



California State University

Stronger Oversight Is Needed for Hiring and
Compensating Management Personnel and for
Monitoring Campus Budgets

Report 2016-122

COMMITMENT
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April 20, 2017

2016-122

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 levels of growth in the number of California State University (CSU) management personnel, the oversight and accountability of CSU's budget, and increases in the compensation of CSU executives. CSU's workforce includes different categories of employees, including 30 executives, nearly 4,000 management personnel, about 21,400 faculty, and nearly 26,900 nonfaculty support staff. This report concludes that growth in the number and compensation of management personnel significantly outpaced those of other employee types, including nonfaculty support staff. Specifically, from fiscal years 2007–08 through 2015–16, the growth rate was 15 percent (503 employees) for full-time equivalent (FTE) management personnel, whereas the growth rate for FTE nonfaculty support staff was only 6 percent (1,514 employees) and for FTE faculty was only 7 percent (1,328 employees). We also found that the six campuses we visited frequently could not justify the growth in the number of new management personnel and one campus granted raises to management personnel that were not supported by current written performance appraisals, as required by CSU policy. Specifically, California Polytechnic State University, San Luis Obispo, increased the pay for at least 70 management personnel in 2016 who either had no written performance evaluations on file or who had outdated evaluations on file.

We also observed that campuses did not have written policies regarding the periodic comparison of spending levels to budget limits and most campuses did not retain documentation demonstrating that they consistently performed such reviews. Because of the absence of policies and the general lack of documentation for these reviews, we question whether CSU's budget monitoring provides sufficient assurance that campuses actually adhere to their spending plans. Although we did not identify instances of a campus 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.

Finally, current CSU policy does not cap relocation reimbursements, which since 2008 allowed 10 of the 27 CSU executives who claimed reimbursement for relocation and home sale expenses to each receive more than \$25,000. We also noted one instance of a campus not following CSU's relocation policy and one campus not following its own policy, which leaves campuses at risk of paying questionable moving and relocation reimbursements.

Respectfully submitted,



ELAINE M. HOWLE, CPA
State Auditor

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CONTENTS

Summary	1
Introduction	5
Staffing Levels and Compensation for CSU Management Personnel Have Increased at a Faster Rate Than for Other Employee Groups	11
Campuses Do Not Adequately Oversee Their Budgets	27
CSU Has Recently Granted Minimal Raises to Its Executives, but Board Policy Does Not Cap Reimbursements of Relocation Costs	35
Other Areas We Reviewed	45
Scope and Methodology	49
Response to the Audit	
California State University	53
California State Auditor's Comments on the Response From the California State University	59

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SUMMARY

The California State University (CSU) is a system of 23 campuses throughout the State and is governed by a 25-member Board of Trustees (board). The CSU's executive officer is the chancellor. In addition to faculty members who teach students and conduct research, CSU employs executive and management personnel and nonfaculty support staff such as payroll technicians, cooks, parking officers, and student workers. For this audit, we reviewed CSU's hiring and compensation of management personnel, its compensation of CSU executives, and its budget oversight. This report concludes the following:

Staffing levels and compensation for CSU management personnel have increased at a faster rate than for other employee groups.

Page 11

From fiscal years 2007–08 through 2015–16, management personnel were added at a rate that exceeded the growth rate of other employee groups, including nonfaculty support staff, and the campuses we visited frequently could not adequately justify the number of new management personnel they hired. In addition, at one campus at least 70 management personnel received raises totaling more than \$175,000 annually and were not supported by current written performance evaluations, and another campus improperly classified eight assistant coaches as management personnel to increase their salaries.

Campuses do not adequately oversee their budgets.

Page 27

The CSU Office of the Chancellor (Chancellor's Office) delegates near complete budget responsibility and authority to the CSU campuses. However, many campuses cannot demonstrate that they are adequately monitoring their budgets. Despite campus officials asserting that their central budget offices follow informal policies to review division and department budgets periodically, four of the six campuses we visited do not document the results of their reviews. Also, state law exempts CSU from many budget oversight mechanisms applicable to other state agencies and requires CSU to periodically submit certain reports to the Legislature regarding its performance. However, none of the reports we examined require CSU to specify how it used state appropriations to improve student success.

CSU has recently granted minimal raises to its executives, but board policy does not cap reimbursements of relocation costs.

The board has followed its policies when setting executive compensation; generally, the executive salaries we reviewed changed only when a position turned over or when the board approved an increase to match increases given to most other CSU employees. However, CSU's generous relocation policy does not cap the reimbursements available to CSU employees, and several newly appointed CSU executives and some campus nonexecutives received relatively large amounts for relocation and home sale expenses. Furthermore, although current board policy does not specifically authorize the use of campus foundation funds to augment the salaries of incoming campus presidents, it also does not prohibit such use. Foundation salary augmentations paid to campus presidents who sit on foundation boards could create the appearance of a conflict of interest. We also noted one campus whose relocation reimbursement practices do not comply with CSU policy and another campus whose practices did not meet its own policy.

In addition, we reviewed CSU's contracting with an external auditor and found that its practices complied with applicable requirements. We also reviewed CSU's implementation of recommendations from our 2007 audit report concerning employment compensation and found that CSU fully implemented only one of our six prior recommendations. We have made related recommendations in the Other Areas We Reviewed section of this report beginning on page 45.

Summary of Recommendations

Legislature

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.

CSU Chancellor's Office

The Chancellor's Office should require its own divisions and departments and the campuses to prepare and maintain written justifications for any proposed new management positions. In addition, it should ensure that its own divisions and departments and campuses create, implement, and adhere to a written merit evaluation plan for management personnel as state regulations require, and should work with relevant stakeholders to come to an agreement on the appropriate classification of assistant coaches. It should also require campuses to develop and implement budget oversight policies that define the minimum level of reviews that budget managers are required to perform, including the periodic comparison of budget to actual spending levels.

Finally, the Chancellor's Office should work with the board to develop, approve, and implement an executive compensation policy that expressly prohibits the use of foundation funds to pay campus presidents. It should also establish caps on the relocation reimbursements it pays to CSU executives and require campuses to establish similar caps for their nonexecutive staff, and it should follow up with campuses to ensure that they sufficiently adhere to CSU policies addressing relocation reimbursements.

Agency Comments

The chancellor states that CSU will take various actions in response to the recommendations we made. In many instances, however, those actions do not fully address our recommendations. Please see CSU's response beginning on page 53 and our comments to its response beginning on page 59.

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INTRODUCTION

Background

The mission of the California State University (CSU) includes advancing and extending knowledge, learning, and culture throughout the State and providing opportunities for individuals to develop intellectually, personally, and professionally by offering bachelor's and advanced degrees. With approximately 474,600 students and more than 49,000 faculty and staff at 23 campuses, CSU is the nation's largest system of public higher education. We visited the CSU Office of the Chancellor (Chancellor's Office) and six campuses as part of this audit: California State University, Fullerton (CSU Fullerton); California State University, Los Angeles (Cal State LA); San Diego State University (San Diego State); San Francisco State University (San Francisco State); California Polytechnic State University, San Luis Obispo (Cal Poly San Luis Obispo); and Sonoma State University (Sonoma State).

CSU Organization and Staffing

CSU is governed by its 25-member Board of Trustees (board). The board adopts rules, regulations, and policies for the university system and has authority over curriculum development, use of property, development of facilities, and management of fiscal and human resources. The Governor, Lieutenant Governor, speaker of the Assembly, state superintendent of public instruction, and chancellor of the university are ex-officio trustees. CSU's Alumni Council appoints an alumni trustee, and the Governor appoints the remaining 19 trustees, including a faculty trustee and two student trustees. The board meets six times a year, and its meetings provide an opportunity for communication among the trustees, chancellor, campus presidents, executive committee members of the statewide Academic Senate, representatives of the California State Student Association, and officers of the statewide Alumni Council. Meetings are open to public participation.

CSU Executives

Thirty executives serve the university system. The chief executive officer is the chancellor, who is appointed by and reports to the board. The chancellor is advised by the Executive Council, which is composed of the 23 campus presidents. The chancellor is responsible for leading the university system, helping campuses carry out CSU's mission, coordinating systemwide functions, and representing the university system to state and national policy makers.

The chancellor also appoints three executive vice chancellors and two vice chancellors. CSU established a third vice chancellor position in February 2014: the vice chancellor and chief audit officer position, which reports directly to the board. Together, the chancellor, executive vice chancellors, vice chancellors, and senior staff coordinate systemwide efforts in areas such as academic affairs, business affairs, technology, physical plant development, employee relations, state and federal governmental affairs, legal affairs, audit and advisory services, and university advancement and communications.

Campus presidents serve as chief executive officers of their respective campus and are the primary liaisons between campuses and surrounding communities. Presidents report to the chancellor and are responsible for managing campus operations, planning for future needs, fundraising, setting campus priorities, and overseeing the hiring of faculty and staff.

CSU Employees

CSU's workforce includes several types of employees needed to operate the campuses. These employee groups are as follows:

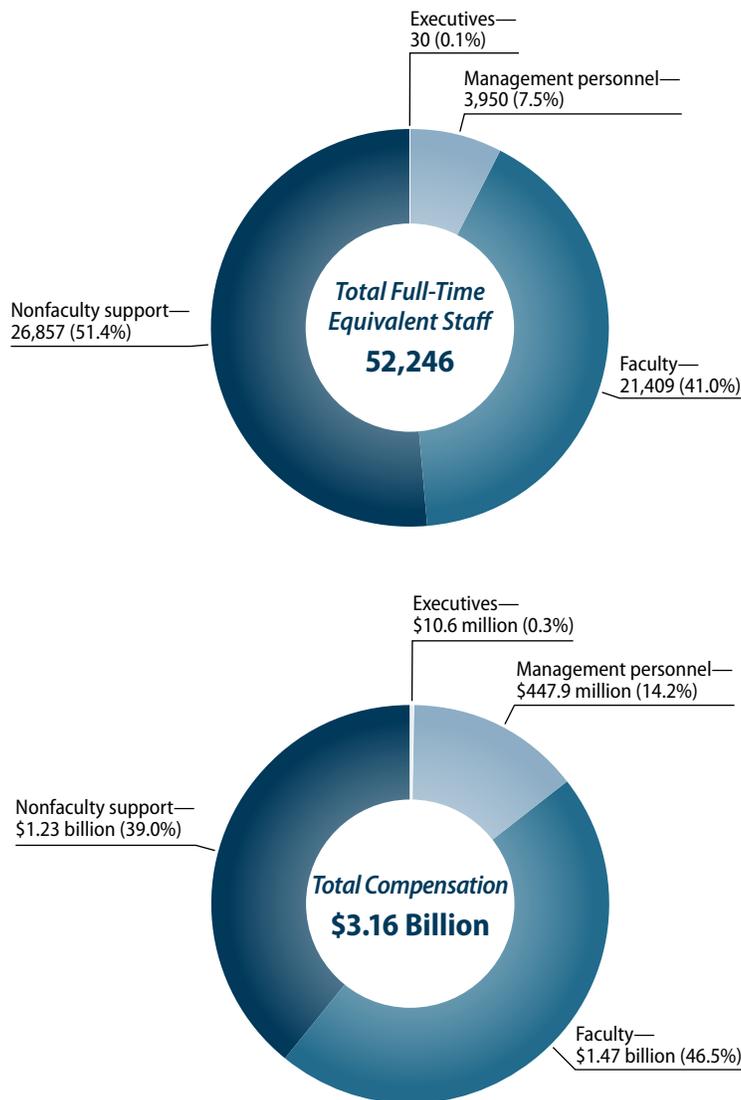
- *Management Personnel Plan* (management personnel) includes administrators, supervisors, and professional staff. Management personnel serve under the chancellor or a campus president and include positions such as vice presidents, deans, and supervisors. It also includes head coaches who supervise two or more members of the faculty bargaining unit.
- *Faculty* includes tenured and tenure-track faculty (for example, professors, associate professors, and assistant professors) and other faculty (such as instructors, lecturers, and librarians). Faculty also includes athletic coaches.
- *Other employees* includes a wide range of positions such as payroll technicians, cooks, parking officers, and student workers. We refer to these positions as *nonfaculty support staff*.

