campuses included in rebenching generated a combined total of just \$248 million dollars in fiscal year 2014–15.

Using current enrollment, our analysis shows that the two highest-funded campuses in terms of per-student state funding after three years of the university’s rebenching process are Berkeley and Los Angeles. These campuses also enroll the most nonresidents. Further, our analysis indicates that the Berkeley and Los Angeles campuses received \$2,100 and \$1,400 more, respectively, per student in state funds in fiscal year 2014–15 than Davis—the lowest-funded campus. However, when nonresident tuition revenue is combined with state funding, the fiscal year 2014–15 discrepancy between these campuses and Davis increases to \$3,900 per student and \$2,300 per student, respectively.

As we show in Figure 11 on the following page, the highest-funded campuses when we include nonresident revenue are generally the campuses with the lowest percentage of underrepresented minority students.⁹ For example, the highest-funded campus—Berkeley—is also the campus with the lowest percentage of underrepresented minority students. As a result, these funding disparities have disproportionately affected underrepresented minority students, which echoes a finding from our July 2011 report that the campuses with the most underrepresented students were also the lowest-funded campuses.

During the Course of This Audit, the University Corrected Two Deficiencies in Its Original Rebenching Formula

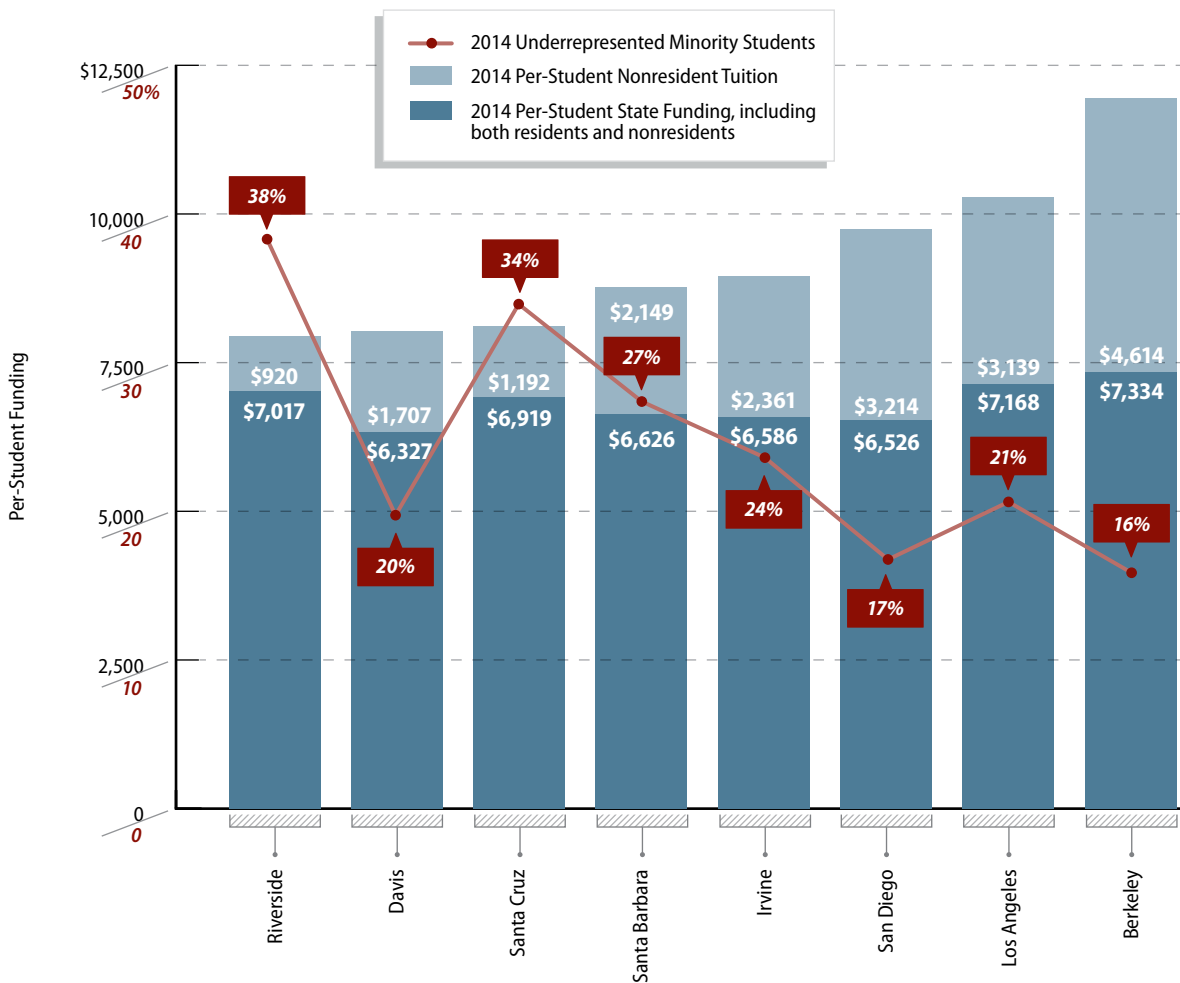
In November 2015, during the latter stages of the fieldwork for this audit, the university announced that it would be making changes that addressed deficiencies we had identified with its rebenching formula. First, the university’s original rebenching formula—upon which it has based its campus allocation amounts since fiscal year 2012–13—used fiscal year 2011–12 budgeted student enrollment for each campus rather than using each year’s actual student enrollment. By using budgeted enrollment rather than actual campus enrollment, the university failed to design a method for ensuring equity in per-student funding. According to our projection, Los Angeles and Berkeley, the same two campuses with the highest per-student funding before rebenching, remained the highest-funded campuses three years later when using actual enrollment at those campuses. Thus, the university’s original

After three years of rebenching, the two campuses with the highest per-student state funding are Berkeley and Los Angeles, which also enroll the most nonresident students and have some of the lowest percentages of underrepresented students.

⁹ The university considers underrepresented minorities to be Chicanos/Latinos, African Americans, and American Indians.

rebenching formula made it appear that it would have equalized per-student funding by fiscal year 2017–18; however, by not adjusting for enrollment changes, it would have only nominally improved these inequities. To address this concern, the university incorporated current campus enrollments into its rebenching formula starting in fiscal year 2015–16.

Figure 11
Per-Student Funding by Source and Proportion of Underrepresented Minority Students by Campus
Fiscal Year 2014–15



Sources: California State Auditor’s analysis of data obtained from the University of California’s (university) Office of the President’s UC Information Center Enrollment Data Mart and other operational data.

Note 1: Our per-student funding calculation is based on fall enrollment headcounts and the university’s methodology for weighting enrollment, and it includes both resident and nonresident undergraduate and graduate students in its weighted enrollment.

Note 2: We excluded the Merced and San Francisco campuses because we included only the campuses that the university included in rebenching in this chart. For comparison purposes, the percentage of underrepresented minority students at the Merced and San Francisco campuses was 50 percent and 15 percent, respectively; the per-student state funding was \$11,777 and \$8,217, respectively; and the per-student nonresident tuition revenue was \$1,121 and \$144, respectively.

Note 3: The university considers underrepresented minority students to be Chicanos/Latinos, African Americans, and American Indians.

Our second concern was that the university planned for its rebenching process to take six years and that it did not accelerate the plan, even though it had sufficient state funding to complete it sooner. After the university began its rebenching process in fiscal year 2011–12, it had available state appropriations of \$362 million to allocate through rebenching. Nonetheless, over the past three years, the university allocated only \$111 million toward rebenching. If the university had allocated just another \$111 million of the remaining \$251 million in available state funding to rebenching, it could have completed the rebenching process before fiscal year 2015–16, three years earlier than it planned. After we questioned the university about its failure to shorten the rebenching time frame, its chief financial officer stated that the university planned to accelerate the rebenching process by one year because it recognized that it had sufficient state funds to complete the process sooner. According to the university, it did not accelerate the rebenching earlier because it wanted to minimize the impact on the campuses that would receive smaller portions of the state funding under the rebenching process. We do not consider this to be a compelling reason. Although we understand that campuses receiving higher per-student funding might prefer that the rebenching process take the full six years, this delay would only serve to further disadvantage students at lower-funded campuses.

