Campuses Do Not Adequately Oversee Their Budgets

Key Points:

- Campuses do not have written policies requiring periodic comparisons of spending levels to budget limits, and most campuses did not retain documentation demonstrating that they consistently performed such comparisons, which hampers accountability and transparency.

- The State affords CSU significant budget discretion and flexibility. The annual budget act exempts CSU from the authority of the director of the Department of Finance (DOF) to adjust budget allocations to reflect net savings achieved, from being subject to DOF's authority to determine how unused amounts allocated to CSU in the prior year will be used in the current year, and from budgeting for specific employee positions.

Campuses Lack Written Policies Regarding Periodic Comparisons of Spending Levels to Budget Limits, and Most Do Not Record the Results of These Reviews

Guidance appropriate for CSU's budget process emanates from a variety of sources. For instance, among its best practices, the National Advisory Council on State and Local Budgeting recommends that public entities conduct periodic budget reviews that include comparisons of actual revenue, expenditures, and cash flow to budgeted amounts; and that public entities make these budget comparisons available to all stakeholders during budget discussions. Further, state law requires CSU to have active oversight processes that include regular and ongoing monitoring, as well as continuous evaluation of those monitoring processes. State law also identifies CSU campus presidents as the persons responsible for ensuring the propriety of the expenditure of—and the integrity of the financial reporting for—certain funding that CSU receives, including state appropriations.

Furthermore, the Chancellor's Office has delegated nearly absolute fiscal authority to campus presidents. Through its Executive Order 1000 issued in July 2007, the Chancellor's Office designated each campus president as the person responsible for ensuring that campus expenditure commitments do not exceed available resources and that campus budget plans are fiscally sound and sustainable. Executive Order 1000 also names presidents as having the responsibility to ensure that campuses have appropriate processes in place to safeguard assets. Based on this guidance, and because CSU relies on the authorized funding in its budgets as its primary control over the number of its personnel, we expected the Chancellor's Office and the campuses to have robust processes for ensuring that spending levels do not exceed the spending limits established by approved budgets, and that these processes would include the periodic comparisons of spending levels to budget limits.

Our review of the six CSU campuses we visited revealed that none had written policies in place that described both the extent and the timing of their budget oversight. Cal State LA is the only campus that provided us documents regarding a policy for the campus budget office's performance of budget reviews. These policy documents discussed budget planning responsibilities, a procedure for assessing and updating budgets, and a budget flowchart that mentioned spending reviews. Although Cal State LA's policy describes general budget planning and responsibilities, its budget assessment procedure provides a high-level overview of steps involved with assessing and updating department and division budgets, and its flowchart describes the timing of the budget reviews, none of the documents addresses the extent of its budget reviews.

Officials at each campus we visited asserted that their campus central budget office follows an informal policy to review division and department budgets periodically. For instance, San Diego State does not have a written policy describing the extent or frequency of its budget oversight. According to the campus director of budget and finance, San Diego State's informal practice is to review spending each month by comparing actual expenditures to budgeted amounts, and to ask questions of divisions or departments in cases where there is over- or underspending and the budget office cannot determine the appropriateness of spending. However, we could not verify that San Diego State's budget office is performing this oversight monthly because it rarely documents the results of its reviews.

Furthermore, officials at each campus we visited also told us that budget oversight occurs first and foremost at the division or department level. Divisions encompass broad areas of activity, such as the Division of Human Resources, while departments are smaller components within a division, such as the Labor and Employee Relations Department. Despite this assertion, none of the campuses were able to provide us documents such as policies or procedures that they provided as guidance to their divisions and departments for performing budget oversight.

