

**UNIVERSITY OF CALIFORNIA, DAVIS
AUDIT AND MANAGEMENT ADVISORY SERVICES**

**Student Fee Review
Audit and Management Advisory Services Project #17-54**

September 2017

Fieldwork Performed by:

Sherrill Jenkins, Principal Auditor
Lisa M. Montesanto, Senior Auditor

Reviewed by:

Tony Firpo, Interim Associate Director

Approved by:

Leslyn Kraus, Director

MANAGEMENT SUMMARY

At the request of the Interim Chancellor, Audit and Management Advisory Services (AMAS) conducted a review to assess whether certain student fees have been governed in accordance with University of California Office of the President (UCOP) guidance and the referenda under which they were established, as applicable.

Our review focused on the four largest fees. The fees are listed below, along with the revenues received for each in the fiscal year (FY) ended June 30, 2016. Total revenues for these fees in that year were approximately \$74 million.

Student Services Fee (SSF)	\$ 31.1 million
Campus Expansion Initiative (CEI)	\$ 17.5 million
Facilities and Campus Enhancements (FACE)	\$ 14.7 million
Student Activities & Services Initiative (SASI)	\$ 10.2 million

Following is a brief summary of each fee:

- **SSF:** The SSF is assessed in the same amount to all UC students to support services and programs that directly benefit students and that are complementary to, but not a part of, the core instructional program.
- **CEI:** The CEI was approved in 2003 to construct and maintain a new Student Health Center; a new Student Community Center; an upgrade to Unitrans; and an expansion of the ASUCD Coffee House. CEI referenda also created scholarship funding for NCAA Division I Intercollegiate Athletics; operating support for Sports Clubs and Intramural Sports Programs; and a Return-to-aid component.
- **FACE:** FACE was approved in 1999 to contribute to the construction of Aggie Stadium and to fund construction of the new Activities and Recreation Center and the Schaal Aquatic Center. FACE also funded improvements to the existing Recreation Center and the Equestrian Center, support for Sports Clubs and Intramural Sports Program; and a Return-to-aid component.
- **SASI:** SASI was approved in 1993 and 1994 to provide operating support for: Intercollegiate Athletics; Recreational programs including Intramural Sports Programs and the Equestrian Center; the Cross Cultural Center; and the Women's Resources and Research Center.

A schedule of the sources and uses for each of these student fees has been included as Appendix A.

Per the Chancellor's request, our objective was to assess:

- A. Campus management and authority over these fees, including allocation provisions;
- B. Appropriate accumulation and spending of reserves;
- C. Appropriate expenditure of these funds;
- D. Application of inflationary increases to the fees; and
- E. Allocation of return-to-aid provisions.

To complete our assessment, AMAS examined the UCOP and campus policies and guidelines governing these fees. We reviewed the referenda and supporting documentation. We assessed the role of the student-led Council on Student Affairs and Fees (COSAF) in advising the Vice Chancellor for Student Affairs regarding these fees. We analyzed general ledger data for the five FYs ending June 30, 2012-2016 and reviewed other relevant information. We also interviewed Student Affairs and other campus personnel. Finally, we revisited AMAS audit project/report #14-48, *Student Affairs Administrative Review*, because several of the issues addressed in the #14-48 report remain relevant in 2017, particularly the accumulation of carryforward funds and the role of the COSAF.

Conclusions

Over the years, these fees have financed the construction of facilities and supported many programs that have enriched the quality of the student experience for UC Davis students. The fees have also funded financial aid for students.

With minor exceptions, our high-level review of expenditures determined that funds have been expended appropriately according to the policies, guidelines, and referenda governing the fees. We also found that the inflationary increases applied to the fees have been calculated correctly, again with only minor exceptions. Additionally, we found that return-to-aid provisions have been allocated correctly.

We observed that the governance and management structure for the oversight of these fees could be strengthened, particularly with respect to the role of the COSAF and ensuring separation of responsibility for allocation of funds and expenditure of funds.

The COSAF's SSF reporting procedures could be enhanced to better fulfill the university's transparency initiatives. UC Davis can further improve transparency by establishing processes for addressing instances where interpretations and decisions made by staff, COSAF, or counsel regarding the use of student fees when referenda or policy guidelines are not explicit.