Figure 1 depicts the number and compensation of executives, management personnel, faculty, and nonfaculty support staff in fiscal year 2015–16.

CSU categorizes its management personnel in two ways: by classification levels and by job categories. Its classification levels establish four broad salary ranges, and CSU uses this classification system to comply with federal and state reporting requirements as well as to address campus and systemwide reporting needs. Hiring authorities at the Chancellor's Office and campuses categorize

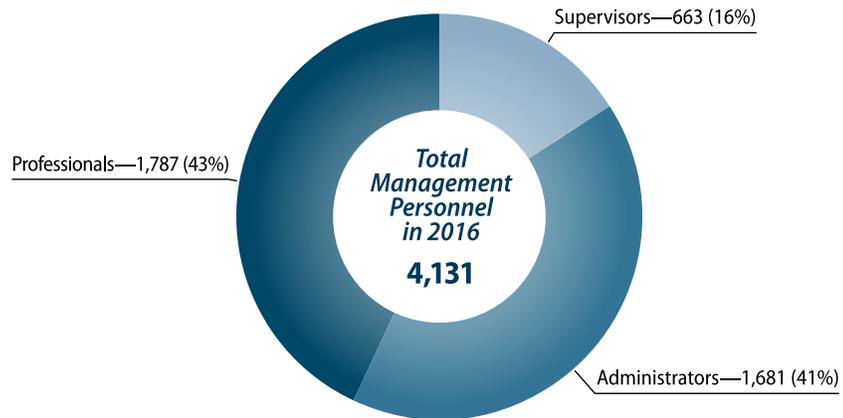
each management employee as an *administrator, supervisor, or professional* based on the responsibilities to be performed. For example, CSU might classify a dean (a position title in the administrator job category) as an administrator III, earning a salary between \$4,948 and \$13,743 per month. Administrators and professionals made up more than 80 percent of all management personnel in 2016, as shown in Figure 2 on the following page.

Figure 1
Employee Groups Vary in Their Size and Total Compensation
 Fiscal Year 2015–16



Source: California State Auditor’s analysis of California State University payroll data as maintained in the State Controller’s Office’s Uniform State Payroll System.

Figure 2
Administrators and Professionals Comprised More Than 80 Percent of Management Personnel in 2016



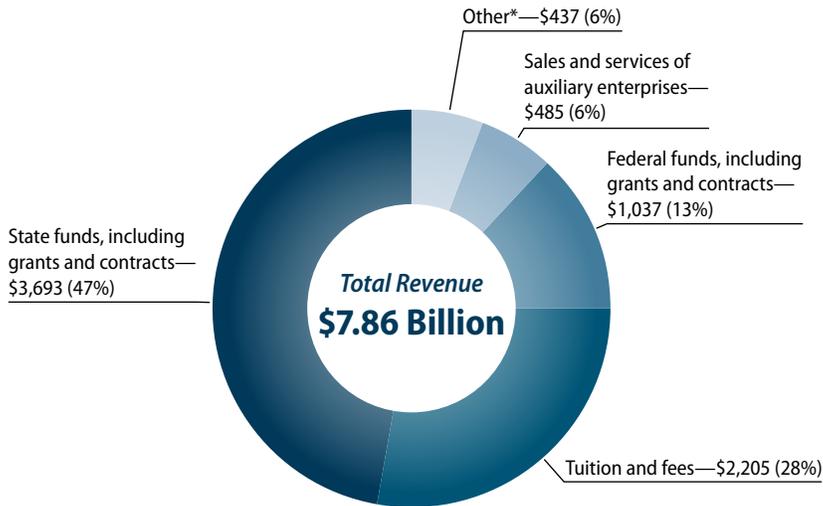
Sources: California State Auditor's analysis of an unaudited report from the Personnel/Payroll Information Management System provided by California State University's vice chancellor of human resources.

CSU Funding

CSU's funding includes key sources such as state appropriations, student tuition and fees, grants and gifts, sales and services relating to educational activities and auxiliary enterprises, and investment income. Figure 3 summarizes the amounts and proportions of CSU's key funding sources for fiscal year 2015–16.

According to CSU, it practices incremental budgeting, in which year-to-year changes in campus operating budgets result from increases or decreases in funding that the State authorizes. Appropriations from the State's General Fund flow from the State to the university; the Chancellor's Office then allocates funds to the campuses, which in turn allocate funds to their divisions and departments.

Figure 3
California State University Had Five Key Revenue Sources in
Fiscal Year 2015–16 (In Millions)



Source: California State University's (CSU) audited financial statements, fiscal year 2015–16.

* The *Other* category consists of other revenues, gifts, investment income, sales and services of educational activities, nongovernmental and other financial aid grants, nongovernmental grants and contracts, local grants and contracts, local financial aid grants, and endowment income.

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Staffing Levels and Compensation for CSU Management Personnel Have Increased at a Faster Rate Than for Other Employee Groups

Key Points:

- Growth in the number and compensation of management personnel has significantly outpaced that of other types of employees, including nonfaculty support staff.¹
- The campuses we visited frequently could not adequately justify the growth in the number of new management personnel.
- Cal Poly San Luis Obispo granted raises to management personnel that were not supported by current written performance evaluations.
- San Diego State did not comply with a collective bargaining agreement when it reclassified some assistant coaches as management personnel solely to increase their pay.

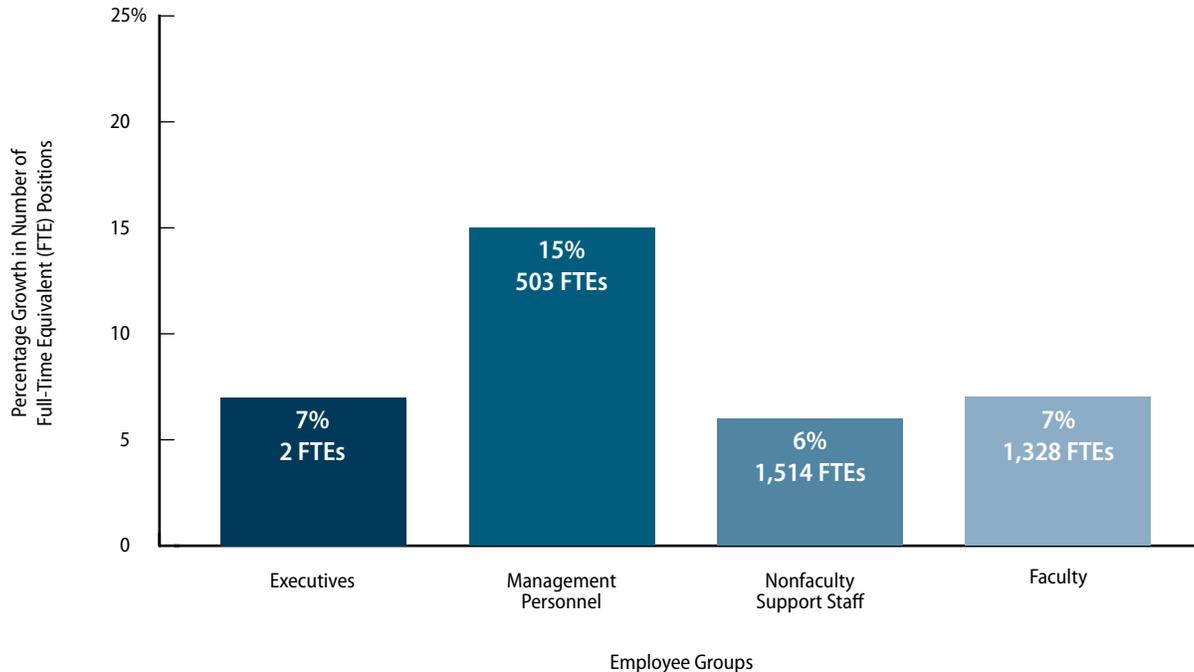
Growth in the Number and Compensation of Management Personnel Has Outpaced That of Other Groups

As Figure 1 in the Introduction shows, management personnel accounted for only 7.5 percent of CSU's full-time equivalent (FTE) staff but represented 14.2 percent of its total compensation costs in fiscal year 2015–16. We analyzed CSU payroll data as maintained in the Uniform State Payroll System of the State Controller's Office (SCO) for the nine fiscal years from 2007–08 through 2015–16 and found that management personnel were added at a rate that far exceeded the growth rates for other types of employees.

The total number of CSU employees grew by 6.8 percent, or 3,347, over the nine-year audit period. However, when we examined the rate at which each employee group grew over that same period, we found that the growth rate for management personnel exceeded the growth rates for executives, faculty, and nonfaculty support staff. As Figure 4 on the following page indicates, the number of FTE management personnel grew by nearly 15 percent, increasing from 3,447 to 3,950. In comparison, the number of FTE nonfaculty support staff grew by 6 percent, from 25,343 to 26,857, while the number of FTE faculty grew by 7 percent, from 20,081 to 21,409.

¹ For the purposes of our report, we defined *nonfaculty support staff* as all university staff except executives, management personnel, and faculty.

Figure 4
Growth in Management Personnel Positions Outpaced That of Other Employee Groups
Fiscal Years 2007–08 Through 2015–16

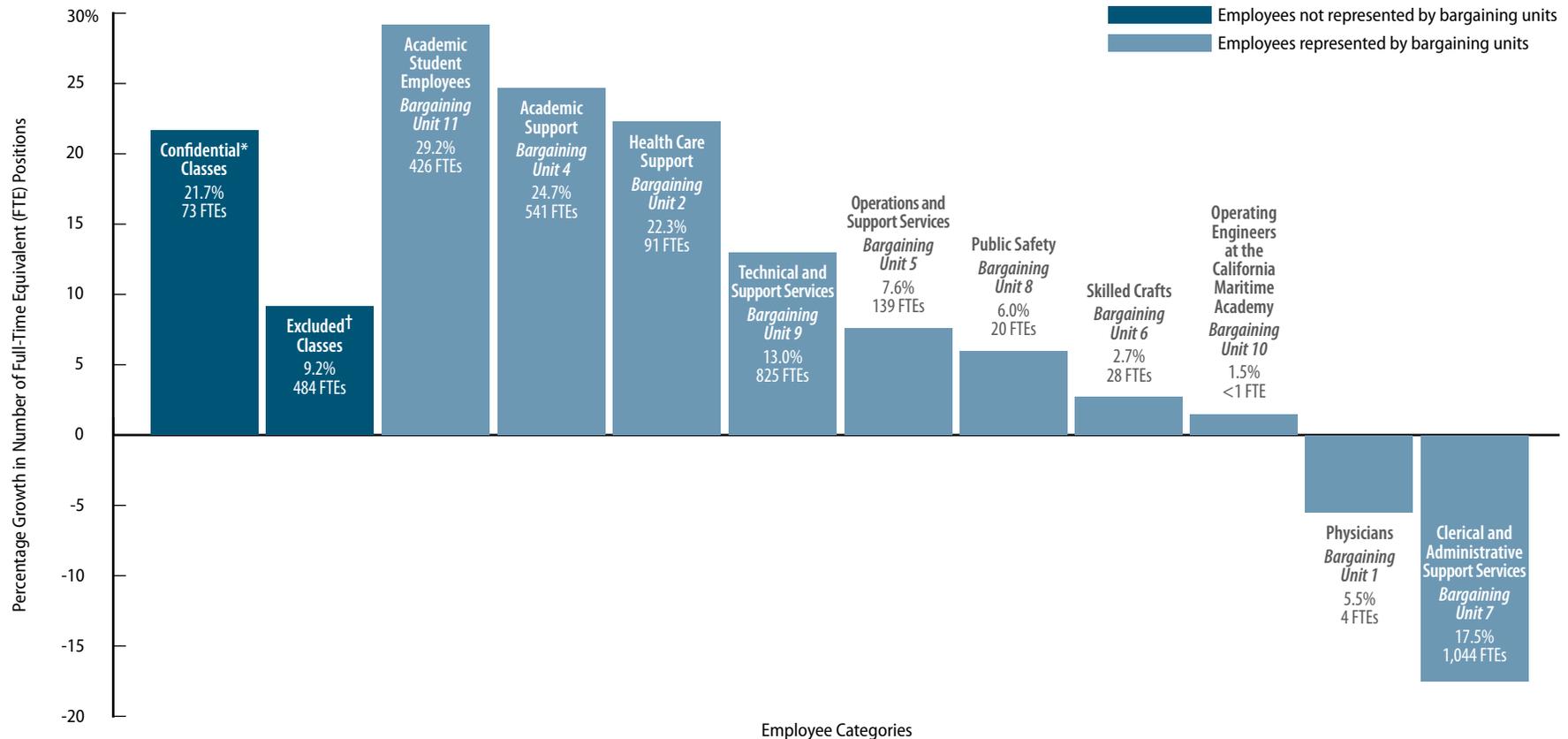


Source: California State Auditor's analysis of California State University payroll data as maintained in the State Controller's Office's Uniform State Payroll System.