Recommendations

To determine if the campuses are using funds to further the goals of the University of California system and the Legislature, the Office of the President should begin regularly monitoring and analyzing how campuses are using both state funds and nonresident supplemental tuition. If, after the close of the fiscal year, the Office of the President determines that campuses are not using state funds and/or nonresident supplemental tuition in accordance with those goals, the Office of the President should take steps to correct the campuses' spending decisions as soon as possible.

To ensure that it spends state funds prudently for programs that do not directly relate to educating students, the university should do the following:

- Track spending from state funds for programs that do not relate to educating students.
- Reevaluate these programs each year to determine whether they continue to be necessary to fulfill the university's mission.
- Explore whether the programs could be supported with alternate revenue sources.

To increase its transparency and help ensure that it can justify its spending decisions, the university should make publicly available the amounts of state funding it allocates toward per-student funding, as well as the amounts it or campuses spend for programs that are not directly related to educating students. The university should publicly present the ranges of per-student funding based upon the amount of funding excluded from the formula.

To ensure that its rebenching efforts lead to equalized per-student funding among the campuses, the university should do the following:

- Include actual enrollment numbers in its rebenching formula.
- Adopt a methodology that it can use, at least every three to five years, to update its weighting system to ensure the weight factors take into account campuses' actual costs of instruction, using the cost study that we recommend in Chapter 1 and other revenue sources if necessary.
- Exclude from its rebenching calculation all state funding it uses for programs that do not directly relate to educating students. The university should exclude these programs only after it has evaluated them in accordance with the recommendation we made previously.
- Include stakeholders such as students, legislative and executive branch staff, and student groups in future discussions of rebenching to ensure that it considers their viewpoints and to increase transparency regarding its funding decisions.

We conducted this audit under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives specified in the scope section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,



ELAINE M. HOWLE, CPA
State Auditor

Date: March 29, 2016

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For questions regarding the contents of this report, please contact Margarita Fernández, Chief of Public Affairs, at 916.445.0255.

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Appendix

THE UNIVERSITY OF CALIFORNIA HAS NOT FULLY IMPLEMENTED HALF OF THE RECOMMENDATIONS FROM THE CALIFORNIA STATE AUDITOR’S 2011 AUDIT

The University of California (university) has not implemented four of the eight recommendations we directed toward it in our July 2011 Report 2010-105 titled *University of California: Although the University Maintains Extensive Financial Records, It Should Provide Additional Information to Improve Public Understanding of Its Operations*. In the course of our current audit, we found that the university has not fulfilled the intent of two of the recommendations that it had previously reported as fully implemented, it has yet to implement one, and stated that it will not implement the remaining recommendation, as Table A shows.

The recommendations the university has not fully implemented include those designed to increase transparency in its budget process and expenditures. Although the university has implemented the recommendation that it create a budget manual outlining how it allocates state funding to the campuses, it has not yet fully implemented the recommendation that it provide the public with detailed information about the allocation amounts. Moreover, the university could do more to improve the transparency of its expenditures by identifying additional specific categories for expenses it records under its Miscellaneous Services accounting code.

Table A
Status of California State Auditor’s Report 2010-105 Recommendations

RECOMMENDATION	AGENCY RESPONSE	STATUS BASED ON FOLLOW-UP REVIEW
1. To address the variations in per student funding of its campuses, the University of California (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: <ul style="list-style-type: none"> • 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. 	Not fully implemented	Not fully implemented

The university has announced its rebenching process is scheduled to be fully completed in 2016–17; however, in Chapter 3 we identified issues with the university’s plan that would keep the university from equalizing per-student funding if left unchanged.

RECOMMENDATION	AGENCY RESPONSE	STATUS BASED ON FOLLOW-UP REVIEW
2. 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.	Fully implemented	Fully implemented
3. 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 website.	Not fully implemented	Fully implemented
4. 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 website.	Fully implemented	Not Fully implemented
<p><i>The university has not fully implemented this recommendation as it has not made the details of its campus allocation amounts available to the public. The university states that it has not published campus budget allocation letters because doing so would provide no public benefit. However, including how much the Office of the President allocates to each campus, how much it considers to be set-asides, and the state's one-time funding amounts would improve accountability in the university's budget process.</i></p>		
5. 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.	Fully implemented	Fully implemented
6. 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.	Fully implemented	Fully implemented
7. 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.	Fully implemented	Not fully implemented
<p><i>While some campuses have reduced their use of the miscellaneous services code altogether, some campuses still report tens of millions of dollars in the category. Specifically, Santa Barbara, Berkeley, and Irvine all reported more than \$10 million in expenditures as "miscellaneous services" and can therefore do more to increase the transparency of their expenditure reporting. The university asserted all campuses will be under the \$10 million threshold for fiscal year 2015–16.</i></p>		
8. 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.	Will not implement	Will not implement
<p><i>The university maintains its position that it disagrees with the recommendation, stating that it believes the president has the authority to impose or modify any and all student fees.</i></p>		

Sources: Recommendations made in the report by the California State Auditor (state auditor) titled *University of California: Although the University Maintains Extensive Financial Records, It Should Provide Additional Information to Improve Public Understanding of Its Operations*, Report 2010-105, July 2011, and the state auditor's analysis of the department's actions related to the recommendations.

UNIVERSITY OF CALIFORNIA

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March 8, 2016

Ms. Elaine M. Howle*
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, California 95814

Dear Ms. Howle:

Introduction

As leaders of the University of California, the Board of Regents, Chancellors, and I have one overriding responsibility: to protect and strengthen this great institution for the benefit of current and future UC students and the State of California as a whole. This responsibility includes not only the provision of undergraduate education, but also graduate and professional education, research, and public service. And it extends beyond the contingencies of a single year or budget cycle to the long-term financial and academic sustainability of a public university system that has consistently been the nation's leader in combining academic excellence with access for students from all socioeconomic backgrounds.

In carrying out this responsibility, we welcome collaboration with our state's elected leaders. Ours is a shared responsibility and California's Legislature and Governor are valued partners and supporters. Accordingly, the University of California approached this audit process in a spirit of cooperation, transparency, and goodwill. University and campus leaders and staff devoted thousands of hours and hundreds of meetings to explaining University policies and practices to CSA staff, compiling data and documents, and providing written responses.

Unfortunately, the draft report that has been shared with us makes inferences and draws conclusions that are supported neither by the data nor by sound analysis. The audit's subtitle, for example, presupposes a conclusion that University of California "admissions and financial decisions have disadvantaged California resident students." An alternative and more objective subtitle would be, "faced with unprecedented budget cuts, the University of California made every effort to sustain in-state enrollment, while maintaining academic quality and holding tuition flat." Put another

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* California State Auditor's comments begin on page 105.

Ms. Elaine M. Howle
March 8, 2016
Page 2

- ② way, to suggest from the outset that UC decisions regarding admissions were designed to “disadvantage Californians,” as opposed to mitigate the impact of a 33 percent budget cut, is a rush to judgment that is both unfair and unwarranted.
- ③ We would have preferred a constructive set of recommendations that could help move the University and the state forward. We are deeply disappointed at this lost opportunity.
- ① In the remainder of this letter, I address the larger context and facts the draft report either misstates, misinterprets, or ignores. The attachment briefly addresses each recommendation.

FACT: UC has consistently met—and in fact, exceeded—its responsibilities under the Master Plan

- ④ The Master Plan spells out clearly UC’s obligation to California undergraduates: the University is to establish minimum systemwide eligibility criteria that capture the top one-eighth of California high school graduates and to find a place at UC for every California applicant who meets those requirements. This is a commitment we have consistently met: in fact, UC’s eligibility criteria arguably capture a *larger* pool than required under the Master Plan. Nonetheless, even in the leanest of budget years--and in years when other California institutions turned away tens of thousands of eligible Californians--UC has continued to offer admission to *every* California applicant who meets our criteria.