Finally, we observed that the campus has no policy or guidelines for the management of accumulated reserves for student fees or comprehensive, long-term plans for the expenditure of those reserves. We also noted that, to be compliant with SASI reserve guidelines, Intercollegiate Athletics would need to establish an operating reserve of \$275,000.

Our detailed observations and recommendations for each assessment topic A-E are presented below along with corresponding management corrective actions.

OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT CORRECTIVE ACTIONS

A. Campus Management and Authority

Following is a summary of the governance and funds management structure for each fee:

Student Services Fee (SSF)

Regents Policy 3101: *The University of California Student Tuition and Fee Policy*, provides the policy guidance for the SSF, as follows: “At each campus, the Chancellor or his/her designee shall solicit and actively consider student recommendations, with the intent of honoring as much as possible student recommendations on ... the use of Student Services Fee revenue.”

In 2010, UCOP established “Guidelines for Implementing the Student Services Fee Portion of *The University of California Student Fee Policy*” (*Guidelines*). The intent of these *Guidelines* is to ensure the effective and appropriate use of the SSF and to ensure appropriate student input and oversight. The *Guidelines* state that they “are intended to be sufficiently flexible and allow for exceptions at the campus level, based on recommendations made by the local Student Fee Advisory Committee and approved by the Chancellor.”

At UC Davis, the Vice Chancellor for Student Affairs manages and allocates the SSF funds, and the Council on Student Affairs and Fees (COSAF) functions as the Student Fee Advisory Committee required by the Regents Policy and the Guidelines. The COSAF is one of 14 UC Davis Administrative Advisory Committees established to advise the Chancellor.

Campus-based fees – CEI, FACE, and SASI

Each of the campus based fees covered within our review includes a stipulation that a committee be established to act in an oversight and advisory role to the Vice Chancellor for Student Affairs. Through the years, the formation and names of these various committees have evolved; currently, the COSAF is functioning in this capacity for the campus-based fees included within our review.

CEI and FACE revenues are administered by Student Affairs and distributed to the various units, facilities, centers, and programs funded by the referenda in accordance with the formulas included in the referenda. SASI revenues are administered by Student Affairs and distributed to the various centers and programs funded by the referenda in accordance with the formulas included in the referenda.

Observations

Our assessment of the governance structure and current practices for the management of student fee revenue revealed the following:

1. The UC Davis governance structure over student fees can be strengthened.

COSAF Capacity and Qualifications

The COSAF acts as both the student fee advisory committee and the mandated oversight committee for most campus-based fees, and, as such, has many responsibilities. This student-led committee aims to meet twice a month during the academic terms and is charged with providing input on all of the following for the SSF and campus-based fees:

- Allocation of approximately \$74 million in FY16 combined revenues for the SSF and campus-based fee funds we reviewed.
- Understanding of the nuances of the university's budget climate, annual operating needs, long-term capital projects requirements, and debt service demands.
- Analysis of prudent reserve levels.

The task of reviewing annual budgets and planning for long term maintenance and debt service requirements for diverse business units is complex and demands sophisticated understanding of financial and business concepts. Campus executives and professionals with established careers in budget and finance face daily challenges surrounding the intricacies of the current university budget situation. AMAS questions whether the primarily undergraduate students serving time-limited terms on the COSAF have the expertise required to provide adequate oversight for the millions of student fee dollars for which that body is asked to consider.

2. Fund management for student fees should have greater segregation of duties and a multi-year budget plan.

Segregation of Duties

The majority of the student fee revenue that was subject to our review is expended by units under the management of Student Affairs. Student Affairs controls the allocation of much of the SSF revenues without significant input from the COSAF, and Student Affairs provides the primary administrative support to the COSAF. Although we identified no material actions or expenditures that were not in compliance with applicable university and campus policies and referenda during the course of our review¹, this governance structure could benefit from expanded segregation of duties.

Alternative Oversight Board Models

We compared the composition of the COSAF to the corresponding committees at UC Berkeley, UC San Diego, and UCLA and observed that the voting membership of the COSAF is not as broad-based as other campuses in terms of (a) faculty/staff involvement and (b) representation from divisions/units outside of Student Affairs.^{2,3}

¹ It should be noted that this was not a detailed review at the transaction level, but rather a high level review primarily observing the types of expenditures made as shown in Appendix A and confirming that they were allocated to the units as directed by the fee referenda.