To determine why nonfaculty support staff grew at a lower rate than management personnel, we examined the growth rates for the employee categories included in the nonfaculty support staff group. Although nonfaculty support staff collectively grew by 6 percent over the nine-year period, the different categories within this group experienced varying degrees of growth, as shown in Figure 5. For example, the number of academic support employees² grew by 541 FTE employees, or nearly 25 percent. The associate vice chancellor for the Office of the Chancellor's Division of Business and Finance (vice chancellor of finance) stated that this increase is a result of enrollment increases and the CSU's systemwide focus on improving graduation and retention rates. For example, CSU increased the number of academic advisors to help reduce the time it takes a student to obtain a degree. Similarly, the number of academic student employees grew by 426 FTE employees, or 29 percent. According to the vice chancellor of finance, this growth mainly represents teaching assistants and graduate assistants and is intended to support faculty members who are teaching more courses in response to enrollment growth.

² Academic support employees includes student services professionals, extended education specialists, and lead library assistants.

Figure 5
The Various Categories That Make Up Nonfaculty Support Staff Grew at Different Rates
Fiscal Years 2007–08 Through 2015–16



Source: California State Auditor’s analysis of California State University payroll data as maintained in the State Controller’s Office’s Uniform State Payroll System.

Note: San Francisco State University discontinued its Head Start program in May 2013; thus, we excluded employees from this former bargaining unit (number 12) from the results shown in this figure.

* Confidential employees are employees who are required to develop or present positions advocated by management with respect to employer-employee relations or whose duties normally require access to confidential information contributing significantly to the development of those positions. These employees are not represented by a bargaining unit.

† Excluded employees are state employees excluded from—or otherwise without exclusive representation of—a bargaining unit.

It appears that the lower overall growth rate for nonfaculty support staff is at least partly due to a significant decrease in the number of employees in the clerical and administrative support services bargaining unit. As Figure 5 shows, the number of FTE employees in this bargaining unit, which includes administrative support assistants, accounting technicians, and other administrative positions, decreased by more than 1,000 from fiscal years 2007–08 through 2015–16, a drop of more than 17 percent. The vice chancellor of finance explained that this decrease is a result of continuing changes in work requirements due to technological advances. He stated that, for example, administrative assistants for lawyers in the Office of General Counsel formerly supported two attorneys and were heavily involved with data input, typing correspondence and legal briefs, and filing hard-copy documents in office files. However, more recently, each administrative assistant typically supports five attorneys, because technology has replaced some of the tasks they used to perform.

Similarly, we found that total compensation for management personnel grew faster than total compensation for the other employee groups. As Figure 6 indicates, total compensation for management personnel grew by 24 percent, increasing by \$87.4 million from \$360.5 million to \$447.9 million over the nine-year period. Over the same time period, total compensation for executives grew by 14 percent, from \$9.3 million to \$10.6 million; nonfaculty support staff compensation grew by 13 percent, from \$1.09 billion to \$1.23 billion; and faculty compensation grew by 10 percent, from \$1.34 billion to \$1.47 billion.

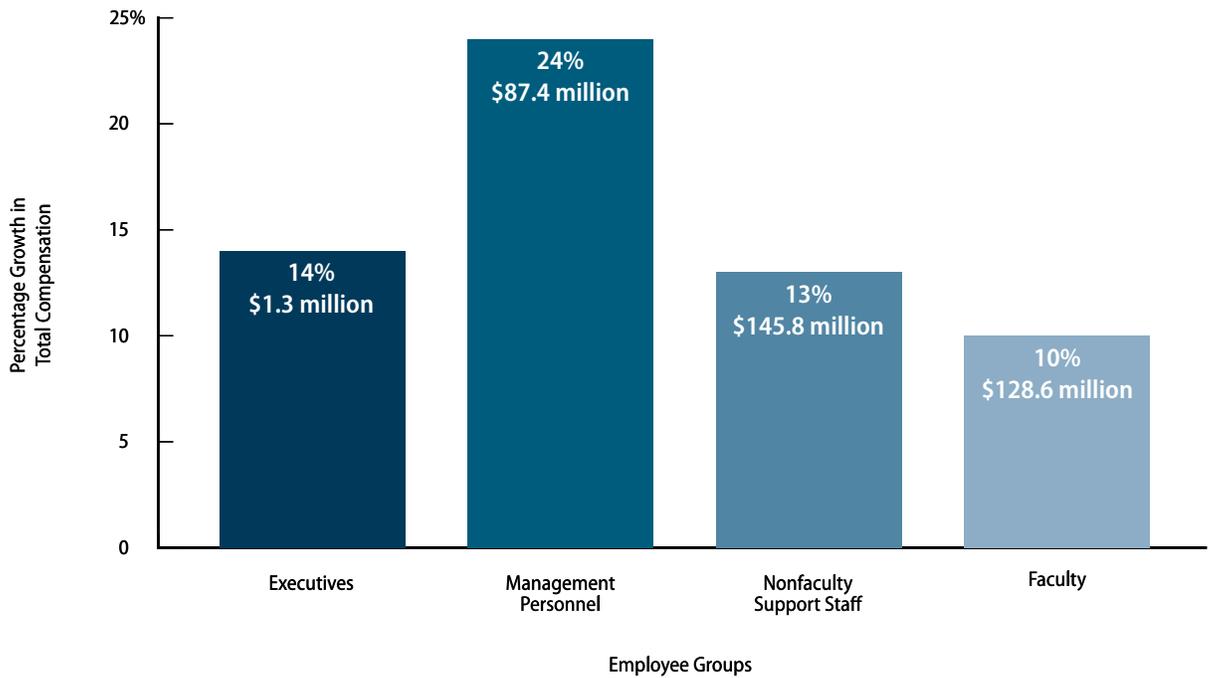
Besides reviewing differences in the growth rates over the nine fiscal years for total FTE positions and total compensation between management personnel and other groups, we also reviewed differences in the growth rates for average compensation. We found that management personnel once again led all other groups. As Figure 7 indicates, the nine-year growth in average compensation for management personnel was 8.4 percent, or \$8,824. Although nonfaculty support staff experienced a collective average gain of 7 percent, we identified large increases for three categories of employees included in this group, which affected the group's results. Specifically, public safety employees' average compensation increased by nearly 26 percent (\$20,567), operating engineers³ had an average compensation increase of nearly 19 percent (\$11,416), and excluded employees⁴ had an 11 percent (\$2,615) increase in average compensation. When we removed these three categories from the nonfaculty support staff group, the average increase dropped to 6.4 percent (\$3,013), which is 2 percentage points lower

³ *Operating engineers* include crafts, maintenance, and stationary engineers employed by the California State University Maritime Academy.

⁴ *Excluded employees* are state employees excluded from—or otherwise without exclusive representation of—a bargaining unit.

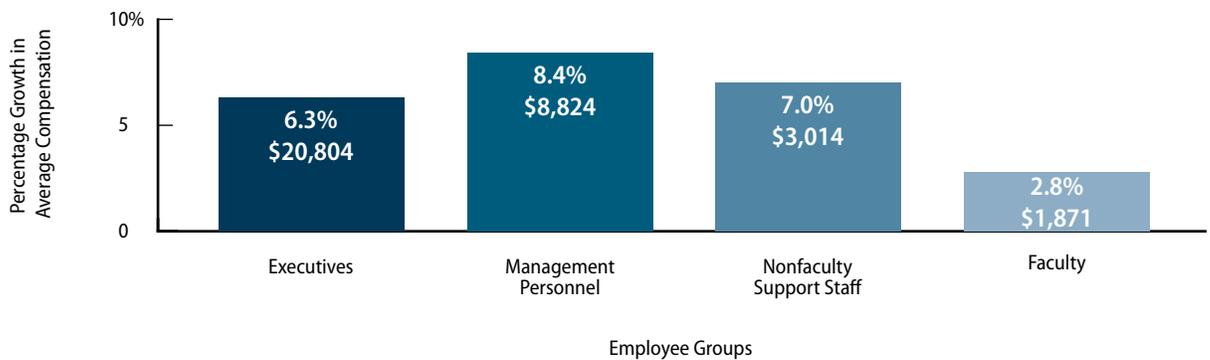
than the rate for management personnel. Average compensation for executives and faculty grew by just over 6 percent (\$20,804) and almost 3 percent (\$1,871), respectively.

Figure 6
Growth in Total Compensation for Management Personnel Outpaced That of Other Employee Groups
Fiscal Years 2007–08 Through 2015–16



Source: California State Auditor’s analysis of California State University payroll data as maintained in the State Controller’s Office’s Uniform State Payroll System.

Figure 7
Growth in Average Compensation for Management Personnel Outpaced That of Other Employee Groups
Fiscal Years 2007–08 Through 2015–16



Source: California State Auditor’s analysis of California State University payroll data as maintained in the State Controller’s Office’s Uniform State Payroll System.

We were also asked to examine the ratio of management personnel positions to nonfaculty support staff positions at each of the campuses we visited and at the Chancellor's Office. Table 1 shows that systemwide, for every FTE management personnel position in fiscal year 2007–08, there were 7.4 FTE nonfaculty support staff positions (in other words, a ratio of 1 to 7.4). However, by fiscal year 2015–16, this ratio had decreased to 1 management personnel position for every 6.8 nonfaculty support staff positions, indicating that CSU more recently has had proportionately fewer nonfaculty support staff than management personnel. Similarly, the systemwide ratio of total compensation for management personnel to total compensation for nonfaculty support staff decreased over this nine-year period, meaning that for every dollar in total compensation paid to management personnel, CSU spent less for nonfaculty support staff in fiscal year 2015–16 than it did in fiscal year 2007–08.

At San Francisco State, the ratio of FTE management personnel positions to nonfaculty support staff was much higher than the systemwide average of 1 to 7.4—for every management personnel position, there were approximately 14 nonfaculty support staff positions from fiscal years 2007–08 through 2012–13. San Francisco State's senior associate vice president of human resources explained that the former campus president chose not to hire certain lower-level managers (for example, administrator I's) as management personnel because he wanted to maintain a high ratio of staff to management personnel. She explained that the campus was able to accomplish this, in part, by using some represented employees as "team leads" instead of management personnel. She further stated that after the current president started working at San Francisco State in August 2012, the campus began a strategic effort to move improperly classified positions out of the bargaining units and into management personnel positions. By fiscal year 2015–16, there were only approximately 10.4 nonfaculty support staff positions for every management personnel position at San Francisco State.

In contrast, at Sonoma State the ratio of FTE management personnel positions to nonfaculty support staff has been lower than the systemwide average of 1 to 7.4—for every management personnel position, there were 4.0 and 4.8 nonfaculty support staff positions in fiscal years 2007–08 and 2015–16, respectively. According to Sonoma State's associate vice president for human resources, this difference exists for several reasons, including the opening of new campus venues in the last three to four years, such as its Green Music Center and student center. Additionally, she indicated that Sonoma State manages programs on its own that auxiliary organizations typically manage for other campuses. For instance, she stated that Sonoma State is the only CSU campus that manages its own in-house dining and catering services, and that it is one of only a small number of CSU campuses that continue to manage their own grants and contracts. Sonoma State believes that these factors cumulatively resulted in it having relatively more management personnel than other CSU campuses.