- ② We believe the University is also obligated to enroll every California student for whom the State provides enrollment funding. And, once again, UC has not only met, but exceeded, this goal, enrolling thousands of California students for whom we did not receive enrollment funding. To suggest, in this context, that UC has “disadvantaged” California students is entirely unfounded.

- ⑤ A consistent theme in the draft report is that UC has enrolled students from outside the state at the expense of Californians. This is also unfounded. If anything has constrained the enrollment of California students, it has been reductions in state funding. Nonresidents pay the full cost of their education--and more.
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The State of California faces a dilemma that the draft report does not fully acknowledge. To maintain the quality of a public university system that virtually all agree is the finest in the world, sufficient funding must be found. Sources for this funding are limited. They include (1) State funds--for which competition from other deserving state agencies is fierce; (2) student tuition--increases in which are extremely unpopular; and (3) nonresident tuition--*the burden of which falls entirely on non-Californians.*

Ms. Elaine M. Howle
March 8, 2016
Page 3

Other sources, including efficiencies and cost savings, are important. The audit report acknowledges many of the University's efforts in these areas and recommends we do more, a recommendation entirely consistent with the University's own direction and plans.

But the savings that can be achieved through these means pale in comparison to the amount of revenue provided to California and its residents by non-California UC students. The State has given no indication that it is prepared to redirect \$728 million in State funds to UC to cover the amount of nonresident tuition revenue cited in the draft report. Had the University not increased undergraduate nonresident enrollment as it did in recent years, the lost revenue would be equivalent to an additional \$2,400 per year in tuition for California undergraduates--a 20 percent increase. ⑦

California's situation is not unique. Nearly every state in the nation has faced this Hobson's choice, and they have all reached the same decision: *open doors to out-of-state students in order to keep the doors open for in-state students*. In fact UC greatly lags other public flagship universities in the percentage of its undergraduates who are not state residents. For example, Purdue and the Universities of Oregon, Iowa, and Michigan each enroll more than 40 percent out-of-state students and Penn State, Iowa State, Indiana University, Georgia Tech and the Universities of Wisconsin, Georgia, Virginia, and Arizona enroll more than 30 percent. By comparison, as a system UC enrolls 15.5 percent nonresidents and even at the UC campuses that enroll the most nonresidents, those percentages remain below 25 percent. ⑧

Perhaps the greatest missed opportunity in this draft report is that it chooses to posit enrollment of Californians versus enrollment of non-Californians as an either/or proposition, suggesting that enrollment of nonresidents somehow diminishes opportunity for Californians. While this conclusion is superficially appealing, the opposite is true. In-state enrollment is directly related to state funding. This year is a good example. Funding for enrollment growth has resumed--albeit at a reduced rate. Accordingly, UC is enrolling 5,000 additional Californians this year, *nearly half of whom UC plans to enroll on the very campuses that also enroll the most nonresidents: Berkeley, UCLA, and UC San Diego*. If indeed nonresidents were displacing residents, we would see that California growth concentrated on campuses less in demand from out-of-state students. ⑨

We also strongly reject the premise that underrepresented minorities are disadvantaged by increases in nonresidents. The facts are otherwise. Even in a period when *overall* enrollment of California undergraduates has remained relatively steady, the proportion of underrepresented minorities has *continued to increase*. UC can, and ⑩

Ms. Elaine M. Howle
March 8, 2016
Page 4

must, continue its efforts to enroll a student body that more closely reflects California's diversity. As UC President, I am deeply committed to this goal. With the additional State support that allows us to add 5,000 Californians this year, we see 2016-17 as a year of enhanced opportunity for all our California applicants and, especially, for minority and disadvantaged students.

FACT: The University accelerated its plans to achieve equity in per-student state funding across the campuses and will have devoted \$255 million to rebenching and to previously unfunded California residents.

⑫ The initial impetus for this audit was concern that State resources were not being equitably distributed across the campuses on a per-student basis. As UC President,
⑬ I am committed to equitable per-student funding, and I did not wait for the audit findings to address this. Specifically, this year I committed to:

- (1) Fund 7,000 previously unfunded California residents, an action that will direct approximately \$50 million in additional funding to campuses that continued during the recession to increase enrollment despite the lack of State funds to support growth. Several of these are also campuses that enroll higher proportions of low income and underrepresented students. For example, UC Riverside, with 41 percent underrepresented minority students, will receive an additional \$25 million in State funding over and above the additional funding they receive for enrolling more Californians next year.
- ⑬ (2) Accelerate the reallocation of per-student funding. In 2012, UC implemented a new resource allocation formula designed to ensure that per student allocations of State general funds will be equivalent for each student across the University. Since this new approach--known as "rebenching"--was implemented, UC has allocated \$111 million to reduce disparities in per-student student state funding across the campuses. I made the decision to accelerate rebenching, allocating a combined \$94 million in 2015-16 and 2016-17, so that full per-student equity will be achieved by 2016-17.

FACT: UC took bold action to control costs, remain affordable to California residents, and protect quality during the biggest financial crisis since the Great Depression

In assessing the fiscal crisis the University of California has experienced in recent years, the Public Policy Institute of California observed:

"Over the past 15 years, per student General Fund allocations have fallen by more than 40 percent at CSU and by more than 50 percent at UC. These cuts

Ms. Elaine M. Howle
March 8, 2016
Page 5

have not been the result of a deliberative process that reprioritized the state's goals. Rather, state policymakers have had to put out budget fires, and the General Fund's higher education component is relatively unprotected by statutory, judicial, or federal requirements. Recent increases in General Fund allocations have not made up for the previous cuts."

To address this reality, the University has taken a number of actions designed to reduce its cost structure and protect quality while remaining affordable for California resident students. By conflating growth at UC medical centers with the undergraduate campuses, and by failing to consider growth in staff relative to growth in the size of our student body, the draft report seriously understates the reduction in the University's per-student cost structure. In fact, according to public policy expert Henry Brady:

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"On a per-student basis, the UC's increases in net tuition have been less than cuts in state funding. The UC's have not replaced state funding dollar for dollar – instead they have found ways to economize and to decrease their spending per student so that net tuition increases could be less than declines in state funding. Far from being profligate, the UC's have been doing more and more with less and less."

Examples of UC's efforts to reduce cost include the following:

- Between 2007 and 2014, the University reduced the number of general campus staff supported by State funds and tuition by over 3,500 full-time equivalent employees. Any growth in staff during that period was entirely funded by alternative sources such as research funds, federal support, and by the University's self-supporting auxiliary enterprises, such as its medical centers. For example, during this time period employees in the University's medical centers and health sciences programs grew by 14 percent.
- During this same period, faculty and other academic employees grew by 3,958 full-time equivalent employees. This growth allowed UC to continue to serve an expanding number of students without diminishing the quality of a UC education.
- The University's Working Smarter initiative has reduced costs by over \$660 million.
- Nonresident undergraduates provided an estimated \$420 million in revenue in 14-15 above and beyond the funds needed to educate these students--funds available to better support California students.
- UC has frozen systemwide tuition for California students for the past five years. That stability, which is a particular boon to students from middle-

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Ms. Elaine M. Howle
March 8, 2016
Page 6

income families not eligible for financial aid, was made possible by the cost-savings efforts and other revenues described above.

- In 2015-16, UC estimates that California resident undergraduates received over \$60 million in need-based grants funded by nonresident students' tuition and fees. This provided about \$600 to each California resident receiving a UC grant, on average, which is equivalent to reducing a California resident's need to borrow by about \$2,400 after four years.