² Per the *Guidelines*, student fee advisory committees should be comprised of a majority of students.

³ Membership statistics were obtained by AMAS from campus websites. Student Affairs conducted its own review by contacting personnel at all UC campuses. For Berkeley, San Diego, and Los Angeles, the information obtained by AMAS was consistent with that obtained by Student Affairs in all material respects.

	UC Student Fee Advisory Committee Membership			
	Davis	Berkeley	San Diego	Los Angeles
Students	14	10	11	8
Faculty/Staff	3	9	5	4
% Students	82%	53%	69%	67%
Students per Faculty/Staff	4.7	1.1	2.2	2
Executives outside Student Affairs	0	5	2	1

The COSAF also has nine non-voting staff members, seven of whom are associated with units within Student Affairs.

Multi-Year Budget Plan

We did not identify multi-year budget plans that provide an overall context for these funds to enable: (a) continuity with COSAF; (b) focus on financial sustainability; and (c) engagement with units outside of Student Affairs that have student support responsibilities that might align with student fee revenues.

The campus budget process provides an alternative mechanism for fund management where BIA serves as the fund manager and the Provost and Chancellor have decision authority for allocation of funds. This is similar to other core funds such as indirect cost recovery, student tuition, state funds and interest earnings. Under a centralized fund management model, COSAF would continue to review the sources and uses of funds and provide recommendations regarding programmatic use of the funds. Student Affairs, in collaboration with COSAF and others, would identify priorities, manage current allocations, and, as needed, advance requests for additional funding. The units that receive the funds have responsibility for stewardship and adherence to policies regarding allowable uses and would be subject to review and oversight by COSAF.

3. COSAF and campus decision making and reporting procedures regarding student fees should be improved to support the University's public transparency initiatives.

Expenditure Reporting

The *Guidelines* recommend that the student fee advisory committee at each campus prepare an annual report of SSF expenditures. We reviewed the COSAF annual report of expenditures which was updated in December 2016 as well as the annual reports of some of the other UC campuses.

We observed that the UC Irvine presentation represents a best practice, as the Irvine report includes an eight-page detailed analysis of allocations, expenditures, and carryforward balances.

We noted several questionable presentations in the COSAF report including those listed below.

- The COSAF presentation does not specifically distinguish between student support programs and indirect costs as recommended by the *Guidelines*.
- The line item labeled “Student Affairs Officer (SAO) Support” of approximately \$1.5 million includes \$1.3 million (85%) of salary and benefit expenses of personnel in the immediate office of the Vice Chancellor of Student Affairs, such as the Vice Chancellor and several of her direct reports. These positions are distinct from SAO positions and therefore it would not appear appropriate to combine these expenses on a single line labeled SAO.
- Several different organizations are combined into single line items on the report and therefore do not explicitly match to the general ledger.

Finally, we learned that units within Student Affairs or Student Affairs and Budget and Institutional Analysis (BIA) may “swap” student fee funds for general funds. For example, the Student Disability Center (SDC) was initially allocated approximately \$700,000 in SSF funds. The SDC, Student Affairs, and BIA later arranged a fund swap resulting in SDC receiving \$700,000 in general funds. We identified approximately \$2.7 million in swaps of SSF/general funds in FY16. While such fund swaps do not violate university or campus policy, the allocation process is not transparent to the COSAF.

The minutes from the May 2016 COSAF meeting reflect the frustration of the student co-chair of the COSAF with the SSF funds allocation process: “I’m trying to understand who allocates what. The model seems to be problematic because we can’t check allocations, what they’re for, and how they are adjusted.” The minutes do not indicate that the student’s concerns were resolved satisfactorily.

Adequate Review and Documentation of Key Decisions

In the course of our review, we assessed instances where expenditures were made or other actions were taken that necessitated the use of judgement because referenda, policy, or other guidelines were unclear, silent, nonbinding, or otherwise subject to interpretation. More detail on our assessment of these instances can be found in Appendix B.