Table 1

**Ratios of Management Personnel to Nonfaculty Support Staff Generally Declined in Both Number of Positions and Total Compensation for the Office of the Chancellor and the Six Campuses We Reviewed
Fiscal Years 2007–08 Through 2015–16**

RATIO OR MEASURE	FISCAL YEAR									
	2007–08	2008–09	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15	2015–16	
Systemwide										
Number of FTE management personnel positions	3,447	3,516	3,393	3,295	3,305	3,326	3,460	3,706	3,950	
Management personnel positions to nonfaculty support staff positions	1 : 7.4*	1 : 7.3	1 : 7.2	1 : 7.4	1 : 7.4	1 : 7.4	1 : 7.4	1 : 7.2	1 : 6.8	
Total compensation for management personnel to total compensation for nonfaculty support staff	1 : 3.0†	1 : 3.0	1 : 3.0	1 : 3.0	1 : 3.0	1 : 3.0	1 : 2.9	1 : 2.9	1 : 2.7	
Office of the Chancellor										
Number of FTE management personnel positions	300	301	281	268	258	257	271	278	288	
Management personnel positions to nonfaculty support staff positions	1 : 1.1	1 : 1.1	1 : 1.1	1 : 1.1	1 : 1.1	1 : 1.0	1 : 1.0	1 : 1.0	1 : 1.0	
Total compensation for management personnel to total compensation for nonfaculty support staff	1 : 0.7	1 : 0.7	1 : 0.7	1 : 0.7	1 : 0.7	1 : 0.7	1 : 0.6	1 : 0.6	1 : 0.6	
California State University, Fullerton										
Number of FTE management personnel positions	211	221	219	224	234	232	239	248	266	
Management personnel positions to nonfaculty support staff positions	1 : 7.4	1 : 7.0	1 : 6.7	1 : 6.7	1 : 6.7	1 : 6.8	1 : 7.0	1 : 7.4	1 : 6.8	
Total compensation for management personnel to total compensation for nonfaculty support staff	1 : 3.1	1 : 2.9	1 : 3.0	1 : 2.9	1 : 2.9	1 : 2.8	1 : 2.9	1 : 3.0	1 : 2.9	
California State University, Los Angeles										
Number of FTE management personnel positions	139	140	131	126	129	132	136	151	178	
Management personnel positions to nonfaculty support staff positions	1 : 7.6	1 : 7.8	1 : 8.1	1 : 8.0	1 : 8.1	1 : 8.2	1 : 8.4	1 : 7.7	1 : 6.6	
Total compensation for management personnel to total compensation for nonfaculty support staff	1 : 2.8	1 : 2.9	1 : 3.0	1 : 2.9	1 : 2.9	1 : 2.9	1 : 2.9	1 : 2.8	1 : 2.5	
San Diego State University										
Number of FTE management personnel positions	257	270	258	255	263	261	268	293	319	
Management personnel positions to nonfaculty support staff positions	1 : 8.2	1 : 7.8	1 : 7.5	1 : 7.3	1 : 7.1	1 : 7.0	1 : 7.0	1 : 6.7	1 : 6.2	
Total compensation for management personnel to total compensation for nonfaculty support staff	1 : 3.3	1 : 3.1	1 : 3.1	1 : 2.9	1 : 2.8	1 : 2.7	1 : 2.6	1 : 2.5	1 : 2.4	
San Francisco State University										
Number of FTE management personnel positions	148	154	147	147	139	138	141	150	170	
Management personnel positions to nonfaculty support staff positions	1 : 14.0	1 : 13.5	1 : 13.5	1 : 13.6	1 : 14.0	1 : 13.8	1 : 13.0	1 : 12.2	1 : 10.4	
Total compensation for management personnel to total compensation for nonfaculty support staff	1 : 5.5	1 : 5.3	1 : 5.5	1 : 5.4	1 : 5.6	1 : 5.5	1 : 5.3	1 : 5.0	1 : 4.3	
California Polytechnic State University, San Luis Obispo										
Number of FTE management personnel positions	168	183	176	167	171	171	191	235	251	
Management personnel positions to nonfaculty support staff positions	1 : 8.1	1 : 7.7	1 : 7.9	1 : 8.5	1 : 8.4	1 : 8.3	1 : 7.8	1 : 6.6	1 : 6.2	
Total compensation for management personnel to total compensation for nonfaculty support staff	1 : 3.2	1 : 3.1	1 : 3.2	1 : 3.4	1 : 3.3	1 : 3.2	1 : 2.9	1 : 2.5	1 : 2.5	
Sonoma State University										
Number of FTE management personnel positions	182	177	177	160	155	158	169	172	175	
Management personnel positions to nonfaculty support staff positions	1 : 4.0	1 : 4.1	1 : 4.2	1 : 4.7	1 : 4.9	1 : 4.9	1 : 4.9	1 : 5.1	1 : 4.8	
Total compensation for management personnel to total compensation for nonfaculty support staff	1 : 1.8	1 : 1.9	1 : 1.9	1 : 2.1	1 : 2.1	1 : 2.1	1 : 2.0	1 : 2.0	1 : 2.0	

Source: California State Auditor's analysis of California State University (CSU) payroll data as maintained in the State Controller's Office's Uniform State Payroll System.

* A ratio of 1 : 7.4 means that for every 1 management personnel position, there were 7.4 nonfaculty support staff full-time equivalent (FTE) positions.

† A ratio of 1 : 3.0 means that for every dollar CSU spent on management personnel compensation, it spent \$3 on nonfaculty support staff compensation.

Although not shown in Table 1, we also examined the ratio of management personnel positions to faculty positions at each of the campuses we visited and at the Chancellor's Office and noted similar trends. For example, for every FTE management personnel position in fiscal year 2007–08 there were 5.8 FTE faculty positions systemwide, but this ratio dropped to 1 management personnel position for every 5.4 faculty positions by fiscal year 2015–16. Similarly, the systemwide ratio of total compensation for management personnel to total compensation for faculty also dropped over this nine-year period. Specifically, for every dollar the university spent on management personnel compensation, it spent \$3.70 on faculty compensation in fiscal year 2007–08; by fiscal year 2015–16, the faculty amount had dropped to \$3.30 for every dollar of management personnel compensation. The changes in these ratios are another indicator that CSU has hired relatively more management personnel over the last nine fiscal years than other employee groups and is paying them relatively more compensation.

Campuses Frequently Could Not Adequately Justify Increases in Management Personnel Positions

To determine why CSU added management personnel at a higher rate than the rates for other types of employees, we interviewed relevant staff in functional areas with the highest growth in management personnel positions at the Chancellor's Office and the six campuses we visited. Specifically, we asked them to identify their purpose in hiring additional management personnel and to demonstrate how they determined how many to hire. We expected to see staffing analyses or other evidence that justified both the purpose of the additional personnel that were hired and the number of personnel that were hired. Although the campuses were able to justify the purposes of the new management personnel they hired, they frequently could not justify the number of management personnel they hired to fulfill those purposes.

By analyzing payroll data provided by the Chancellor's Office for October 2007 and October 2016, we identified the three functional areas exhibiting the highest growth in management personnel staffing at the Chancellor's Office and each of the six campuses we visited. For example, for San Diego State, the three areas with the highest growth in management personnel from 2007 to 2016 were student services (an increase of 18), university advancement (an increase of 12), and athletics (an increase of 10). We asked the Chancellor's Office and the campuses to provide documents such as staffing analyses that justified the need for the increased number of management personnel.

The Chancellor's Office and the campuses generally provided reasonable justifications regarding the purposes for hiring additional management personnel. For example, campuses cited purposes that included improving enrollment management services; providing services to students applying for financial aid; managing an expanding housing program; and increasing student access to courses, four-year graduation rates, and fundraising efforts. Management personnel have a positive impact on campuses' delivery of services to students and perform a variety of functions for CSU, including enrollment services, instructional support, student services, student health services, and public safety. For example, these individuals are responsible for areas such as admissions and registration; instructional information systems; career development and placement services; counseling and medical services; and police, security, and parking services. Without these services, and without the management personnel necessary to administer them, student access to these services would likely be compromised. Nevertheless, campuses were often unable to justify the number of management personnel they hired and consequently could not demonstrate that they are providing these services in the most cost-effective manner.

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The Chancellor's Office and the six campuses we visited do not use a numeric or ratio-based approach to determine staffing levels for management personnel. Instead, total staffing levels at these campuses appear to be the result of a series of individual hiring decisions over time. Campuses rarely were able to justify the number of management personnel they hired. For example, Chancellor's Office payroll data show that from 2007 to 2016, Cal State LA increased the number of its management personnel in the functional area of student services by 10, a 55 percent increase. According to CSU's *Management Personnel Plan Job Reporting System Administrative Guide*, these management positions are generally responsible for student service functions including career development and placement, disabled student services, student academic services, residence halls, learning resources, multicultural services, and student information services. Cal State LA's vice president of the Division of Student Life cited increased demand for

various student programs, including the educational opportunity program and the new student orientation program, as reasons for the increases in staff. She also stated that the Office for Students with Disabilities, which provides alternative testing and note-taking services, among other services, has received an increased number of requests for services and accommodations over the last 10 years as overall student enrollment has increased. To support this claim, Cal State LA provided reports detailing increased student demand for these services—such as a 94 percent increase in requests for alternative testing accommodations from academic years 2012–13 through 2015–16, and a roughly 37 percent increase since the fall of 2013 in the number of students reporting at least one disability. Although Cal State LA attributed the need for these additional positions to the increased demand for student services, it could not demonstrate a correlation between the increased demand for services and the number of management personnel hired. Therefore, we could not assess whether it needed all 10 of the new management personnel to provide these services. This lack of a staffing analysis leaves the campus unable to answer questions as to whether it could have achieved the same results more cost-effectively, such as by hiring five new management personnel instead of 10.

In another example, San Francisco State's senior associate vice president of human resources cited executive orders from the Chancellor's Office that, among other things, required each campus to designate one or more Title IX coordinators to oversee campus compliance with Title IX of the federal Education Amendments of 1972 and other legislation related to sexual harassment/violence as its reason for increasing the number of management personnel in its Student Affairs and Enrollment Management Division. The campus added six management personnel in this division from 2007 to 2016, a 55 percent increase, as shown in the payroll data from the Chancellor's Office. Although we agree that San Francisco State's increased focus on federal compliance could be a valid reason to hire additional management personnel, the campus was unable to provide any evidence that it performed a staffing analysis to calculate the appropriate number of additional management personnel needed for this purpose. Thus, the campus opens itself up to criticism that it could have met its goals with fewer management personnel, thus saving the CSU money.

Similarly, Cal Poly San Luis Obispo nearly tripled the number of management personnel from 2007 to 2016 in the functional area of student services by adding 23 such positions, for which the campus could not provide adequate justification. For example, the campus added six management personnel to support the expansion of its housing program. However, it was unable to provide any

evidence that it performed a staffing analysis to demonstrate that all six of these positions were necessary to support the growth in this program.

Although it has not done so consistently, in one instance San Diego State provided sufficient justification for both the purpose and the number of management personnel it hired to support university advancement, a function that focuses in part on fundraising for the campus. In 2007 the campus initiated a fundraising campaign to raise \$500 million over several years to support the campus and its strategic initiatives. To determine how many additional management personnel it needed to accomplish this goal, the campus retained a consultant who prepared an in-depth analysis of this subject, which included a recommendation to add a specific number of management personnel. As a result, San Diego State is able to justify the number of management personnel it added for the purpose of this fundraising campaign. However, San Diego State provided no staffing analyses to support the number of management personnel it hired to support two other functional areas we analyzed. Although we were satisfied with San Diego State's use of a consultant's report to justify the number of management personnel it added to support university advancement, we did not necessarily expect all campuses and all divisions to perform such a comprehensive study; rather, we expected to see evidence that the campus or division performed a staffing analysis adequate to determine that it was hiring the appropriate number of management personnel.

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In the absence of policies requiring staffing analyses, CSU cannot adequately justify the significant increase in management personnel it has hired in the last nine years.

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Neither the Chancellor's Office nor the campuses could demonstrate that they have developed policies that require a documented staffing analysis to support the hiring of new management personnel. In the absence of these policies and the resulting analyses, CSU cannot adequately justify the significant increase in management personnel it has hired in the last nine years. Policies requiring such analyses would strengthen transparency and assure CSU and other stakeholders that CSU is not hiring more management personnel than necessary.