FACT: UC's mission and contribution to the state extends far beyond undergraduate instruction

⑰ California's Master Plan for Higher Education charges the University of California with three primary missions: teaching, research, and public service. State funding, tuition, and the revenue UC generates from other sources combine to support all of these functions, many of which are closely interrelated, and all of which benefit California students and the state overall. The University's research programs bring billions of dollars to the state and have created whole new industries. Our public service activities bring the benefits of the University's expertise and programs to all Californians. Yet many of the draft report's recommendations focus only on costs that support undergraduate instruction, as if any expense that cannot be shown to have a direct impact on undergraduate education cannot be justified. The University places major emphasis on ensuring that access, affordability, and quality are preserved for its instructional program, and no other institution in the country has been as successful at combining both access and excellence. But to fulfill our broader mission and purpose we must ensure that the University's research enterprise and public service functions are also successful.

FACT: UC is committed to transparency and publicly reports extensive data about its finances and operations

⑱ The University of California highly values transparency and accountability and continues to identify new ways to expand our efforts in these areas. Our annual Accountability Report provides detailed information on topics of interest to the public and the Legislature. Data underlying this report is available for downloading and analysis and our Accountability website contains numerous tools and reports addressing topics such as affordability, student outcomes, and employment of UC graduates. The University's annual Regents budget contains an extensive narrative explaining how funds are spent and highlighting the major issues the University faces. Additional data about campus expenditures posted annually on the University's website provides fine-level detail on how campuses spend their funds. Annual financial statements provide audited information about the financial status of the University's various enterprises. And each year, UC submits and

Ms. Elaine M. Howle
March 8, 2016
Page 7

publicly posts dozens of reports requested by the Legislature. In fact, the most recent CSA audit conducted of the University's finances, published in July 2011, found that, "The University of California Office of the President maintains extensive accounting records in its corporate financial system that document the university's annual financial operations."

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In light of what the University already produces, the new reporting requirements proposed in the draft report are burdensome, of little value, and would entail significant new expense to install new technology and prepare even more documentation. It is contradictory to suggest, on the one hand, that the University should reduce the number of administrative staff and, on the other hand, to recommend even more reporting requirements than currently exist. The University is committed to being fully transparent. But we believe the benefits of these new proposed reporting mechanisms should be carefully balanced against the significant cost and time they would require.

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Conclusion

This simple cover letter does not do justice to the serious deficiencies in the draft audit. Indeed the draft audit understates and undermines the efforts of thousands of UC faculty and staff who have sustained the University's reputation, accessibility, and affordability during a period when state funding was cut by about one third. The University is always open to constructive recommendations, and desires to work with you as you prepare the final report. As it currently stands, however, the draft audit is neither accurate nor helpful and thus requires major revision.

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I appreciate your attention to the concerns I have raised. Thank you.

Yours very truly,



Janet Napolitano
President

Attachment

cc: Provost Aimée Dorr
Executive Vice President and Chief Financial Officer Nathan Brostrom
Senior Vice President and Chief Compliance and Audit Officer Sheryl Vacca
Senior Vice President Nelson Peacock
Associate Vice President Steve Juarez

Attachment

The University of California's Responses to Recommendations in the California State Auditor's Report "The University of California: Its Admissions and Financial Decisions Have Disadvantaged California Resident Students"

- ② The draft version of the California State Auditor (CSA) report that was shown to the University contained several recommendations for action with which the University agrees, but also a significant number of characterizations, conclusions, inferences, and recommendations to which the University of California strongly objects. Below are responses to each of the report's recommendations.

Chapter 1 Recommendations:

Recommendation #1: To meet its commitment to California residents, the university should do the following:

- **Replace its "compare favorably" policy with a new admission standard for nonresident applicants that reflects the intent of the Master Plan. The admission standard should require campuses to admit only nonresident students with admissions credentials that place them in the upper half of the resident students it admits.**
 - **Amend its referral process by taking steps to increase the likelihood that referred resident students ultimately enroll.**
- ④ UC strongly disagrees with the interpretation of the Master Plan contained in the report and with the suggestion that the University is not meeting its commitments to California residents. Even in the depths of the fiscal crisis, the University has consistently offered admission to every California student who meets its criteria and continues to enroll every California undergraduate for whom the state provides enrollment funding. Moreover, with additional State funding, the University will enroll more California students, as evidenced by the fact that, as soon as the Legislature agreed to provide additional funding for enrollment, UC made plans to increase the enrollment of California residents by 5,000 students in 2016-17. Along with this planned growth, the University is currently engaged in multiple efforts to increase the likelihood that students admitted through the referral pool will accept their offers of admission.
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Recommendation #2: To ensure that campuses' interpretation of admission standards do not adversely impact resident students, the university should implement a thorough process to annually evaluate the qualifications of students who apply and students who are admitted. These evaluations should highlight instances when campuses admit nonresident students who are less qualified than residents and should include corrective action steps. Moreover, this evaluation should include resident and nonresident undergraduate enrollment in majors at each campus. The university should make the results of this evaluation - including details of the academic qualifications of students who applied and who applied and who were admitted - publicly available.

UC objects to the implication that its interpretation of admission standards adversely impacts resident students. As noted earlier, the University guarantees a place in the system for all qualified resident applicants. The University already publishes extensive data each year on the qualifications of students who apply and are admitted to its campuses. In addition, the Academic Senate each year issues its Annual Report on Undergraduate Admissions Requirements and Comprehensive Review (<http://senate.universityofcalifornia.edu/committees/boars/reports.html>), which provides extensive data tables summarizing the outcomes of the previous year's undergraduate admissions process. This report also includes a narrative description of the admissions process at each campus. The University will continue to make these data publicly available.

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Recommendation #3: To ensure that it has accurate information upon which to make funding decisions, the Legislature should consider amending the state law that requires the university to prepare a biennial cost study. The amendment should include requirements for the university to differentiate costs by student academic levels and discipline, and to base the amounts it reports on publicly-available financial information. In the absence of legislative action, the university should conduct a cost study every three to five years and ensure that it is based upon publicly-available financial information. The university should use the results of the cost studies as a basis for the tuition it charges and for the proposed funding needs that it presents to the Legislature.

While this is a recommendation for the Legislature, nevertheless the University notes that it will continue to complete the report on expenditures for instruction required by the Legislature. However, the level of detail that this recommendation suggests would be expensive, burdensome, and in some instances is simply unavailable. The University does provide a calculation of the average cost of instruction that is reliable, based on publicly available information, and uses a methodology developed with the Department of Finance, the Legislative Analyst's Office, and other state staff. Moreover, that report or any report focused on expenditures for instruction or other cost studies can only be one of many factors the University must consider in setting tuition and justifying its budget request. Other factors that must be considered include the availability of revenue from the state and other sources, as well as cost pressures such as mandatory cost increases and other high priority needs that must be funded.

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Recommendation #4: To ensure that the university does not base future decisions on the revenue that students generate, the Legislature should consider amending state law to limit the percentage of nonresident students that the university can enroll each year. For example, the Legislature could require that the university limit nonresident enrollment to 5 percent of total undergraduate enrollment. To accomplish this, the Legislature should consider requiring that the university's annual appropriations be based on it enrolling agreed-upon percentages of resident and nonresident students.

Although this is a recommendation for the Legislature, the University notes that it appears to be based on the erroneous assumption that enrollment of nonresident students negatively impacts the enrollment of resident students. The enrollment of nonresidents does not displace California resident students. The ability of the University of California to expand enrollment for California residents is reliant on sufficient state funding to support enrollment growth. The

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University has serious concerns about any possible legislative action to establish a limit on nonresident enrollment and the impact it would have on access, tuition, and program quality for all students without a commensurate increase in state support to offset the considerable revenue loss.

Recommendation #5: To ensure that the university meets its commitment to resident students and to bring transparency and accountability to admissions outcomes, we believe a reexamination of the university's adherence to the Master Plan is necessary. Specifically, the Legislature should not consider the students that the university places in the referral pool as admissions as defined by the Master Plan until the percentage of students who enroll through the referral process more closely aligns with that of the other campuses.

- ④ The state is currently undertaking an eligibility study that will document that the University is meeting its commitment under the Master Plan. The University objects to the suggestion in the report that offers of admission provided through the referral pool should not be considered admission offers because many students do not accept them. The referral mechanism (endorsed repeatedly by the Legislature in reviews of the Master Plan) is essential for meeting the Master Plan requirement that UC provide a place for all eligible students. The acceptance of an admission offer is entirely the choice of an applicant.