In none of these instances did we conclude that there has been an improper use of student fee revenues.

However, there are no processes in place to ensure an appropriate review when decisions like these must be made. Nor is there an adequate process in place to document for instance, a review and interpretation by legal counsel or a COSAF approval. COSAF minutes are an impractical means of recording key decisions. AMAS found no repository of staff or legal interpretations used to establish expenditure or other practices.

Recommendations

1. Senior campus leadership should consider expanding the voting membership of the COSAF and including knowledgeable personnel from campus constituencies in addition to Student Affairs.

2. COSAF reporting procedures for the SSF should be reevaluated. Reports of allocations and expenditures should be detailed and transparent enough for students to fulfill the responsibilities of the committee. UC Irvine's annual report on student fees should be considered as a model of best practice that could be tailored for UC Davis.
3. COSAF should establish formal procedures for documenting its approval actions. Key decisions such as those identified in Appendix B should be documented. A procedure to centrally document future campus interpretations and decisions regarding student fees should be established.
4. Senior campus leadership should consider managing student fee funds as part of the campus budget process similar to other core resources.

Management Corrective Actions

- a. By January 15, 2018, senior campus leadership will consider expanding the voting membership of the COSAF.
- b. By January 15, 2018, senior campus leadership will evaluate the COSAF reporting procedures for Student Services fees.
- c. By January 15, 2018, the COSAF will establish formal procedures for documenting its actions.
- d. Effective for the 2018-19 budget, student fee funds will be included in the campus budget process similar to other core funds (e.g., state general funds, tuition, indirect cost recovery, and interest earnings). The annual budget framework will include planning information about student fee funds and guidelines about budget changes for student fee funds that will be considered in the spring budget meetings, and will be drafted and distributed by May 15, 2018. COSAF will be consulted about this aspect of the budget framework during the winter quarter and should provide input about priorities and principles for allocations early in the spring quarter (no later than March 15, 2018).

B. Assessing Accumulation and Spending of Reserves

1. **The campus could benefit from a policy or guidelines addressing reserves on student fee funds. Regular planning should take place to analyze and document reserve needs for units and facilities supported by student fees.**

We noted that the terms “reserve” and “carryforward funds” are used interchangeably in documentation and analysis of student fees. In this B.1 observation, we will use the term “carryforward funds.”

The chart below presents the five-year trend in carryforward funds for each of the four fees included within the scope of our review. The total of \$38 million in carryforward

funds at June 30, 2016 represents approximately 50% of the annual revenues for these four fund sources. These funds are reviewed by BIA on an annual basis.

Carryforward Funds					
In \$1,000s					
Fee	FY 12	FY 13	FY 14	FY 15	FY 16
SSF	\$ 17,530	\$ 17,428	\$ 14,151	\$ 15,026	\$ 12,328
CEI	12,816	17,227	21,053	19,270	18,281
FACE	17,824	19,850	4,473	5,316	7,209
SASI	551	349	407	268	218
Total	\$ 48,720	\$ 54,854	\$ 40,085	\$ 39,880	\$ 38,037

The SSF *Guidelines* and the FACE and CEI referenda do not include any direction regarding carryforward funds.

Carryforward funds have been a focal point for campus management for many years. BIA issued its first white paper on carryforward funds in 2013 stating: “The management of funds at UC Davis is decentralized and there is no uniform policy or guideline regarding the accumulation and management of carryforward funds.” As we noted in our 14-48 report, “Campus leadership at all levels has been aware of the increasing carryforward funds associated with referendum-based fees and has been partnering with Student Affairs to develop plans for managing and spending the reserves to meet Student Affairs’ programmatic and capital project objectives.”

To date, no policies or guidelines have been developed by the campus or the COSAF. Long-term campus planning and forecasting for operational needs, maintenance requirements, debt service, and facility replacements is complex and could benefit from the development of a policy or guidelines on carryforward funds.⁴

AMAS was unable to obtain any centrally reviewed or documented plans for the use of student fee carryforward funds. We did observe, however, that certain individual units had prepared plans for expending their carryforward funds. For example, Student Affairs staff has prepared detailed forecasts of the CEI cash flows required to meet debt service for the Student Health Center. Also, Student Affairs staff stated that units that receive campus based fee funds may have prepared needs requirements and planned uses for their carryforward funds, although Student Affairs does not review or maintain records of these plans.