CSU Granted Raises to Management Personnel Despite the Absence of Adequate Merit Evaluation Plans

The Chancellor's Office and six campuses we visited also lacked adequate procedures for justifying compensation increases for management personnel. State regulations allow the chancellor and campus presidents to adjust the pay for management personnel based on an evaluation of the person's merit, provided such adjustments are within the amounts the chancellor or the campus presidents are allocated for this purpose. However, state regulations expressly prohibit the chancellor and presidents from granting general or automatic salary adjustments to management personnel unless such adjustments are prescribed by law. These regulations also require the Chancellor's Office and each campus to develop and administer a merit evaluation plan and to develop a process for evaluation. Regulations require the merit evaluation plans to contain standards of expectation against which superior, average, or unsatisfactory performance can be gauged, and against which the amount of the pay increase, if any, can be determined.

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State regulations expressly prohibit the chancellor and presidents from granting general or automatic salary adjustments to management personnel.

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Additionally, regulations require merit evaluation plans to contain criteria that will assure equity in pay based on merit factors, including quality, productivity, and the like. Finally, the regulations require that management personnel be evaluated after six months of service, again after one year of service, and subsequently at one-year intervals. In addition, Chancellor's Office policy issued for those years when it authorized merit increases requires that these increases be based on meritorious performance and that to be eligible for a salary increase, the individual must have a current performance evaluation on file. For each fiscal year from 2013-14 through 2016-17, the Chancellor's Office authorized merit salary increases to management personnel; the average annual increase ranged from 1.34 percent to 3 percent.

None of the entities we visited for this audit had adequate merit evaluation plans as of mid-fiscal year 2016-17. Often, the campus plans they did have failed to include the detailed instructions that would be necessary for staff at those campuses to ensure that they are complying with state regulations and Chancellor's Office

policy, including even a basic explanation of the steps in the merit increase process. Therefore, we concluded that the Chancellor's Office and the six campuses did not develop an adequate process for evaluation as state regulations require. In one case, campus staff indicated that it uses informal procedures when its merit evaluation plan does not address a certain topic. In addition, several campuses provided no written criteria for the consideration of individual salary adjustments for management personnel, which may have led to unjustified raises.

For example, in 2016 Cal Poly San Luis Obispo increased the pay for at least 70 management personnel who either had no written performance evaluations on file or who had outdated performance evaluations on file. As a result, these management personnel will receive a total of more than \$175,000 annually in increased pay that is not supported by current written performance evaluations. Cal Poly San Luis Obispo's associate vice president of human resources told us that her campus granted these increases because human resources felt it was unfair to penalize management personnel who did not receive timely performance evaluations from their supervisors. Nevertheless, these raises were not in accordance with state regulations and CSU policy; and because they were not supported by current written performance evaluations, some may be undeserved.

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San Diego State improperly classified eight assistant coaches as management personnel instead of faculty specifically to increase their salaries.

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Also, San Diego State improperly classified eight assistant coaches as management personnel instead of faculty specifically to increase their salaries. Pursuant to the collective bargaining agreement, CSU is required to classify coaches as faculty unless they supervise two or more full-time employees in the faculty bargaining unit. In a 2011 memo, San Diego State's associate athletic director of business administration (associate athletic director) stated that new assistant football coaches would be hired as management personnel and would receive starting annual salaries of \$150,000 each to keep pace with comparable coaching salaries across the country, based on previous discussions. In addition, he requested that three existing assistant football coaches be reclassified as management personnel and receive the same higher salary. San Diego State's assistant director of employment services, the recipient of the memo, told us that

the campus reclassified the assistant coaches because their salaries, which were at the maximum allowed for faculty under the collective bargaining agreement before the reclassification, were too low to be competitive in the labor market and attract sufficient talent. However, as previously stated, the bargaining unit agreement that governs assistant coaches requires CSU to classify these employees as faculty unless they supervise two or more full-time employees in the same bargaining unit. The assistant director of employment services confirmed that the campus's assistant coaches do not supervise other individuals in the faculty bargaining unit.

It appears we are not the first to question San Diego State's reclassification of the assistant coaches. In the margin of the associate athletic director's 2011 memo, we observed a handwritten note from an unidentified individual asking "why?" with an underline below the narrative describing the reclassification. When we asked the assistant director of employment services for further explanation, she acknowledged that San Diego State may not be in compliance with the Chancellor's Office's interpretation of the bargaining unit agreement, but she asserted that the assistant coaches are program managers, therefore qualifying them to be management personnel in accordance with state regulations.

It appears we are not the first to question San Diego State's reclassification of the assistant coaches.

However, the Public Employment Relations Board decided in 1981 that coaches were properly classified as faculty. Further, the Chancellor's Office policy on this subject requires any athletic coaches not supervising two or more full-time faculty bargaining unit members to be included in the bargaining unit and excluded from the management personnel plan. We found this policy to accurately convey requirements in the bargaining unit agreement. When we examined position descriptions for some of the assistant coaches, we did not find adequate support for San Diego State's claim that these employees are program managers.

Given the foregoing, we disagree with San Diego State's assertion and believe that San Diego State improperly classified these assistant coaches as management personnel and thus inappropriately granted the three existing assistant coaches raises averaging 33 percent at a total annual cost of more than \$111,000. Eventually, San Diego State hired more assistant coaches as

management personnel and misclassified a total of eight assistant coaches. If San Diego State believes that its eight assistant coaches are underpaid, it should work with the Chancellor's Office, bargaining unit representatives, the Public Employment Relations Board, and others as necessary to come to an agreement on the appropriate classification of assistant coaches.

Recommendations

To improve the oversight of CSU's management personnel, the Chancellor's Office should take the following actions:

- Develop a policy that requires its own divisions and departments and campuses to prepare written justifications for both the purpose and specific number of proposed additional management positions. As appropriate, these should justify the number of management personnel positions to be hired based on a workload staffing analysis and the number of people to be supervised.
- Require human resources units to maintain these justifications and make them publicly available to stakeholders when requested. No later than one year following the issuance of this new policy, the Chancellor's Office should begin monitoring its own divisions and departments and campuses to ensure that they are properly justifying all new management personnel hires.
- Ensure that its own divisions and departments and campuses create, implement, and adhere to a written merit evaluation plan for management personnel in accordance with state regulations. Furthermore, the Chancellor's Office should monitor its own divisions and departments and campuses to ensure that they are complying with their merit evaluation plans and are granting raises to management personnel only based on merit as evidenced by current, documented performance evaluations.
- Work with campuses, bargaining unit representatives, the Public Employment Relations Board, and others as necessary to come to an agreement on the appropriate classification of coaches. The Chancellor's Office should take into account the concerns that San Diego State has raised about the labor market for these employees.

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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.

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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.

We question whether CSU's budget monitoring provides sufficient assurance that campus divisions and departments actually adhere to their spending plans.

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.

The State's budget process gives CSU more flexibility and discretion for positions than it gives other state agencies.

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.

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CSU Has Recently Granted Minimal Raises to Its Executives, but Board Policy Does Not Cap Reimbursements of Relocation Costs

Key Points:

- The board followed its executive compensation policy, which began limiting the base salary of incoming presidents in May 2012. The board authorized changes to executive base salaries only when it approved a general furlough or pay increase, or when a position turned over.
- Current CSU policy does not cap relocation reimbursements, which allowed more than one-third of CSU executives who claimed reimbursement for relocation and home sale expenses to each receive more than \$25,000 since 2008. In addition, we noted one instance of a campus not following CSU's relocation policy and one campus not following its own policy, which leaves campuses at risk of paying questionable moving and relocation reimbursements.

The Board Has Followed Its Policy Regarding Raises in Executive Compensation

We examined compensation for CSU executives since fiscal year 2007–08 and found that across-the-board raises generally were nominal and that changes to base salary amounts complied with board policy. Of CSU's 30 executive positions, 21 received no more than a 6 percent raise from fiscal years 2007–08 through 2015–16, while five received increases of 16 percent or more, as we show in Table 2 on the following page.

Most executive base salaries from fiscal years 2007–08 through 2015–16 did not change except when the board approved either a furlough (mandatory, temporary, unpaid time off from work) or a raise for all executives, or in some cases when there was turnover in a single position. In accordance with state law, the board discussed and acted on executive compensation in open-session meetings. The board approved three general changes to executive base compensation during our audit period. Because of the Great Recession, in 2009 CSU imposed furloughs for executives. Management personnel, represented employees, and excluded employees experienced similar furloughs. As a result, most executive base salaries for fiscal year 2009–10 decreased by 9 percent from the prior fiscal year and returned to prefurlough levels the following year. The board also approved a 3 percent raise in executive base salaries for fiscal year 2014–15 and a 2 percent raise for fiscal year 2015–16 to match compensation increases that most other CSU employees received.

In addition, executive base salaries sometimes changed when the position turned over. Before May 2012, the board did not cap the salaries of incoming executives. As a result, incoming presidents at two campuses received large increases in base salaries compared to their predecessors. In August 2007, the incoming president of California State University, Dominguez Hills, received a 17 percent increase in base salary over the outgoing president. In July 2011 the incoming president of San Diego State also received a 17 percent increase in base salary over the outgoing president.

Table 2
Base Salaries Received by Most Executives Increased by 6 Percent or Less
Fiscal Years 2007–08 Through 2015–16

POSITION	2007–08 BASE PAY	2015–16 BASE PAY	PERCENTAGE CHANGE
Staff Within the Office of the Chancellor			
Executive Vice Chancellor and General Counsel	\$270,000	\$325,686	21%
Vice Chancellor, Human Resources*	212,667	276,308	19
Executive Vice Chancellor for Academic and Student Affairs†	302,246	325,686	8
Vice Chancellor, University Relations and Advancement‡	0	252,144	5
Vice Chancellor and Chief Audit Officer§	0	241,214	5
Executive Vice Chancellor and Chief Financial Officer	325,625	325,686	0
Chancellor of the California State University	421,500	400,746	-5
Campus Presidents			
President of San Diego State University	\$299,435	\$370,240	24%
President of California State University, East Bay	276,055	319,025	16
President of California State University, Fullerton	295,000	340,920	16
President of San Jose State University	305,008	346,009	13
President of California Polytechnic State University, San Luis Obispo	328,209	369,228	12
President of California State University, Dominguez Hills	287,080	309,927	8
President of California State University, Northridge	295,000	311,420	6
President of California State University, San Bernardino	290,000	306,141	6
President of San Francisco State University	298,749	315,194	6
President of California State University, Bakersfield	285,000	299,421	5
President of California State University Channel Islands	275,000	288,915	5
President of California State University, Chico	279,500	293,643	5
President of California State University, Fresno	299,000	314,129	5
President of Humboldt State University	297,870	312,942	5
President of California State University, Long Beach	320,329	336,538	5
President of California State University, Monterey Bay	270,315	283,992	5
President of California State Polytechnic University, Pomona	292,000	306,775	5
President of California State University San Marcos	270,568	284,259	5
President of Sonoma State University	291,179	305,912	5
President of California State University, Stanislaus	270,000	283,668	5
President of California State University, Sacramento	295,000	303,850	3
President of California State University Maritime Academy	258,680	262,656	2
President of California State University, Los Angeles	325,000	314,129	-3

Sources: California State Auditor's analysis of California State University payroll data as maintained in the State Controller's Office's Uniform State Payroll System and review of executives' compensation offer letters.

* The vice chancellor, human resources only worked 11 months of fiscal year 2007–08. We took this into account when we calculated the cumulative percentage change in base salary.