Chapter 2 Recommendations:

Recommendation #6: To improve its internal operations and promote cost savings related to the \$13 billion it spent on staff salaries in fiscal year 2014-15, the university should conduct a systemwide assessment to identify ways to streamline and reduce its employee costs.

- ⑮ The University of California currently and consistently engages in a wide array of efforts to reduce costs—including through initiatives such as Working Smarter, at all campuses and medical centers—and will continue to do so. UC is successfully instituting a common payroll and human resources system that will improve internal operations. The University also conducts annual reviews of employee trends, both in terms of the number of full-time-equivalent employees and salaries, which inform its hiring and compensation practices.

Recommendation #7: To ensure the reasonableness of the compensation the university pays its executives, it should consider - to the extent possible - all items of compensation when setting or adjusting salaries and benefits and when conducting surveys, studies, and comparing the compensation packages of its executives to those in similar positions outside the university.

- ⑳ The University conducts regular studies of its compensation practices, applying a higher standard than that suggested in the report. UC annually compares compensation for positions at the University to comparable positions at other institutions and organizations with which it competes for qualified faculty and staff. UC already has agreed to add local and state government positions to its analysis. However, the University strongly disagrees with the contention in the report that positions at UC are always comparable to state employees.

Recommendation #8: To ensure that its process for establishing and revising salaries for its top executives is documented, thorough, and consistently applied, the university should implement the five outstanding recommendations from its 2013 internal review report by August 2016.

This documentation will be completed by August 2016.

Recommendation #9: To improve the transparency and timeliness of its annual compensation report, the university should streamline the process it uses to prepare the report to allow its issuance by April of each year.

UC will continue to streamline and automate processes so that delivery of the compensation report is more expeditious. UC will continue to target release of all compensation information and disclosures to be no later than July of each year, consistent with reporting practices for all state agencies. (29)

Recommendation #10: To ensure that the home loan program is the best use of the university's investment funds, it should conduct a cost benefit analysis that factors in the opportunity costs of investing in the home loan program as opposed to other higher returning assets.

The Mortgage Origination Program is a valuable recruitment and retention tool that greatly benefits the University because the high cost of housing near several of the University's California work locations has made it increasingly difficult to recruit and retain faculty. The Office of Loan Programs continuously evaluates the need for new products and services and for program modifications, including researching and expanding opportunities for partnerships with financial institutions. (30)

Recommendation #11: To maximize the savings and new revenue from the Working Smarter initiative and ensure that the university uses [these funds] for its academic and research missions, the Office of the President should take the following actions:

- **Immediately require that the campuses fully participate in all projects unless they can provide compelling evidence demonstrating harmful effect.**

UC believes that opportunities exist to increase participation in various projects, which will result in additional revenues or cost savings. However, since every component of the *Working Smarter* initiative differs in its level of decentralization, the University must consultatively evaluate each systemwide project roadmap in the context of campus priorities and work in progress. (31)

- **By June 30, 2016, to the extent possible, implement a process to centrally direct these funds to ensure that campuses use them to support the core academic and research missions of the university.**

Campuses will be provided with additional direction to use new revenues or savings from these initiatives to advance the University's core missions. This will be done in the annual

allocation letters that are typically distributed after the state budget is adopted, so it is most efficient for the University to comply at that time.

- **Ensure that it substantiates that projects are actually generating savings and new revenue and that it can demonstrate how the university uses these funds.**

③② The *Working Smarter* initiative concluded its planned 5-year lifespan in 2015, although individual projects and programs in progress continue. It is not always possible or practicable to directly link cost avoidance in one area to increased investment in another area. Nevertheless, the University will do so where feasible.

Recommendation #12: To ensure its recruiting efforts benefit residents, the university should prioritize recruiting residents over nonresidents. In particular, the university should focus its recruiting efforts broadly to ensure that it effectively recruits resident underrepresented minorities. For example, the university could establish a limit on the amount of funds it dedicates to nonresident recruiting. Further, it should develop a process to better track its nonresident and resident recruiting expenditures.

③③ The report correctly indicates that the University spends most of its recruiting budget to recruit California residents, and in particular, recruits broadly to reach historically underserved populations. However, the University strongly disagrees with the suggestion in the report that it does not currently prioritize the recruitment of California residents. The University will continue to ensure that recruiting expenditures for nonresident students are in line with the success of these efforts.

Chapter 3 Recommendations:

Recommendation #13: To determine if the campuses are using funds to further the goals of the University of California system and the Legislature, the Office of the President should begin regularly monitoring and analyzing how campuses are using both state funds and nonresident supplemental tuition. If, after the close of the fiscal year, the Office of the President determines that campuses are not using state funds and/or nonresident supplemental tuition in accordance with those goals, the Office of the President should take steps to correct the campuses' spending decisions as soon as possible.

The Office of the President will develop and implement a process to regularly evaluate campus expenditures from core funds – e.g., state general funds, nonresident supplemental tuition, other UC general funds, and student tuition and fees – and will continue to take appropriate measures to ensure that those expenditures are aligned with the University's core missions.

Recommendation #14: To ensure it spends state funds prudently for programs that do not directly relate to educating students, the university should do the following:

- **Track spending from state funds for programs that do not relate to educating students.**
- **Reevaluate these programs on an annual basis to determine whether they continue to be necessary to fulfill the university's mission.**
- **Explore whether the programs could be supported with alternative revenue sources.**

The University has a tripartite mission – teaching, research, and public service. It is committed to ensuring that state funds are used appropriately within all three of its defined missions. The University strongly disagrees with the suggestion that that programs that do not directly relate to the instructional mission but relate to one of the two other core missions should be subjected to a different level of scrutiny.

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Recommendation #15: To increase its transparency and help ensure that it can justify its spending decisions, the university should make publicly available the amounts of state funding it allocates toward per-student funding, as well as the amounts it or campuses spend for programs that are not directly related to educating students. The university should publicly present the ranges of per student funding based upon the amount of funding excluded from the formula.

The Office of the President will make campus state general fund allocations available on its website in a manner that is more easily accessible than figures that appear in the University's audited financial statements and campus financial schedules, which are already available on its website. Allocations will include a breakdown of funds that are allocated on a per-student basis (along with the resulting per-student funding level at each campus) as well as state funds that are allocated on a different basis.

Recommendation #16: To ensure that its rebenching efforts lead to equalized per-student funding among the campuses, the university should do the following:

- **Include actual enrollment numbers in its rebenching formula.**
- **Adopt a methodology that it can use to, at least every three to five years, update its weighting system to ensure the weight factors take into account campuses' actual costs of instruction, using the cost study that we recommend in Chapter 1 and other revenue sources if necessary.**
- **Exclude all state funding it uses for programs that do not directly relate to educating students from its rebenching calculation. The university should exclude these programs only after it has evaluated them in accordance with the recommendation we made previously.**
- **Include stakeholders such as students, legislative and executive branch staff, and student groups, in future discussions of rebenching to ensure that it considers their viewpoints and to increase transparency regarding its funding decisions.**

The University will use a methodology based on targeted enrollment, rather than actual enrollment as suggested in the report, because this approach gives campuses an incentive to

- ③5 manage their enrollments and meet agreed upon enrollment targets. The University will review the weighting factors used in its allocation methodology every five years, but not more often as there needs to be consistency in allocations. The University disagrees with the recommendation in the report to exclude all state funding it uses for programs that do not directly relate to educating students; it is inconsistent with other parts of the report that imply that too much funding is being excluded from the per student calculation. The University regularly consults with students, legislative and executive branch staff, and others about a wide range of budgetary matters and will include these groups in any future discussions of rebenching.

Comments

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE UNIVERSITY OF CALIFORNIA

To provide clarity and perspective, we are commenting on the University of California's (university) response to our audit. The numbers below correspond to the numbers we have placed in the margin of the university's response.