In FY18, units will be asked for the first time to provide a summary of planned uses for carryforward funds; these will be presented to COSAF and unit personnel will be required to be available to answer questions from that body.

At this time, there is no comprehensive plan in place, nor have expected student fee revenue streams been assessed to determine if they will be adequate to meet anticipated needs or conversely, if they will generate excess carryforward funds.

⁴ Additionally, the term “reserve” should be clarified and distinguished from “carryforward funds” as necessary depending on circumstances.

2. The campus is not in compliance with the SASI reserve guidelines.

In 1996 the oversight board that preceded COSAF mandated that each program's operating reserve should be no lower than 3% of the total SASI fee allocation. Three of the four units supported by SASI funds are out of compliance with this guideline. As of the close of FY16, Intercollegiate Athletics (ICA) would need to establish a reserve of approximately \$275,000 to be in compliance. The other two units would each need to establish reserves of \$2,254.

Recommendations

Senior campus leadership and key stakeholders in consultation with the COSAF should establish a policy or guidelines for carryforward funds for student fees. Such a policy/guidelines should include the requirement that regular planning take place to analyze and document needs. At a minimum, policy/guidelines should require that plans address debt service requirements and long-term maintenance for capital assets constructed with student fees.

A satisfactory policy/guidelines would also outline a process to evaluate whether student fees should be adjusted upward/downward via referenda to avoid the accumulation of excess carryforward funds to meet carryforward fund requirements.

The COSAF should be informed that ICA and two other SASI supported units are not in compliance with the SASI reserve requirements so that COSAF can determine whether funds should be reserved. In making this determination, ICA's overall financial situation should be considered.

Management Corrective Actions

- a. Senior campus leadership and key stakeholders will develop a multi-year plan that addresses long-term maintenance, debt service, reserve requirements for all units, and other strategic uses for student fees. A report based on this multi-year plan will be presented to the COSAF by July 15, 2018.
- b. Campus leadership and key stakeholders in consultation with the COSAF will consider whether establishing a policy or guidelines for carryforward funds for student fees is warranted by July 15, 2018.

C. Expenditures of Funds

In the course of our high level review of student fee expenditures made in the FYs 2012-2016, we discovered only relatively immaterial uses of student fee revenues for SSF, CEI, FACE, or SASI fees that were not in compliance with applicable university and campus policies and referenda. As noted in Section A above, we assessed the appropriateness of certain expenditures in instances where referenda or other guidelines allowed for flexibility or interpretation. These are described in more detail in Appendix B.

Recommendations

See recommendations 2 and 3 under Observation A above regarding expenditure reporting and the review and documentation of key decisions.

D. Inflationary Adjustments

Campus-based fees are subject to inflationary adjustments based on the Consumer Price Index (CPI). The campus does not control increases to the SSF; these are managed by UCOP.

We assessed the manner in which inflationary increases are being applied to campus-based fees and found that they were generally calculated properly with minor, immaterial exceptions.

We noted that prior to the commencement of our review, the campus identified a misinterpretation by COSAF with respect to the CPI applied to SASI. The SASI referendum states, "All fees **will** be adjusted upward or downward annually" Historically the COSAF and legacy committees had voted annually on whether to apply the SASI adjustment. It is now being applied annually per the referenda. The provisions within the CEI and FACE referenda stipulate that the fees **may** be adjusted annually. These are therefore adjusted as deemed appropriate after review by the COSAF and approval by the Chancellor.

Recommendations

No recommendations or management corrective actions are considered necessary.

E. Return to Aid

We reviewed general ledger detail, compared this to referenda provisions for return-to-aid, and concluded that return-to-aid is being allocated as required for SSF, FACE, and CEI. As noted above in Section A, SASI does not include a return-to-aid provision since it predates the UC requirement that all referenda-based fees include a return-to-aid provision.

Our scope was limited such that we did not review Financial Aid and Scholarships (FAS) office or graduate programs and professional schools procedures for ensuring that scholarship funds be provided first to the students in greatest need per FACE and CEI referenda. Likewise, we did not review the methodology or actual data that would show how CEI funds are awarded for Division I Athletic scholarships (\$6 million in FY ending June 30, 2016).