Cal State LA and San Francisco State were the only two campuses that documented the results of their budget oversight. For instance, beginning in 2015, San Francisco State began a quarterly budget review process in which it uses first- and third-quarter reviews to highlight major budget deviations, and it reviews all divisions and departments at midyear. Its executive director of budget and operations stated that San Francisco State expects its divisions and departments that experience budget deviations at midyear that exceed 10 percent or are projecting a year-end deficit to prepare and submit justifications that identify the cause of the deviation or deficit and the corrective actions they plan to take to rectify the problem. For example, in fiscal year

2015–16, San Francisco State's College of Extended Learning (college) projected a deficit of $1.7 million. The interim dean of the college certified on San Francisco State's Quarterly Report of Financial Actions that the projected deficit was caused by a decrease in expected revenue because of reduced enrollment. The corrective actions the college described in this report included a hiring freeze, reductions in operating costs, and moving its office to a less expensive space. The college appropriately documented this budget deficit, including the cause of the deficit, the dollar effect, the corrective actions taken, and the actions the college plans to take to prevent this event from recurring. By including this information in its response to the budget office's periodic budget reviews, the college better assured that its actions were transparent to stakeholders and that it retained a record of past budget issues that will assist in improving the accuracy of future expenditure and revenue projections.

The Chancellor's Office's policy is to make reports that compare actual expenditures to budgeted amounts available to executives quarterly. However, unlike the campuses, the Chancellor's Office has provided guidance to division managers to review, reconcile, and fix issues in their accounts monthly. When asked to provide examples of the budget oversight performed by the central budget office, the Chancellor's Office provided correspondence that demonstrates that the central budget office identifies and repurposes salary savings, requests that divisions send updates for future expenditures and encumbrances to be added to the budget, uses the information to amend the budget, and reviews encumbrances added and paid. However, there was no indication that the central budget office questioned departments to obtain justifications for any over- or underspending or took necessary follow-up actions.

In the absence of policies pertaining to the extent and timing of budget reviews, and due to the general lack of documentation of these budget reviews, we question whether CSU's budget monitoring provides sufficient assurance that campus divisions and departments actually adhere to their spending plans. Although we did not identify instances of a campus we reviewed exceeding its budget, when campuses do not have written budget monitoring policies and processes and do not document their periodic budget reviews, they reduce assurance that they spend state funding efficiently and appropriately, and they unnecessarily increase the risk that they may overspend their budgets.

In our discussions of the weaknesses we observed related to budget monitoring, the Chancellor's Office explained that a campus's budget monitoring also includes activities such as reviewing and approving new part-time faculty positions and the procurement process for large contracts, pointing out that the procurement process typically requires a certifying signature from a budget official prior to approval. We understand and appreciate the value afforded by these types of transaction-level reviews and approvals. They are useful for contemporaneously confirming that sufficient funds are available to cover the transaction and that the budget office considered the decision. However, we also believe there is value in other types of reviews, such as periodically comparing overall spending levels to the funding limits established by approved budgets to ensure that potential overspending can be identified and remedied.

The State Affords CSU Significant Budget Discretion and Flexibility

State law exempts CSU from many of the budget oversight mechanisms that apply to other state agencies. For instance, the annual budget act exempts CSU from the DOF director's authority to adjust budget allocations to reflect net savings achieved, from being subject to DOF authority to determine how any unused amounts allocated to CSU for the prior year will be used in the current year, and from budgeting for specific employee positions.

We examined the role that CSU's budget process may have played in increasing the number of management personnel and the compensation for such positions. We concluded that the budget flexibility and discretion the State affords CSU regarding positions could contribute to increases in management personnel. However, this same budget flexibility and discretion apply to other employee types as well. Specifically, the State's budget process gives CSU more flexibility and discretion for positions than it gives other state agencies. For instance, the annual state budget act exempts CSU from position control. This means CSU does not need authorization from DOF to establish new employee positions. This type of discretion gives CSU the freedom within its existing budget to unilaterally create new employee positions based on workload or program needs as they arise.