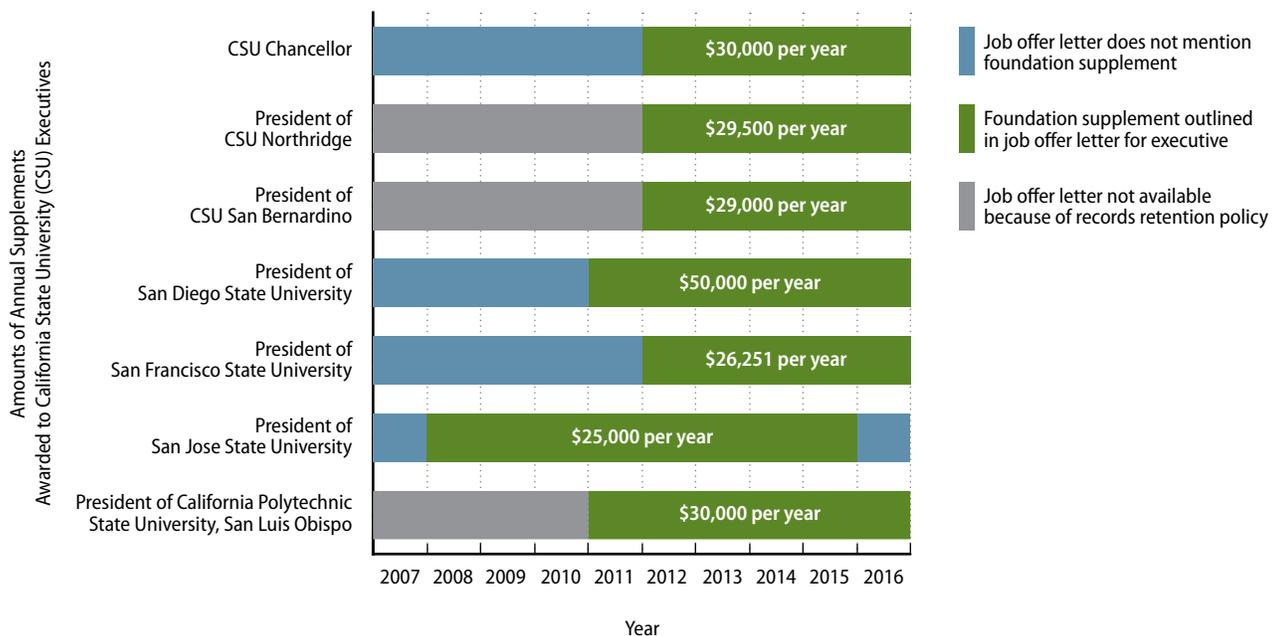
† The executive vice chancellor and chief academic officer position became executive vice chancellor for academic and student affairs in 2015. The fiscal year 2007–08 base pay is from the prior position title.

‡ The board created this position in 2008. We calculated the percentage change from the fiscal year 2008–09 pay data as the base.

§ This was a management personnel position and was reclassified to an executive position in 2014. We used fiscal year 2007–08 management personnel pay data as the base to calculate the cumulative percentage change.

The salary increase for the incoming San Diego State president generated concern regarding the board’s approach to setting compensation. In particular, in July 2011 the Governor wrote a letter to the board expressing concern about the “ever-escalating pay packages” being awarded to CSU executives and asked the board to rethink its criteria for setting executives’ salaries. The board subsequently met several times to discuss this topic, and in May 2012 it changed its compensation policy to limit increases in the base salary for an incoming president to no more than 10 percent of the incumbent’s salary. Specifically, the policy, which has since been amended as we discuss on the next page, stated that the portion of the incoming president’s base salary that was paid with public funds shall not exceed the incumbent’s salary, any compensation above that level must be paid with funds from foundations, and any such increase must not exceed 10 percent. We found that CSU offered foundation-paid salary supplements to the chancellor and to the presidents of six of the CSU’s 23 campuses. Figure 8 summarizes the annual compensation amounts that foundations awarded to these CSU executives. Of the 21 incoming presidents affected by the new policy between May 2012 and August 2016, all salaries complied with the new policy.

Figure 8
Some Executives Were Awarded Annual Salary Supplements From Foundations
Calendar Years 2007 Through 2016



Sources: California State Auditor’s analysis and review of executives’ compensation as identified in job offer letters.

However, in the September 2015 and November 2015 meetings of the board's Committee on University and Faculty Personnel, two Chancellor's Office officials pointed out that this 2012 policy could create the appearance of a conflict of interest for presidents who sit on foundation boards. Consequently, in November 2015, the board amended the policy to no longer require that campus foundations be the specific source of compensation increases for future presidents. Thus, the current board policy does not specifically authorize the use of foundation funds to augment the salaries of presidents appointed after November 2015. Although no president hired since 2013 has had foundation funds as a source of compensation outlined in his or her job offer letter, we believe the board can strengthen its policy by specifically prohibiting the use of foundation funds to better avoid potential conflict-of-interest concerns.

We also found that CSU executives receive substantial amounts of other compensation, but the types and amounts comply with board policy. For incoming executives, the board approved benefits such as paid vacation and sick leave, and reimbursements for mandatory medical examinations and relocation costs. In 36 of the 72 offer letters we reviewed, CSU also designated those executives' spouses as volunteer employees, thus making them eligible to travel on CSU-related business at campus expense.

Table 3 summarizes the types and amounts of compensation CSU executives received in fiscal year 2015–16. During our audit period, many executives also received annual car allowances of up to \$12,000 and annual housing allowances of up to \$60,000. Campus presidents who do not receive housing allowances are required to live in official CSU residences. Car and housing allowance amounts generally have not changed since 2005; the only exception was in 2012 when the board authorized an increase in the housing allowance for the incoming president of California State University, San Bernardino, from \$50,000 to \$60,000. However, payroll records for fiscal year 2015–16 show that this campus president received a housing allowance of \$55,000.

Table 3
Executive Compensation Included Base Pay, Housing Allowances, and Car Allowances
Fiscal Year 2015–16

POSITION	APPOINTMENT DATE	BASE PAY	HOUSING ALLOWANCE	CAR ALLOWANCE	LUMP SUM VACATION PAYOUT*	FOUNDATION STIPEND	TOTAL
President of California State University, Sacramento†	July 1, 2015	\$303,850	\$60,000	\$12,000	\$92,076	—	\$467,926
Chancellor of the California State University	December 31, 2012	400,746	—	12,000	—	\$30,000	442,746
President of San Diego State University	July 1, 2011	370,240	—	12,000	—	50,000	432,240
President of San Jose State University†	July 1, 2011	346,009	—	13,000	29,516	25,000	413,525
President of San Francisco State University	August 1, 2012	315,194	60,000	12,000	—	26,251	413,445
President of California Polytechnic State University, San Luis Obispo	February 1, 2011	369,228	—	12,000	—	30,000	411,228
President of California State University, San Bernardino	August 15, 2012	306,141	55,000	11,000	—	29,000	401,141
President of California State University, Los Angeles	September 1, 2013	314,129	60,000	12,000	—	—	386,129
President of California State University, East Bay	January 25, 2012	319,025	55,000	11,000	—	—	385,025
President of Sonoma State University	July 15, 1992	305,912	60,000	12,000	—	—	377,912
President of Humboldt State University	July 15, 2014	312,942	50,000	12,000	—	—	374,942
Executive Vice Chancellor for Academic and Student Affairs	July 1, 2015	325,686	30,000‡	12,000	—	—	367,686
President of California State University, Chico	February 1, 2004	293,643	50,000	12,000	—	—	357,158§
President of California State University, Bakersfield	July 15, 2004	299,421	45,833	11,000	—	—	356,254
President of California State University San Marcos	February 1, 2004	284,259	60,000	11,000	—	—	355,259
President of California State University Channel Islands	June 1, 2001	288,915	55,000	11,000	—	—	354,915
President of California State University, Fullerton	June 11, 2012	340,920	—	12,000	—	—	352,920
President of California State University, Northridge	June 11, 2012	311,420	—	12,000	—	29,500	352,920
President of California State University, Stanislaus	May 21, 2013	283,668	50,004	12,000	—	—	345,672
Executive Vice Chancellor and Chief Financial Officer	April 30, 2014	325,686	—	12,000	—	—	337,686
Executive Vice Chancellor and General Counsel	January 1, 2014	325,686	—	12,000	—	—	337,686
President of California State University, Long Beach	July 15, 2014	336,538	—	—	—	—	336,538
President of California State University, Fresno	August 1, 2013	314,129	—	11,000	—	—	325,129
President of California State University, Dominguez Hills	May 21, 2013	309,927	—	12,000	—	—	321,927
President of California State Polytechnic University, Pomona	January 1, 2015	306,775	—	12,000	—	—	318,775

continued on next page . . .

POSITION	APPOINTMENT DATE	BASE PAY	HOUSING ALLOWANCE	CAR ALLOWANCE	LUMP SUM VACATION PAYOUT*	FOUNDATION STIPEND	TOTAL
President of California State University, Monterey Bay	May 21, 2013	\$283,992	—	\$11,000	—	—	\$294,992
Vice Chancellor, Human Resources	September 15, 2014	276,308	—	12,000	—	—	288,308
President of California State University Maritime Academy	July 1, 2012	262,656	—	12,000	—	—	274,656
Vice Chancellor, University Relations and Advancement	October 31, 2008	252,144	—	12,000	—	—	264,144
Vice Chancellor and Chief Audit Officer	February 1, 2014	241,214	—	12,000	—	—	253,214
Executive Vice Chancellor and Chief Academic Officer ^{II}	—	—	—	—	\$76,723	—	76,723

Sources: California State Auditor's analysis of California State University (CSU) payroll data as maintained in the State Controller's Office's Uniform State Payroll System and review of executives' compensation offer letters.

* These lump sum vacation payouts are associated with the resignation of an executive.

† Two individuals received compensation for this position during fiscal year 2015–16.

‡ The executive vice chancellor for academic and student affairs received a temporary housing allowance of \$5,000 per month for six months. We include this amount in his total compensation number. However, he did not receive a permanent annual housing allowance.

§ The president of CSU Chico also received a \$1,515 electric device allowance that, according to the associate vice chancellor for human resources at the Office of the Chancellor, was for a cell phone. We include this amount in the total compensation number.

|| The executive vice chancellor and chief academic officer ended his employment before fiscal year 2015–16. The lump sum vacation payout is related to his departure.

Current CSU Policy Does Not Cap Relocation Reimbursements

As we pointed out in our 2007 report *California State University: It Needs to Strengthen Its Oversight and Establish Stricter Policies for Compensating Current and Former Employees* (report 2007-102.1), the discretionary nature of CSU's relocation policy can result in questionably large reimbursements. For example, the policy, which is broad, lacks limits on reimbursable relocation expenses. Specifically, it provides that CSU may reimburse actual, necessary, and reasonable relocation expenses for new employees who have been offered positions within CSU and current employees who must change residences because of changes in assignment, promotions, or other reasons related to their duties that are in CSU's best interest. The text box describes the types of expenses eligible for reimbursement.

In our previous audit, we expressed concern that CSU's policies on moving and relocation expenses were inadequate. We reported that under CSU's policy at the time, the chancellor determined the amounts of relocation reimbursements for executives, campus presidents, and management personnel in the Chancellor's Office. The chancellor was not required to obtain board approval for such reimbursements. In addition, there were few monetary limits on reimbursable expenses, which sometimes resulted in large reimbursements. Furthermore, we found that the chancellor typically did not disclose these reimbursements to the board. In our 2007 report, we recommended that CSU strengthen its policy governing the reimbursement of

relocation expenses, including establishing monetary thresholds for which board approval would be necessary when those thresholds are exceeded. We also recommended that the board require the chancellor to disclose the amounts of relocation reimbursements to be offered to incoming executives. The chancellor began disclosing executive relocation reimbursements to the board in 2008. However, CSU's new relocation policy, implemented in January 2012, still does not set monetary thresholds for relocation reimbursements that would require the chancellor to obtain board approval when the thresholds are exceeded.

Besides the lack of approval thresholds, CSU's current policy contains no cap on the amount of reimbursements executives can receive. Table 4 on the following page summarizes the reimbursements reported to the board in fiscal years 2007–08 through 2015–16. Of the 27 executives who received relocation reimbursements since fiscal year 2007–08, 10 received reimbursements that totaled more than \$25,000 and more than 10 percent of their base salaries. The average reimbursement for incoming executives was about \$32,400, or 10 percent of base salary. Hypothetically, if the board had capped reimbursements at \$25,000, CSU could have potentially avoided spending up to nearly \$428,000 between fiscal years 2007–08 and 2015–16. Conversely, if the board had capped reimbursements at no more than 10 percent of an executive's base salary, CSU could have avoided spending up to \$365,000 since fiscal year 2007–08.