Recommendations

No recommendations or management corrective actions are considered necessary.

APPENDIX A – SOURCES AND USES
Page 1 – SSF and CEI

In \$1,000s					
SSF	2012	2013	2014	2015	2016
Sources					
Carryforward	19,255	17,530	17,428	14,151	15,026
July 1 Base Budget	-	(28)	(28)	-	-
Current Year Adjustments	(1,790)	(26)	(1,850)	(106)	(135)
Income	27,140	27,852	28,575	29,717	31,127
Recharge	47	(3,092)	(2,971)	(3,148)	(3,190)
Total Sources	44,653	42,236	41,153	40,614	42,828
Uses					
Salaries and Benefits	20,655	20,334	22,407	20,264	23,157
Supplies and Expense	3	84	69	75	33
Equipment	-	61	64	22	80
Travel and Entertainment	52	85	84	202	174
Scholarships	571	640	913	983	2,194
Total Uses	27,123	24,808	27,002	25,588	30,499
Fund Balance Available	17,530	17,428	14,151	15,026	12,328
CEI	2012	2013	2014	2015	2016
Sources					
Carryforward	9,590	12,816	17,227	21,053	19,270
July 1 Base Budget	-	-	-	-	-
Current Year Adjustments	(3,040)	(1,505)	(2,943)	(2,221)	(3,963)
Income	15,332	15,900	16,517	17,230	17,524
Recharge	-	-	-	-	-
Total Sources	21,882	27,210	30,801	36,062	32,831
Uses					
Salaries and Benefits	480	546	717	4,406	2,934
Supplies and Expense	678	226	286	1,966	1,542
Equipment	-	238	39	392	156
Travel and Entertainment	8	9	13	15	30
Scholarships	7,900	8,965	8,692	10,014	9,889
Total Uses	9,066	9,984	9,748	16,793	14,550
Fund Balance Available	12,816	17,227	21,053	19,270	18,281

APPENDIX A – SOURCES AND USES
Page 2 – FACE and SASI

In \$1,000s					
FACE	2012	2013	2014	2015	2016
Sources					
Carryforward	16,929	17,824	19,850	4,473	5,316
July 1 Base Budget	-	-	-	-	-
Current Year Adjustments	(5,776)	(3,421)	(21,024)	(3,990)	(4,225)
Income	13,187	13,452	13,733	14,272	14,733
Recharge	-	-	-	-	-
Total Sources	24,341	27,855	12,559	14,755	15,825
Uses					
Salaries and Benefits	1,822	2,037	2,657	3,019	2,962
Supplies and Expense	3,030	3,602	2,955	4,373	3,184
Equipment	130	251	58	355	23
Travel and Entertainment	44	11	18	10	17
Scholarships	1,491	2,103	2,397	1,681	2,430
Uses Total	6,517	8,005	8,085	9,439	8,616
Fund Balance Available	17,824	19,850	4,473	5,316	7,209
SASI	2012	2013	2014	2015	2016
Sources					
Carryforward	691	551	349	407	268
July 1 Base Budget	-	-	-	-	-
Current Year Adjustments	(250)	(0)	(200)	(100)	9
Income	8,692	9,124	9,586	10,021	10,200
Recharge	-	-	-	-	-
Total Sources	9,133	9,674	9,735	10,328	10,477
Uses					
Salaries and Benefits	5,217	5,663	5,531	6,172	6,107
Supplies and Expense	1,806	2,272	2,457	2,542	2,258
Equipment	-	-	-	12	10
Travel and Entertainment	1,559	1,390	1,340	1,334	1,884
Scholarships	-	-	-	-	1
Uses Total	8,582	9,325	9,328	10,060	10,259
Fund Balance Available	551	349	407	268	218

APPENDIX B – Detailed Discussion of Expenditures

In the course of our review, we assessed instances where expenditures were made or other actions were taken that necessitated the use of judgement because referenda, policy, or other guidelines were unclear, silent, nonbinding, or otherwise subject to interpretation. These are described in detail below along with our assessment to conclude that we have observed no material inappropriate use of student fee revenues.