We conducted this audit according to generally accepted government auditing standards and the California State Auditor's thorough quality control process. In following audit standards, we are required to obtain sufficient and appropriate audit evidence to support our conclusions and recommendations. As is our standard practice, we engaged in extensive research and analysis for this audit to ensure that we could present a thorough and accurate representation of the facts. Furthermore, we note that the university's response does not indicate any factual errors with our draft report, but rather a different interpretation of the same facts. During the course of our fieldwork, we met with the university on numerous occasions to discuss our audit results; however, the university declined our repeated offers to meet and discuss any concerns, questions, or comments about our draft audit report during the five-day response period.

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We follow generally accepted government auditing standards in conducting our work. These standards do not permit us to base conclusions on suppositions, but rather on facts. Facts led us to our conclusion that the university's admissions and financial decisions have disadvantaged California residents. Thus, we stand by the report's title, which is based on clear and convincing evidence—some of which we highlight below. Taken alone, any one of these pieces of evidence might be considered an anomaly, but when reviewed together they demonstrate that the university's strategic decision to increase the enrollment of nonresidents has had a detrimental impact on California residents. Some of this evidence includes the following:

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- From academic years 2005-06 through 2014-15, nonresident undergraduate enrollment increased 432 percent while during the same time period resident enrollment increased only 10 percent. In academic year 2014-15, nearly one-third of the students the university admitted were nonresidents.

- During academic years 2012–13 through 2014–15, after the university lowered its admission standards for nonresidents, the university admitted nearly 16,000 nonresidents whose test scores were below the median scores for admitted residents on every grade point average, SAT, and ACT score we evaluated.
- During the past 10 years the university has denied increasing numbers of resident applicants admission to the campuses of their choice. In contrast, nonresidents, if admitted, are always admitted to at least one campus of their choice.
- Between academic years 2010–11 to 2014–15, the five most popular majors that the university offers have seen significant increases in nonresident growth at Berkeley, Irvine, Los Angeles and San Diego—about 1,100 to 2,100 students, coupled with generally declining resident enrollment—about 800 to 1,200 students at three of the four campuses.
- Our concern regarding the displacement of resident students by nonresidents is in part derived from the university’s own opinion. Specifically, the university’s *Commission on the Future* report published in 2010 states that without a limit on nonresident enrollment, the university is at risk of displacing funded resident students. The report recommends a 10 percent nonresident enrollment limit.
- Since fiscal year 2007–08, when the university began to allow campuses to retain the nonresident tuition they generate, the number of nonresidents enrolled and the amount of associated revenue skyrocketed from \$248 million in fiscal year 2007–08 to \$728 million in fiscal year 2014–15.

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The university’s position is unfortunate and we would have hoped it would be more accepting of constructive criticism. Our recommendations are intended to improve the university’s operations, which, if implemented, would allow it to more fully demonstrate its commitment to California residents.

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The university exaggerates its fulfillment of the Master Plan because it fails to consider that one of its admission policies—denying admission to more than 15 percent of qualified residents to the campus of their choice—results in most of these residents choosing to either defer their education or to enroll in another university system. Specifically, we note in Table 7 on page 35 that the enrollment rate for residents referred to the Merced campus was only 2 percent in academic year 2014–15 compared to 55 percent for residents admitted to a campus of their choice. Thus, on page 100, the university is absolutely correct when it states in its response that “the acceptance of an admission offer is entirely the choice

of an applicant.” However, by denying residents admission to the campus of their choice, the university is not-so-subtly suggesting that these residents enroll elsewhere. In fact, the university acknowledged publicly on page 79 of its 2015–16 *Budget for Current Operations* that it took action to slow enrollment growth by admitting fewer residents to the campus of their choice and instead referred them to an alternate campus. Finally, it is important to note that nonresidents, if admitted, are guaranteed admission to at least one campus of their choice; however, the university does not offer all admitted resident students that same guarantee. Thus, while the university’s current referral process may meet the letter of the Master Plan, we question whether it meets its spirit.

The university’s response fails to acknowledge the role that its decisions played in constraining resident enrollment. We do not diminish, in any way, the substantial cuts in state funding that the university faced. In fact, we note the effect of these funding cuts on pages 2, 3, 12, 18, 24, 29, 32, 44, 50 and 71 of our report. However, as we note in Chapter 2 beginning on page 49, we believe that the university did not sufficiently reduce its costs before increasing tuition and nonresident enrollment. Further, we note on pages 74 and 75 that the university continues to use a significant amount of state funding—\$45.4 million—for programs that it has determined could be funded from other sources.

The evidence upon which the university bases its assertion that “nonresidents pay the full cost of their education—and more” is unknown. As we state on page 41, the university has not conducted a usable analysis of the cost to educate its students, thus we question how the university can support this theory. In fact, in one of our preliminary exit conferences with university staff, we asked the university for a metric of the number of undergraduate residents that the tuition revenue from nonresident undergraduates allows it to bring in; however, the university did not provide an answer to this question. Moreover, as we note on page 68, the total resident enrollment at the university actually decreased by more than 2,200 students—or 1 percent—from academic years 2010–11 through 2014–15 while total nonresident enrollment increased by more than 18,000 students, or 82 percent.

The university’s response that these savings would “pale in comparison to the amount of [nonresident revenue]” demonstrates the university’s failure to appreciate its own ability to generate savings. As specific examples, on page 52, we note that the university’s 2009–10 furlough plan, in which it furloughed employees for 10 to 26 days during those 11 months, saved \$236 million. However, in the following year, the university negated this one-time cost savings when it increased its spending on employee salaries by \$526 million. Had it continued the furlough

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program at even less than half the fiscal year 2009–10 savings rate, it could have saved an additional \$100 million per fiscal year. Additionally, as we note on page 61, the university asserted that it could have saved an additional \$9 million from further campus participation in one of its 13 Working Smarter projects. Using the university’s assertion of needing \$10,000 to fund each additional undergraduate resident, as we note on page 49, the \$109 million from these two actions alone could have enrolled an additional 10,900 California residents. Finally, we do not recommend that the university cease to admit nonresidents as it implies by citing the need to redirect \$728 million of state funds to it to replace the total amount of nonresident revenue received in fiscal year 2014–15, rather we only recommend that the Legislature limit the percentage of nonresidents that the university enrolls.

- ⑧ Based on the university’s response, it appears that the university is facing a crisis of identity and purpose: to maintain a public university system that virtually all agree is the finest in the world—as stated in the university’s response—or to serve primarily the needs of California residents, as we note on page 1 of our report. The university’s response suggests that, at this point in time, these two purposes are mutually exclusive. This is the true choice that faces the State and the university who collectively must determine whether both of these purposes can exist together, or whether one takes priority over the other. Until such time as the university’s purpose is clearly mandated or defined, we stand by our conclusion that the university’s actions have disadvantaged residents.
- ⑨ While we agree that “California’s situation is not unique” in terms of budget reductions during the recession, the university operates under circumstances that are unique among its peers—specifically the Master Plan commits it to admit qualified California resident students. Furthermore, and perhaps most importantly, these comparator institutions have a significantly smaller and less diverse population of public high school graduates from which to draw compared to California. In contrast, as the largest state in the nation, California has a large and diverse population from which to select. The university’s statement is also either disingenuous or poorly informed. In particular, our review of available data on enrollment trends indicates that over the past 10 years these comparator universities have consistently enrolled high proportions of nonresident students—averaging 26 percent nonresident enrollment in academic year 2005–06 and now averaging 34 percent nonresident enrollment. Thus, the Legislature will need to decide whether it agrees with the *Hobson’s choice* that the university made to enroll additional nonresidents to increase its revenue, but to the detriment of California residents.