Strengthening CSU's relocation policy would help ensure that reimbursements are reasonable and necessary. When asked about these reimbursements, staff at the Chancellor's Office asserted that the reimbursements complied with U.S. Internal Revenue Service guidelines and federal law. However, this explanation does not address our concern that many of these large reimbursements do not appear to be reasonable when compared to the amounts of other smaller reimbursements. Additionally, the Chancellor's Office did not explain the reasonableness of these large reimbursements when it reported the amounts to the board. Lack of written justification increases the risk that the public and other entities will consider the reimbursements to be questionable. Because the chancellor already reports executive relocation reimbursements to the board, it is logical for the chancellor also to submit written explanations for large reimbursements. The relatively higher reimbursements in Table 4 on the following page reflect a need for greater CSU control over executive relocation expense reimbursements.

Relocation Expenses Eligible for Reimbursement:

- Packing and unpacking
- Insurance
- Transportation
- Transitional storage of household furnishings and goods
- Temporary housing and travel expenses for both the employee and a spouse or domestic partner

Costs Associated With the Sale of a Residence Eligible for Reimbursement:

- Brokerage commissions
- Title insurance
- Escrow fees
- Prepayment penalties
- Taxes, charges, and fees fixed by the local authority responsible for finalizing the sale
- Miscellaneous seller's costs customary to the area

Source: CSU Moving and Relocation Policy.

Table 4
Total Relocation and Moving Expense Reimbursements Averaged 10 Percent of Executives' Base Salaries
Fiscal Years 2007–08 Through 2015–16

POSITION	RELOCATION REIMBURSEMENT	HOME SALE FEES AND EXPENSES	TRAVEL EXPENSE	TEMPORARY HOUSING, STORAGE, MISC.	TOTAL REIMBURSEMENT	PERCENTAGE OF STARTING BASE SALARY
Vice Chancellor, Administration and Finance	\$41,176.11	\$52,660.00	—	—	\$93,836.11	30%
President of San Jose State University (appointed 2016)	55,370.45	44,190.00	\$324.39	\$4,474.42	104,359.26	28
President of Sonoma State University	31,375.06	44,905.00	—	—	76,280.06	26
Vice Chancellor, University Relations and Advancement	13,199.71	37,474.00	—	9,410.78	60,084.49	25
President of San Jose State University (appointed 2008)	15,144.26	56,588.71	—	—	71,732.97	22
President of California State University, Fresno	8,198.00	52,354.00	767.46	1,166.80	62,486.26	21
President of San Diego State University	24,570.87	45,654.58	—	—	70,225.45	20
President of California State University Channel Islands	17,941.54	31,179.51	—	5,150.00	54,271.05	19
President of California Polytechnic State University, San Luis Obispo	19,178.89	30,447.25	—	—	49,626.14	14
President of Humboldt State University	35,039.00	—	—	—	35,039.00	12
President of California State University, Sacramento	19,565.96	—	5,406.86	—	24,972.82	8
President of California State University, Monterey Bay	18,334.63	—	1,081.93	2,449.56	21,866.12	8
President of California State University, Fullerton	20,888.64	—	—	—	20,888.64	6
President of San Francisco State University	16,928.46	—	1,432.00	—	18,360.46	6
Executive Vice Chancellor for Academic and Student Affairs	16,700.00	—	2,395.04	—	19,095.04	6
President of California State Polytechnic University, Pomona	12,828.82	—	—	—	12,828.82	4
President of California State University, Stanislaus (appointed 2016)	8,192.68	—	743.01	1,391.93	10,327.62	4
President of California State University, Dominguez Hills	10,444.79	—	—	—	10,444.79	4
President of California State University, Los Angeles	8,947.99	—	126.63	843.08	9,917.70	3
Vice Chancellor, Human Resources	7,983.00	—	232.00	—	8,215.00	3
President of California State University, Northridge	9,084.04	—	—	—	9,084.04	3
President of California State University, Chico	5,005.00	—	955.00	—	5,960.00	2
President of San Jose State University (appointed 2011)	6,528.08	—	—	—	6,528.08	2
Chancellor of the California State University	6,760.35	—	468.89	—	7,229.24	2
President of California State University, Long Beach	3,772.00	—	—	1,202.00	4,974.00	2
President of California State University, Stanislaus (appointed 2013)	3,382.00	—	—	—	3,382.00	1
President of California State University, San Bernardino	2,803.54	—	454.20	—	3,257.74	1
Average	\$16,272.00	\$43,939.23	\$1,198.95	\$3,261.07	\$32,417.51	10%
Totals	\$439,343.87	\$395,453.05	\$14,387.41	\$26,088.57	\$875,272.90	

Sources: Meeting minutes from the Board of Trustees for the California State University and offer letters to executives.

Note: We listed the appointment year for those executive positions appearing more than once.

Some CSU Campuses Are Not Following Relocation Reimbursement Policies

In addition to reviewing the moving and relocation reimbursements of CSU executives, we examined relocation reimbursements for nonexecutives, including management personnel and faculty. As we found for its executives, CSU places no cap on relocation reimbursements for nonexecutive employees. Specifically, the CSU policy in effect since January 2012 requires campuses to establish monetary thresholds that require progressive levels of authority for approval, culminating in presidential approval above the highest threshold. The policy does not prescribe exact thresholds to be adopted, but it does provide an example of presidential approval being required for relocation reimbursements that exceed \$10,000. The policy permits exceptions for Chancellor's Office and campus employee relocation reimbursements if they are approved by the chancellor or a campus president, respectively. The policy also prohibits reimbursement for any tax liabilities that employees incur as a result of receiving relocation reimbursements. According to the associate vice chancellor of human resources at the Chancellor's Office, the Chancellor's Office purposely delegated authority for implementing the updated relocation policy to campus presidents.

Of the six campuses we visited, policies for approval of relocation reimbursements at Cal Poly San Luis Obispo and San Diego State raised concerns. Specifically, according to its interim university controller, Cal Poly San Luis Obispo requires only that relocation reimbursements be approved by a dean or a vice president, and although San Diego State has four progressive thresholds, it requires presidential approval only for reimbursements exceeding \$60,000. For the other four campuses, two require presidential approval for reimbursements exceeding \$10,000, and the other two require presidential or chief financial officer approval for all reimbursements. San Diego State's highest relocation reimbursement since January 2012 was a bit more than \$29,000, which met only its second threshold, requiring vice presidential approval. In fact, the largest relocation reimbursement we found at any of the six campuses was \$53,500 at Sonoma State, which the campus president authorized. Finally, although San Francisco State's policy requires presidential approval for relocation reimbursements exceeding \$10,000, we found one September 2016 reimbursement totaling \$10,658 that did not receive presidential approval.

We also observed that CSU policy does not cap moving and relocation reimbursements for CSU campus employees. Although the majority of the campus reimbursements for moving and relocation expenses that we observed were less than \$5,000, we identified eight instances of reimbursements that exceeded \$20,000. The two highest reimbursement amounts

were \$30,000 and roughly \$53,500. Like the reimbursements paid to CSU executives, these relatively high reimbursements paid to campus employees indicate a need for stronger CSU controls over reimbursements for moving and relocation expenses.

When campuses do not require presidential approval of relocation expenses above certain monetary thresholds, set too high a threshold for presidential approval, or do not follow established thresholds, CSU continues to risk paying questionable moving and relocation reimbursements to its employees. Furthermore, although relocation reimbursements paid to nonexecutive campus employees generally do not reach the amounts paid to CSU executives, capping these reimbursements would better ensure that they are reasonable.

Recommendations

Chancellor's Office

To minimize concerns regarding possible conflicts of interest, the Chancellor's Office should work with the board to develop, approve, and implement an executive compensation policy that expressly prohibits the use of foundation funds to pay campus presidents.

To better ensure the reasonability of the reimbursements CSU pays for relocation and moving expenses, the Chancellor's Office should take the following actions by October 2017:

- Place an appropriate cap on the amount it will reimburse CSU executives for relocation and moving expenses, based on either a dollar amount or a percentage of base salary. If the chancellor authorizes a reimbursement amount greater than this cap, the chancellor should submit a written explanation to the board to justify the payment.
- Revise its policy to require campuses to place an appropriate cap on the amount they will reimburse campus staff for relocation and moving expenses, based on either a dollar amount or a percentage of base salary. If the campus president authorizes a reimbursement amount greater than this cap, the president should submit a written explanation to the chancellor to justify the payment.
- Follow up with the campuses to ensure that they have sufficiently complied with its policy regarding the adoption of thresholds and caps for reimbursing staff for relocation and moving expenses and that those thresholds and caps are reasonable. If necessary, the Chancellor's Office should provide more exact guidance to the campuses on how to establish these thresholds and caps.

OTHER AREAS WE REVIEWED

To address the audit objectives approved by the Joint Legislative Audit Committee, we reviewed CSU's process for selecting its external auditor. We also determined the status of CSU's implementation of recommendations we made in our 2007 audit report. Table 5 includes some additional recommendations that are not included elsewhere in this report.

Table 5
Other Areas Reviewed as Part of This Audit

The Process Used by the California State University (CSU) to Select Its External Auditor Complied with Relevant Requirements
<p>We reviewed CSU's process for selecting its external auditor. The following points summarize the results of our review.</p> <ul style="list-style-type: none"> • The Office of the Chancellor (Chancellor's Office) followed applicable contracting provisions and best practices in selecting and contracting with KPMG LLP for audit services in 2014. • Specifically, it followed relevant requirements of its integrated administrative manual, which includes policies for competitive bidding. It also required bidding firms to be licensed to perform audit services in California and to be enrolled in peer review programs. • The Chancellor's Office issued and advertised a request for proposals for a five-year contract for audit services with options for up to three one-year extensions. It received bids from three qualified audit firms. The Chancellor's Office scored the bids, and the Board of Trustees (board) selected the firm with the highest score and lowest proposed cost. • KPMG LLP testified in writing to CSU that it is familiar with and fully subscribes to independence standards established by the American Institute of Certified Public Accountants, by the U.S. Government Accountability Office, by the U.S. Securities and Exchange Commission, and other governing accountancy institutions.
CSU Has Not Yet Fully Implemented Our Prior Audit's Recommendations
<p>As a result of findings included in our report 2007-102.1, <i>California State University: It Needs to Strengthen Its Oversight and Establish Stricter Policies for Compensating Current and Former Employees</i> (November 2007), we issued six recommendations to CSU. Based on documents it provided and assertions it made to us at the time, we had listed some of these recommendations as <i>fully implemented</i> on our website. Following is our current assessment of the status of CSU's implementation of each of those recommendations.</p> <ul style="list-style-type: none"> • Prior Recommendation #1: To provide effective oversight of its systemwide compensation policies, CSU should create a centralized information system structure to catalog CSU compensation by individual, payment type, and funding source. CSU should then use this information to monitor campuses' implementation of systemwide policies and measure the impact of these policies on CSU finances. <p>CSU has not fully implemented recommendation #1. As of March 2017, CSU has not established a centralized information system to catalog compensation by individual, payment type, and funding source. According to documentation the associate vice chancellor of human resources (vice chancellor of human resources) provided, CSU began development of the Common Human Resources System (CHRS) in March 2012. The goal of CHRS is to consolidate all individual campus human resources databases into a single centrally managed system. According to the vice chancellor of human resources, CSU delayed the development of CHRS in December 2014 when it deemed the project was not deliverable. Additionally, the project lacked staffing, and it lost executive sponsorship. According to CHRS project timelines and the vice chancellor of human resources, CSU restarted the project in January 2016 with in-house staff. CHRS documents show the project received new executive sponsors in November 2016. The project timelines show full implementation of CHRS by the end of 2019.</p> <p>Current Recommendation <i>The Chancellor's Office should finish developing CHRS and implement it as scheduled by December 2019.</i></p>

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CSU Has Not Yet Fully Implemented Our Prior Audit's Recommendations (continued)

- **Prior Recommendation #2:** The board should consider total compensation received by comparable institutions, rather than just cash compensation, when deciding on future salary increases for executives, faculty, and other employees. CSU should work with interested parties, such as the California Postsecondary Education Commission and the Legislative Analyst's Office (LAO), to develop a methodology for comparing itself to other institutions that consider total compensation. If CSU believes it needs a statutory change to facilitate its efforts, it should seek it.

