

ANALYSIS OF AUDIT REQUEST
2010-105
February 17, 2010

I. AUDIT REQUEST

Senator Yee is requesting an audit of the University of California (UC). The senator has requested that the audit primarily focus on public funds, student fees, and auxiliary organizations.

II. BACKGROUND

The California Constitution designates the UC as a public trust administered by its Board of Regents. This 28-member board (which includes two nonvoting members from the university faculty) maintains full powers of organization and governance subject to only specific areas of control by the Legislature. The UC provides undergraduate, graduate, and professional education at its nine general campuses, with a tenth campus in San Francisco devoted exclusively to health sciences. The UC system has more than 220,000 students and employs more than 170,000 faculty and staff. The Office of the President is the systemwide headquarters of the UC. Responsibilities of the president include overall policy development, planning, and resource allocations. Chancellors are responsible for the management of individual campuses.

The UC receives funding from several sources. State funds, student fees, and tuition are core components of UC's funding that support its instructional program, while contracts and grants provide opportunities for students to participate in research. The Higher Education Compact (Compact), effective from fiscal years 2005-06 through 2010-11 is an agreement between the governor, UC, and California State University. The Compact is a long-term resource plan that addresses base budget allocations, enrollment, student fees, and key program elements of the universities. However, despite the goals of the Compact, the State's General Fund support for the UC decreased from approximately \$3.3 billion in fiscal year 2007-08 to about \$2.6 billion in fiscal year 2009-10. Over the same time period, mandatory resident student fees increased by about 17 percent per year. The UC Board of Regents recently approved additional student fee increases of as much as 30 percent for certain students in 2010, and the Governor's Budget for fiscal year 2010-11 proposes increasing General Fund support to \$3.01 billion.

The UC also has auxiliary organizations that support its mission. Donors and volunteers support UC through their service on a variety of auxiliary bodies. In general, auxiliary organizations are nonprofit organizations that perform functions that contribute to the educational mission of the university. Examples of auxiliary organizations include student-run organizations, student unions, bookstores, as well as food services and agricultural projects.

Senator Yee believes that, as the UC contemplates restructuring, the audit would provide reliable data to help legislative members weigh in as UC begins discussions on these structural changes.

III. AUDIT SCOPE AND OBJECTIVES

The audit by the Bureau of State Audits will provide independently developed and verified information related to UC and would include, but not be limited to, the following:

1. Review and evaluate the laws, rules, and regulations significant to the audit objectives.
2. Identify the major sources of UC's public funding over the most recent five fiscal years, including funding awarded by the federal government.
3. Review and evaluate the policies and practices UC uses to track and allocate public funds.
4. For the past five fiscal years, determine how the UC has spent its state appropriation, student fees, funds it receives from the federal government to administer grants, and any inflationary increases in grants.
5. Review and evaluate the procedures and practices used by UC to track and make adjustments to nonsalary expenditure categories such as travel, consultants, entertainment, and general supplies.
6. Assess UC's policies and practices for tracking per-student expenditures for instruction. In addition, identify the average amount per student UC has spent on instruction for undergraduate students each year for the past five fiscal years.

7. Determine how UC internally defines restricted funds. For those public funds identified in objective 2 on the previous page, determine the amount for which providers have placed restrictions on their use.
8. Obtain UC's definition of an "auxiliary organization" and determine the following :
 - a. The number of auxiliary organizations that exist in the UC system.
 - b. The methods used by UC to track the revenues generated by auxiliary organizations and the expenditure of those revenues.
 - c. The policies and practices the UC uses to ensure that state funds are not used to supplement or guarantee projects or programs authorized by these auxiliary organizations.

IV. OTHER WORK IN THE GENERAL AREA

2006-103 *University of California: Stricter Oversight and Greater Transparency Are Needed to Improve Its Compensation Practices* (May 2006)


2001-130 *University of California: Its Partnership Agreement Could Be Improved to Increase Its Accountability for State Funding* (July 2002)

V. RESOURCE REQUIREMENTS

We estimate that this audit would require approximately 2,980 hours of audit work at a cost of approximately \$298,000 plus travel and administrative expenses and the possible costs related to an outside consultant, if necessary. We will conduct this audit using our existing budget authority to the extent funding is available for audits approved by the Joint Legislative Audit Committee.

VI. REQUIRED DATE OF COMPLETION

Assemblymember Solorio did not specify a completion date for this audit.



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