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The California State Auditor released the following report today:

The University of California

Its Admissions and Financial Decisions Have Disadvantaged California Resident Students

BACKGROUND

Providing higher education to more than 250,000 students at its 10 campuses, the University of California (university) is administered by a 26-member independent governing board of regents and led by a president. Its Office of the President is the systemwide headquarters and is charged with managing the university's fiscal and business operations. Campus operations are managed by a chancellor at each campus. University operations are funded by both public and private sources: the State's General Fund made up about 10 percent of its revenues in fiscal year 2014-15, while tuition and fees contributed 14 percent. All students—residents and nonresidents—pay the same base tuition amount and student services fee (mandatory fees). Nonresidents also pay a supplemental tuition amount.

KEY FINDINGS

During our audit of the university's enrollment, executive compensation, and budget, we noted the following:

- Over the past several years, the university has undermined its commitment to residents in an effort to increase its revenue by recruiting and enrolling nonresidents.
  - ✓ Despite a 52 percent increase in resident applicants, resident enrollment increased by only 10 percent over the last 10 years while nonresident enrollment increased by 432 percent.
  - ✓ The university lowered the admission standard for nonresidents and admitted nearly 16,000 nonresidents over the past three years with lower academic scores than the upper half of admitted residents.
  - ✓ Admitted residents were increasingly denied their campus of choice, yet admitted nonresidents were always admitted to one of their campuses of choice.
  - ✓ Mandatory fees doubled for residents while they increased for nonresidents at a much lower rate.
- The university encouraged campuses to maximize nonresident enrollment by allowing campuses to retain the nonresident tuition and setting separate enrollment targets for residents and nonresidents.
- Despite recent increases in state funding, the university continued to enroll nonresidents. In fact, total revenue generated from nonresident enrollment grew from nearly $325 million to $728 million over the past five years.
- Increased nonresident enrollment has hindered the efforts to enroll more underrepresented minorities—last year only 11 percent of enrolled nonresident domestic undergraduates were from an underrepresented minority.
- Although the university claims that the state funding shortfalls forced it to seek alternative funding, such as increasing the number of nonresidents and increasing resident tuition, it did not first sufficiently reduce its costs.
  - ✓ University employees' gross earnings increased by nearly $5 billion over the past 10 years—top executives earned over $400,000 in fiscal year 2014-15 in addition to receiving generous benefits.
  - ✓ It claimed over $660 million in savings or new revenue from its Working Smarter Initiative projects yet could not substantiate these amounts.
  - ✓ It increased recruiting expenses for nonresidents by 400 percent over the last five years.
  - ✓ It does not adequately track and monitor campuses' spending of state funds or nonresident tuition revenue.

KEY RECOMMENDATIONS

We recommended that the Legislature consider limiting the number of nonresidents that the university can enroll. We also made numerous recommendations to the university, including that it perform the following:

- Revise its admissions standard for nonresidents to admit only nonresidents with admissions credentials that place them in the upper half of the residents it admits.
- Improve internal operations, promote savings related to employee costs, and monitor campus spending.
- Maximize savings and new revenue from its initiatives and mandate that campuses participate in the initiatives.

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