SSF

Expenditures without Direct Student Benefit

The *Guidelines* list 14 types of programs (e.g., Admissions, Financial Aid Office, and Intercollegiate Athletics) which per the *Guidelines* should not be the “primary focus” of SSF revenue. The *Guidelines* further state that “this does not preclude some Student Service Fee revenue from being used for these areas.”

UC Davis has historically and continues to use SSF revenues for many of these 14 programs. In FY16, approximately \$7.4 million (23% of the total revenues) of SSF revenues were spent on these 14 programs, an increase of 9% from the FY12 expenditures of \$6.8 million on these 14 programs.

We have concluded that because only 23% of the revenues were spent on these programs, the campus is in compliance with the “should not be the primary focus” qualification included within the *Guidelines*.

Expenditures in Support of Research

The *University of California Student Fee Policy* requires that SSF revenue “shall be used to support services and programs that directly benefit students and that are complementary to, but not a part of, the core instructional program.” We identified two SSF accounts with research expenditures of approximately \$60,000 in total. Given the immaterial amount as a percentage of all SSF expenditures, we did not pursue an explanation for these charges in this high level review.

CEI

Use of Fees for Operating Expenses and Additional Projects Not Specifically Named in the Initiative

As described in our Management Summary, the CEI was approved in 2003 for the new construction or renovation as well as maintenance of several facilities, scholarship funding for NCAA Division I Intercollegiate Athletics; operating support for Sports Clubs and Intramural Sports Programs; and return-to-aid. The only operating support specifically identified in the referenda was for sports programs, but the initiative provisions included the following paragraph:

Uncommitted Funds – Should project costs be less than projected, any uncommitted fee proceeds derived from undergraduate or graduate fees may be directed to capital projects, aid awards, program budget, or operating costs of any projects within this Initiative. These reallocations will be made with the approval of the Oversight Committee and the Vice Chancellor-Student Affairs. Any uncommitted fee proceeds derived from the Law students will be redirected to the medical equipment budget of the Student Health Center.

We sought the advice of Campus Counsel in conducting our previous student fee review (AMAS project #14-48). Counsel's opinion then was that repurposing CEI funds for expenditures not specifically named in the referenda was legal due to the uncommitted funds provision. This would include current revenues and accumulated balances.

General ledger data show an increase in the use of CEI funds to pay for operating expenses including salaries and benefits for the Student Health Center and other units besides sports clubs and intramural sports in FY15. In FY16, for the Student Health Center, the Student Community Center, and the Coffeehouse, CEI revenues funded salaries/benefits and operating expenses of approximately \$3.5 million, approximately 19% of total CEI revenues for FY16.

Student Affairs has planned a \$2.5 million renovation project to the Student Health and Wellness Center that was not specifically named in the referenda. Per Counsel's interpretation of the CEI referenda above, these expenditures would be considered allowable.

Operating budgets and actual spending as described have been reviewed by COSAF and approved by the Vice Chancellor-Student Affairs per the uncommitted funds provision.

FACE

We identified a "FACE/LEEAP Statement of Principles" (Principles) on the COSAF website⁵. Although this document appears to clarify the vague language of the referendum by providing examples of "appropriate" and "not appropriate" use of these funds, we noted the following issue with the Principles:

- The closing statement creates ambiguity and at the same time provides for flexibility: "The definition of costs that are appropriate for FACE/LEEAP funding may change over time as usage and maintenance patterns develop over time. Any revisions proposed for the use of the referendum funds would require review and approval by the FACE/LEEAP Oversight Committee [now COSAF]."

In FY16, FACE revenues funded operating expenses of approximately \$500,000 (3% of total FACE revenues) that correspond to categories that the Principles state "may not be appropriate," notwithstanding the bullet point regarding appropriate costs changing over time. These costs include primarily payroll expenses, such as those associated with ticket office personnel working at Aggie Stadium.

The use of the words "may" and "may not" throughout the Principles leaves open to interpretation whether or not such expenditures should be considered prohibited. Therefore, we have not concluded that this spending was improper.

⁵ http://cosaf.ucdavis.edu/resources/archive/2015-16_meeting_resources.html- FACE/LEEAP Statement of Principles (1-22-16 meeting)