We agree entirely with the university's assertion that "if indeed nonresidents were displacing residents, we would see that California growth concentrated on campuses less in demand from out-of-state students" because this displacement did, in fact, occur. On page 49 we state that the Legislature required the university to enroll an additional 5,000 residents in fall 2016 as a condition of receiving \$25 million in state funds, and the university subsequently asserted that it will enroll nearly half of these students at the Berkeley, Los Angeles, and San Diego campuses, which it repeats in its response on page 93. Prior to this agreement, however, nonresidents were displacing residents at these campuses. Specifically, as shown in Table 15 on page 69, the university enrolled 5,400 fewer resident students at the Berkeley, Los Angeles, and San Diego campuses from academic year 2010–11 compared to academic year 2014–15—85,700 residents compared to 80,300 residents. These three campuses also had the highest growth rate in nonresident enrollment during this time period and have the highest current nonresident enrollment.

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The university misses the point. As noted on page 35, the Legislature and university have clearly articulated the desire that the university enroll a student body that mirrors the cultural, racial, geographic, economic, and social diversity of California. Although the university has increased the percentage of underrepresented minorities enrolled, this growth has been hampered by its efforts to increase enrollment of nonresidents, who are predominately not from underrepresented minorities.¹ As Table 9 beginning on page 38 illustrates, domestic nonresident undergraduates have a far smaller proportion of underrepresented minorities, with only 11 percent from underrepresented minorities, in comparison to 30 percent of California resident undergraduates in academic year 2014–15. Therefore, even though the university is correct that the proportion of underrepresented minorities has continued to increase, this increase has been stunted and slowed by the university's increased enrollment of nonresidents who are predominately not from underrepresented minorities.

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To achieve equal per-student funding, the university will need to not only continue to work on the equitable allocation of state funding among the campuses but also address the effect of increased revenue from nonresident tuition. As we show in Figure 11 on page 84, the increasing and varying levels of nonresident revenue that the campuses received have amplified inequities in per-student funding among the campuses because the university allows campuses to retain the nonresident revenue they generate. Figure 11 also shows

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¹ The university considers underrepresented minorities to be Chicanos/Latinos, African Americans, and American Indians.

that the highest-funded campuses when we include nonresident revenue are generally the campuses with the lowest percentage of underrepresented minorities. For example, the highest-funded campus—Berkeley—is also the campus with the lowest percentage of underrepresented minorities. As a result, these funding disparities have disproportionately affected underrepresented minorities, which echoes a finding from our July 2011 report that the campuses with the most underrepresented students were also the lowest-funded campuses on a per-student basis.

- ⑬ The university's statements related to rebenching are misleading. Specifically, the university is not allocating *additional* funding to campuses, but rather it is accelerating the allocation of funds it *previously planned* to allocate to the campuses through rebenching. Further, we believe it is important to point out that the university did not make the decision to accelerate its rebenching process until after we raised concerns that it had sufficient state funding to complete it sooner.

As noted on page 85, since fiscal year 2011–12, when the university began its rebenching process, it had available state appropriations of \$362 million to allocate through rebenching. Nonetheless, over the past three years, the university allocated only \$111 million toward rebenching. If the university had allocated just another \$111 million of the remaining \$251 million in available state funding to rebenching, it could have completed the rebenching process before fiscal year 2015–16, three years earlier than it planned. After we questioned the university about its failure to shorten the rebenching time frame, its chief financial officer stated that the university planned to accelerate the rebenching process by one year—completing rebenching in fiscal year 2016–17 instead of fiscal year 2017–18—because it recognized that it had sufficient state funds to complete the process sooner.

- ⑭ We did not conflate growth at the university's medical centers with the growth at campuses, but rather we present the university's own perspective on the growth in employees from 2007 to 2014. As we describe on page 52, the university's analysis attributes 60 percent of this growth to health science employees and the remaining 40 percent employee growth to the campuses and the Office of the President. However, we take issue with the university for failing to consider the cost related to the growth in employees, because as shown in Table 11 on page 51, between fiscal years 2005–06 and 2014–15, the gross earnings of the university's employees increased by 64 percent, from \$8 billion a year to \$13 billion a year. We believe it was remiss on the university's part to simply analyze the change in the number of employees, without understanding why earnings for its employees have grown by \$5 billion during the same period.

The university's assertion that the "Working Smarter initiative has reduced costs by over \$660 million" is dubious. As we state on pages 58 and 60, we attempted to validate the \$664 million of savings or new revenue the university claimed for these 13 projects, but the Office of the President was unable to provide information to substantiate any of these amounts. Rather, it was only able to provide us a disorganized set of spreadsheets and miscellaneous documents, none of which were supported by accounting reports to demonstrate that the claimed amounts of savings and revenue actually occurred.

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The university's implication that it independently froze student tuition is inaccurate. The reason the university did not raise tuition during this period was because beginning in fiscal year 2013–14 it agreed to the governor's proposal to provide an increase in state funding in exchange for not raising tuition, as we describe on pages 12 and 13. Moreover, the university neglects to mention that it had proposed a 5 percent tuition increase for fiscal year 2015–16, which it rescinded after student protests and reaching an agreement with the State for additional funding. Furthermore, the university fails to acknowledge that from academic years 2005–06 through 2011–12 it doubled the mandatory fees—base tuition and student services fee—that resident students pay from \$6,141 to \$12,192, as we show in Figure 9 on page 42.

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Contrary to the university's assertion, our recommendations in Chapters 2 and 3 impact the budget for the entire university. We focused the majority of our analyses on undergraduate students as they represent the majority of the university's student body, which was the intent of the audit request. Our findings and recommendations also state that the university needs to be more conscientious with its spending—which impacts all aspects of its mission. Finally, the university is incorrect as nowhere in our report do we state or conclude that "any expense that cannot be shown to have a direct impact on undergraduate education cannot be justified."

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We do not dispute that the university makes publicly available a wide variety of information about its operations; however, our report found several shortcomings. For example, as noted on page 57, the university was nearly six months late publishing its annual report on executive compensation for 2014. Although the university makes public a variety of information regarding its finances, much of that information does not provide the level of detail to understand how the university funds its operations. As we state on page 71, even though the Office of the President collects high-level financial information it does not know how campuses use state funds with any specificity. Additionally, as noted on pages 18 and 19, when we spoke with the Department of Finance (Finance),

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it indicated that it had embarked on efforts to understand how the university spends tuition and fee revenues, particularly nonresident tuition. However, Finance asserted that it encountered difficulties in determining the university's spending of tuition and fees because the university does not account for its expenditures in sufficient detail. In particular, the university's spending of nonresident tuition is not distinguishable from its spending from other revenue sources in its financial documents—including its audited annual financial reports, campus financial schedules, and expenditure reports from the Governor's Budget for fiscal year 2015–16—because it presents its spending by activity rather than revenue source. Therefore, there is clearly an interest by Finance, as well as the Legislature when it requested this audit, to identify and monitor how the university spends nonresident supplemental tuition revenue.

- ①9 The university misconstrues the findings from our July 2011 report by quoting a sentence from it out of context. Specifically, the sentence that it quotes from our July 2011 report is from the summary of Chapter 3, which is titled “Although the University Has Numerous Processes to Provide Detailed Accountability for Various Types of Funding, It Could Improve the Transparency of Its Financial Operations.” That chapter discusses our concerns that the university's financial statements and campus financial schedules are not sufficiently detailed or formatted to determine the financial performance of individual components of the university and that the Office of the President was not properly monitoring campuses' accounting practices, resulting in the campuses' sloppy accounting practice of recording \$6 billion over five years as “Miscellaneous Services.” Thus, contrary to the university's suggestion that our July 2011 report was complimentary of its accounting practices, that report contained significant criticisms. As noted in the Appendix on page 89, the university has yet to implement four of the eight recommendations from our July 2011 report.
- ②0 We are perplexed as to why the university asserts that it would need to install new technology to respond to our recommendation on page 86 to make publicly available how it allocates state funding to the campuses and other programs. The university was readily able to provide to us this information in several spreadsheets, which we reformatted into Figure 10 on page 81.
- ②1 We do not suggest that the university should reduce the number of its administrative staff. As we report on page 52, we simply state that the university could have achieved additional savings to offset its loss of state funding had it continued its salary reduction and furlough plan at less than half of the savings rate achieved in fiscal year 2009–10 for another fiscal year. Therefore, we stand by our recommendation that the university should conduct a systemwide assessment to identify ways to streamline and reduce its employee costs.