Rather than exerting traditional budget oversight mechanisms that are applicable to other state agencies, the State subjects CSU to other higher-level oversight mechanisms. For instance, the State adopted 16 performance measures to track CSU's improvements toward student success. The performance measures track enrollment, graduation rates, degree completion, credits earned, and total funding for various student groups such as incoming freshmen, transfer students, and low-income students over time. Commencing with the 2013–14 academic year, state law requires CSU to submit an annual report to the Legislature by March 15 on these 16 performance measures. According to state law, it is the Legislature's intent that the budget committees of both houses use this information when considering CSU's annual budget appropriation. The most recent of these reports, dated March 2016, shows that CSU has made progress on the performance measures concerning graduation rates.

The annual state budget also requires CSU to submit an academic sustainability plan by November 30 of each year that includes projections over a three-year period for available resources, specific expenditures, and resident and nonresident enrollment, and includes CSU's goals for each of the performance measures. Furthermore, according to DOF, CSU was provided with an ongoing $216.5 million increase in general funds in the fiscal year 2015–16 state budget. The DOF reported that CSU is expected to use those funds to increase enrollment by 10,400, increase full-time faculty, and make significant progress toward improving time-to-degree and graduation rates. CSU reported an increase in enrollment of more than 13,000 students during fiscal year 2015–16, and our analysis of CSU's payroll data from the SCO showed an increase of more than 700 faculty positions during the same period. Additionally, the four-year graduation rate for first-time, full-time freshmen increased from 15.9 percent for the fall 2007 cohort to 19.1 percent for the fall 2011 cohort, and the two-year graduation rates for California community college transfer students increased from 24.5 percent for the fall 2009 cohort to 30.5 percent for the fall 2013 cohort.

None of the reports described earlier require CSU to specify how it used state appropriations to improve student success. However, the State recently established a requirement that can better hold CSU accountable. The State allocated $35 million in one-time funding to CSU during fiscal year 2016–17 for the purpose of improving graduation rates. The $35 million was contingent on the CSU board adopting a plan that specifies the time frame for CSU to reach the graduation rate goals set by the State and the specific actions CSU will take to achieve these goals. We believe these requirements better hold CSU accountable for spending additional state funding than the required reports discussed previously, because to meet them CSU must demonstrate what it plans to do with the additional funds. After reviewing the plan CSU adopted, we observed that it describes activities that support student success with more specificity than any of the reports mentioned previously. However, we believe CSU should be required to follow up the next year with a report on what activities it actually engaged in to support improvements in graduation rates.

Finally, the fiscal year 2012–13 Governor's Budget Summary specified that the administration's long-term plan for higher education is rooted in the belief that higher education should be affordable and student success should be improved. These two themes continue to be at the forefront of the State's future plans for CSU. For example, the fiscal year 2013–14 Governor's Budget Summary mentions rapid tuition and fee increases at CSU that totaled $2,700 per student from fiscal years 2007–08 to 2012–13 and describes how these increases were a significant hardship for students and their families. As discussed earlier, the State allocated $35 million in one-time funding to CSU during fiscal year 2016–17 for the purpose of improving graduation rates. DOF's August 2016 letter to the CSU board reaffirms the State's long-term plans of maintaining affordability and improving student success, and it continues to afford broad discretion to CSU to meet state goals. However, without more informed oversight of CSU's expenditures, the State cannot clearly evaluate whether increases to CSU's General Fund appropriation or tuition increases are justified.

Recommendations

Legislature

To improve its budget oversight of CSU, the Legislature should require CSU to submit an annual report that provides information on specific activities that CSU engaged in during the previous year to meet the State's goals for student success.

Chancellor's Office

To ensure effective, consistent budget oversight at CSU campuses, the Chancellor's Office should require campuses to develop and implement budget oversight policies that define the minimum level and frequency of reviews that budget managers are required to perform, including the periodic comparison of budgets to actual spending levels, the types of corrective actions to take when they identify budget anomalies, and the retention of appropriate records of those reviews.