It is unfortunate that the university strongly objects to many of our recommendations despite clear evidence that improvements are needed. In its response, the university agrees to implement only seven of our 21 recommendations. For the remaining recommendations, the university either disagreed or failed to address the recommendations in its response.

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We look forward to reviewing and determining whether the actions the university is taking will increase the enrollment percentages of referred residents from the current rate of 2 percent to be closer to the enrollment rate of 55 percent for resident applicants that it admits to the campus of their choice, as we show in Table 7 on page 35.

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Contrary to the university's assertion, it does not publish extensive data each year on the qualifications of students who apply and are admitted to its campuses. At no point during our audit did the university provide a publicly-available report that includes detailed information comparing the academic qualifications of resident and nonresident applicants and those admitted, similar to the data we present in Figure 6 on page 28, Table 5 on page 29, and Table 6 on page 30. Further, the January 2015 *Annual Report on Undergraduate Admissions Requirements and Comprehensive Review* that the university mentions does not include any data on the academic qualifications of residents compared to nonresidents. As we recommend on page 47, a thorough and public process that annually evaluates the qualifications of students who apply and students who are admitted, by residency status, will help ensure that campuses' interpretations of admission standards do not adversely impact residents.

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As we state on page 41, the university cautioned that decision makers should not use this cost study report it submitted to the Legislature as a solid rationale for making policy decisions or allocating resources because the assumptions, estimates, and proxies for data it had used to calculate the costs it reported could result in unreliable estimates. Thus, our recommendation is intended to ensure that the university develops and submits a report to the Legislature that can be used to make policy decisions and to allocate resources. Moreover, contrary to the university's statement, as we state on page 42, the university's cost study is problematic because the source of the data it uses is not apparent, and it does not tie the costs and funding it reported to readily available and public financial data, such as its annual financial audit. Lacking a basis in actual financial data, the report is not much more than a theoretical exercise.

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- ②⑥ While the university indicates that it conducts annual reviews of employee trends to inform its hiring and compensation practices, this is not a substitute for a systemwide assessment at the Office of the President and the campuses to identify ways to streamline and reduce employee costs. As we describe on pages 49 and 50, the university increased spending on employee salaries in eight of the last nine fiscal years, despite the State's fiscal crisis beginning in 2008. Moreover, on page 52 we note that the only fiscal year in which the university decreased its spending on employee salaries was in fiscal year 2009–10, when it implemented a one-year salary reduction and furlough plan (furlough plan) for faculty and staff from September 2009 to August 2010. However, it negated its one-time cost savings of \$236 million from the furlough plan in the following year when it increased its spending on employee salaries by \$526 million. Therefore, we stand by our recommendation that the university should do a systemwide assessment to identify ways to streamline and reduce its employee costs.
- ②⑦ Contrary to the university's assertion, our audit found that it does not conduct regular executive compensation studies and has not been proactive in assessing the total value of the benefits it provides to its top executives and managers. Specifically, on pages 55 and 56, we report that while a university consultant performed an analysis in 2009 to value the competitiveness of certain elements of the university's executive compensation packages, the study is nearly six years old and excluded many perquisites the university provides. Therefore, we stand by our recommendation that when setting or adjusting salaries and benefits and when conducting studies and surveys to compare the compensation packages of its executives, the university should not only include the value of the base salaries, health benefits, and retirement, but all forms of compensation and perquisites that the university provides.
- ②⑧ We do not conclude "that positions at [the university] are always comparable to state employees." Rather, as noted on page 53, effective June 2015, state law requires the university to include, at a minimum, comparable positions in state government when establishing salary ranges for its top executives. Even though the university broadened the required comparison to include other government entities, we found that the university's progress in fulfilling this requirement has been limited. Specifically, as we discuss on page 54, by February 2016 the university had only been able to match 32 of its 92 total senior management group positions to positions existing within state government, the California State University, and local governments.
- ②⑨ We stand by our recommendation to the university to publish the annual report on executive compensation (annual compensation report) by April of each year. The intent of this report is to provide

timely and transparent salary and benefits paid to certain of the university's highly compensated employees. Because these employees must file their taxes by April of each year, we believe that this date is also a reasonable time for the university to publish its annual compensation report.

The university's response does not address our recommendation. Although the University of California Home Loan Program Corporation (home loan program) may be a valuable recruitment and retention tool for university faculty, as of June 2015, there were 96 university executives who also benefitted from this program. Moreover, as we discuss on pages 57 and 58, because the home loan program is financially dependent on the university, it ties up more than \$252 million in a long-term, relatively low yield investment that the university could use elsewhere. Therefore, we stand by our recommendation that the university should assess whether the home loan program is the best use of the university's investment funds.

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We fail to understand why the Office of the President does not mandate full campus participation in the Working Smarter initiative. As we note on page 61, the Office of the President believed that the Working Smarter initiative would have better results if the campuses' participation was voluntary and if the campuses were rewarded for participation. However, for the one program that the Office of the President did monitor and set participation goals, the Managed Travel Program (travel program), it garnered only 46 percent participation in 2014—well short of its goal of 80 percent participation. The Office of the President estimates that by failing to meet the 80 percent participation goal, the university lost the opportunity to save an additional \$9 million for fiscal year 2014 alone. Because the Office of the President does not mandate campus participation in all Working Smarter projects, the amount of missed savings and revenue would certainly be much greater.

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We acknowledge that it might not always be practicable for the university to directly link cost avoidance in one area to increased investment in another area. However, the university has publicly claimed that the Working Smarter initiative has generated savings and new revenue, the majority of which it asserts to have transferred to its core academic and research missions. Because we found that the university was unable to substantiate any of the \$664 million in claimed savings or revenue, it will need to implement this recommendation to assure stakeholders of the veracity of any similar claim it makes in the future.

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- ③③ The university misstates our findings on its undergraduate recruiting efforts. Our concern, as noted on page 62, is that the university's nonresident recruiting expenditures have increased by 400 percent over the past five years. This increased spending reflects the university's increasing emphasis on recruiting nonresident students which, as we state on the same page, diverts already limited resources from the recruitment of residents and therefore we believe it negatively impacts the campuses' ability to recruit students who mirror the diversity of the State. Moreover, because campuses do not accurately track their spending between nonresident and resident recruiting, we were unable to conclude whether campuses were spending more of their budgets on nonresident or resident recruitment.
- ③④ We do not expect the university to subject these programs to different levels of scrutiny, but rather to the same level of detailed scrutiny all state funds should receive. In particular, we are concerned, as we state on pages 67 and 71, that the university has committed a sizable portion of state funding—\$337 million in fiscal year 2014–15 alone as shown in Table 17 on page 75—to programs that the Office of the President does not actively monitor or evaluate. As we note on page 74, our audit found that the university was aware that it could find other sources of funding for three of these programs, which received \$45.4 million of state funds in fiscal year 2014–15, yet it continued to fund them with state funds. Therefore, to ensure that the university uses state funding in the most effective manner, we recommended that it better track and annually evaluate the funding of these programs—rather than allowing them to receive state funding indefinitely. Moreover, as we note on pages 71 and 74, the governor eliminated most dedicated funding from the state budget to give the university additional flexibility to manage budget reductions during the fiscal crisis; however, the university did not take advantage of the additional financial flexibility to evaluate whether to reduce or eliminate the use of state funding to support these programs.
- ③⑤ The university is not correct when it describes the recommendation as inconsistent with other parts of our report. As stated on page 82, we agree that the university can justifiably exclude the state funding that it uses for certain programs from the rebenching calculation. However, we stated on page 80 that the university fails to make clear that nearly one-third of state funds it receives—\$886 million—are not counted in the per-student funding calculation. Further, we reference the university's own logic when we recommend excluding all funding for programs that do not directly relate to educating students from its rebenching calculations, rather than excluding only a few. As we state on pages 77 and 78, the university stated that it excludes these types of programs to avoid making certain campuses appear better funded than others.