CSU has not fully implemented recommendation #2. Following our recommendation, CSU contracted with a private consulting firm to prepare a report that compared its total presidential compensation with those of an existing list of 20 other comparator schools. This report was released on March 22, 2011. In October 2015, CSU issued a request for proposals to contract with a private consulting firm to partner with CSU to develop a compensation strategy for executives, faculty, and staff. As part of this scope of work, the consultant is to identify similar institutional comparators for CSU to use for benchmarking total compensation. The vice chancellor of human resources explained that CSU did not work with the Legislature to develop the list of comparator institutions and survey methodology in order to allow the consulting firm to produce its report in a timely manner. The consultant is scheduled to issue its executive compensation assessment in April 2017. According to the vice chancellor of human resources, CSU is open to working with the Legislature in the future on this issue.

Current Recommendation

Once it receives the results of its consultant's study on executive compensation, the Chancellor's Office should collaborate as soon as possible with interested parties, such as the LAO, to develop methodologies for future compensation comparisons that consider total compensation.

- **Prior Recommendation #3:** The board should continue to monitor the chancellor's administration of the executive transition program to ensure that it is conducted in a prudent manner and that intended cost savings are achieved for the university. In addition, the board should require the chancellor to include in the transition agreements clear expectations of specific duties to be performed, as well as procedures for the former executives to report on their accomplishments and status of deliverables. Further, the board should require the chancellor to include information in the annual report on the status of accomplishments and deliverables associated with transition agreements.

CSU has sufficiently implemented recommendation #3. In January 2008, the board adopted a recommendation to require the chancellor to annually disclose to the board the progress and status of deliverables for executives enrolled in transition programs. The transition agreements we reviewed contained clear expectations of duties to be performed but did not include procedures for the executives to report on those duties as we recommended. According to the vice chancellor of human resources, the chancellor holds informal update meetings with the transitioning executives but does not document them. In addition, the chancellor annually discloses to the board the executives' accomplishments and status of deliverables.

CSU Has Not Yet Fully Implemented Our Prior Audit's Recommendations (continued)

- **Prior Recommendation #4:** CSU should work through the regulatory process to develop stronger regulations governing paid leaves of absence for management personnel. The improved regulations should include specific eligibility criteria, time restrictions, and provisions designed to protect the university from financial loss if an employee fails to render service to the university following a leave. For example, the regulations should require all employees applying for a paid leave of absence to submit a bond that would indemnify CSU if the employee fails to render service to the university following a leave of absence. CSU should also maintain appropriate documentation supporting any leaves of absence it grants. Finally, the board should establish a policy on the extent to which it wants to be informed of such leaves of absence for management personnel.

CSU has not fully implemented recommendation #4. CSU implemented a regulation regarding paid administrative leave for management personnel in October 2008, and it issued additional documentation and reporting guidelines regarding paid administrative leave in February 2009. In August 2013, CSU revised its guidelines to require indemnification and return-to-service obligations for certain management personnel on paid administrative leave. The policy requires management personnel who take certain types of voluntary paid administrative leave, such as for professional development or for administrators to prepare for return to faculty positions and faculty responsibilities, to indemnify CSU in the event they do not return to service following their leaves.

At four of the six campuses we visited, we did not note any management personnel since August 2013 who were required to indemnify CSU. California State University, Fullerton (CSU Fullerton) and California State University, Los Angeles identified two management personnel and three management personnel, respectively, who had paid administrative leave ranging from one to about six months to transition to faculty positions. The two campuses, however, did not obtain indemnifications from these five individuals. The campuses indicated that indemnifications were not necessary in four of these five instances because the transition to faculty was not voluntary and the Chancellor's Office policy applies only to voluntary transitions to faculty. However, according to the vice chancellor of human resources, CSU cannot involuntarily reassign management personnel to bargaining unit positions, including faculty positions. Therefore, the campuses should have obtained indemnifications from these four management personnel. CSU Fullerton acknowledged that it missed obtaining an indemnification from the fifth individual. By not obtaining the indemnifications, the two campuses unnecessarily increased the risk of compensating management personnel who might not have returned from their paid administrative leaves to provide future services. According to the vice chancellor of human resources, the Chancellor's Office delegated authority to the individual campus presidents for determining how to implement this policy. She also asserted that the board has not established a policy requiring the Chancellor's Office or campuses to inform the board when placing staff on paid administrative leave.

Current Recommendation

Within six months, the Chancellor's Office should revise its policy to clarify when campuses need to obtain indemnifications from management personnel who will be on paid administrative leave and should begin monitoring campuses to ensure that they are adhering to its policy.

- **Prior Recommendation #5:** See pages 40 to 44 in the previous section for our discussion of moving and relocation reimbursements.

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CSU Has Not Yet Fully Implemented Our Prior Audit's Recommendations (continued)

- **Prior Recommendation #6:** CSU should continue to work with California Faculty Association representatives during the collective bargaining process to strengthen its dual-employment policy by imposing disclosure and approval requirements for faculty. It should also impose similar requirements for other employees, including management personnel. If CSU believes it needs a statutory change to facilitate its efforts, it should seek it.

CSU has not fully implemented recommendation #6. In February 2013, CSU adopted a state regulation to require disclosure of outside employment for management and executive employees so as to identify and preclude any conflict of commitment. In August 2013, CSU issued a policy to the campuses to implement that regulation, and it revised this policy in November 2016 to also require all management personnel to submit annual disclosures even if they do not have outside employment, among other provisions. The new policy also requires approval of outside employment for senior management employees, which includes executives and vice presidents. Additionally, the new policy states that all management personnel are expected to reduce or eliminate outside employment if any perceived or actual conflicts of commitment or interest are found. This policy went into effect in January 2017; therefore, we examined only the practice of the original policy as issued in August 2013. CSU and the California Faculty Association included requirements in the 2014 collective bargaining agreement for CSU faculty to similarly disclose their outside employment every term if that outside employment is expected to exceed certain hour thresholds or at the request of an appropriate administrator. The collective bargaining agreement also requires presidential approval of a faculty employee's outside employment in certain specific situations such as sabbatical leave.

All six campuses we visited have practices for soliciting outside employment disclosures from management personnel. However, San Francisco State University and Sonoma State University did not request outside employment disclosures from faculty. According to the vice chancellor of human resources, the Chancellor's Office delegated authority to the individual campus presidents to implement policy for disclosure of outside employment. By not tracking outside employment, these two campuses were unable to determine whether any of their faculty held outside employment that might have created conflicts of interest with their campus employment. Representatives for both campuses stated that they would begin tracking faculty outside employment.

Current Recommendation

Within six months, the Chancellor's Office should begin monitoring campuses to ensure that they are complying with the faculty bargaining unit requirements for disclosing outside employment.

Source: California State Auditor's analysis of the records identified in this table.

SCOPE AND METHODOLOGY

The Joint Legislative Audit Committee requested that the California State Auditor examine the levels of growth in the number of CSU management positions, increases in the compensation of CSU executives, and the oversight of and accountability for CSU's budget. Table 6 lists this audit's approved objectives and the methods we used to address them.

Table 6
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, rules, and regulations.
2 Determine what criteria the California State University (CSU) uses to determine staffing levels and ratios of campus and CSU Office of the Chancellor (Chancellor's Office) management positions to support staff. Assess whether CSU's process complies with relevant rules and protocols.	<p>Interviewed relevant staff at the Legislative Analyst's Office (LAO), Department of Finance (DOF), and the Chancellor's Office, and at the six campuses we visited to identify criteria related to setting CSU staffing levels or ratios of management to support staff.</p> <p>Based on these interviews and on the documents we examined, we concluded that state law exempts CSU from many of the budget oversight mechanisms with which other state agencies must comply. We discuss this in more detail in the body of the report starting on page 30.</p>
3 Review and evaluate trends related to management positions and levels of compensation at six campuses and the CSU Chancellor's Office since 2007. Specifically, identify trends related to the following: <ul style="list-style-type: none"> • The change in management positions. • The ratio of management positions to nonfaculty support staff positions. • The ratio of total compensation for management to total compensation for nonfaculty support staff. 	<ul style="list-style-type: none"> • Analyzed CSU payroll information for 2009 and 2015 from the Government Compensation in California (GCC) website run by the State Controller's Office (SCO) to identify six campuses to visit as part of the audit. • Analyzed CSU payroll information as maintained in SCO's Uniform State Payroll System for fiscal years 2007–08 through 2015–16, and examined changes and identified trends in the number and compensation of position types for the Chancellor's Office and all 23 campuses. • Although we did not perform a data reliability assessment of the GCC data, to gain assurance that the GCC data were appropriate for selecting campuses, we compared data trends we identified from GCC for management personnel and nonfaculty support staff to data trends we identified from SCO's Uniform State Payroll System and found them to be sufficiently comparable.
4 Evaluate CSU's justification of any changes to the number of management staff positions and the compensation levels for those positions at six selected campuses and the CSU Chancellor's Office.	<ul style="list-style-type: none"> • To select the functional areas for testing at the audit locations we visited, we analyzed growth in Chancellor's Office and campus management personnel using data from SCO's Personnel/Payroll Information Management System (PIMS) for October 2007 and October 2016. Although we did not perform a data reliability assessment of the PIMS data, we verified completeness of PIMS by testing whether a random sample of 29 management employees from our selected audit locations for 2007 and 2016 in SCO's payroll data also existed in the PIMS data. We found no errors from this testing. • Interviewed Chancellor's Office and campus staff to identify their reasons for hiring management personnel and to justify the number of management personnel hired and the extent to which changes in the number of positions and compensation affected delivery of services to students (from Objective 6), including the reporting of required metrics for state or CSU initiatives. • Obtained and analyzed available documentary evidence to corroborate statements.
5 Determine the type and amount of compensation received by CSU Chancellor's Office executives and campus presidents since 2007. In addition, assess any trends in the type and amount of compensation over that same period and the reasons behind the trends.	<ul style="list-style-type: none"> • Identified and documented the definition of an executive position. • Identified and summarized the types and amounts of compensation received by the 30 executive positions from fiscal years 2007–08 through 2015–16 and identified key trends in the executive compensation data. • Obtained and reviewed compensation contracts for each of the 30 executive positions to identify additional types of compensation not included in the SCO data, trends, and reasons for trends. • Interviewed staff and obtained documentation at the six campuses and Chancellor's Office to identify why trends occurred.

continued on next page ...

AUDIT OBJECTIVE	METHOD
6 To the extent possible, assess whether the growth in the hiring of management-level staff impacted the delivery of services to CSU students.	We included the work associated with this objective—impacts on the delivery of services to CSU students—as part of Objective 4.
7 To the extent possible, assess whether CSU's current budgeting model contributes to a disproportionate growth in campus and Chancellor's Office management positions.	<ul style="list-style-type: none"> • Identified and documented relevant laws, rules, regulations, and policies for budgeting at CSU, including interviewing LAO, DOF, and Chancellor's Office staff and officials at the six campuses we visited. • Compared budget summary results with management personnel staffing results from Objectives 3 and 4, and worked with the Chancellor's Office and campus staff to interpret the results.
8 Evaluate the effectiveness of the existing oversight of CSU's budget allocations and determine whether the oversight process is adequate and consistent with relevant laws, regulations, policies, and industry accounting standards.	<ul style="list-style-type: none"> • Identified and documented relevant laws, rules, regulations, policies, and industry standards related to budget oversight, including interviewing LAO, DOF, Chancellor's Office officials, and campus staff. • Obtained and analyzed examples of the various tools used by the State, Chancellor's Office, and the six campuses we visited to oversee CSU, campus, or division budgets.
9 Determine the status of implementation of recommendations the California State Auditor made to CSU in its 2007 report. For recommendations that were implemented, assess whether CSU's processes are working as intended. For any recommendations that remain outstanding, assess the reasons why they have not been fully implemented.	<ul style="list-style-type: none"> • Reviewed CSU policies and interviewed staff and human resources personnel at the Chancellor's Office and six campuses regarding the executive transition programs, paid administrative leave for management personnel, moving and relocation reimbursements, and outside employment. • Examined the methodology CSU uses to compare compensation for executives, faculty, and other employees between institutions. Reviewed comparative compensation studies used by CSU and determined whether the Board of Trustees (board) relied on total compensation comparators when establishing compensation or approving compensation increases. • Assessed annual reports from the Chancellor's Office to the board on the status of participants in the executive transition programs. Examined two transition agreements to determine if they complied with the prior audit recommendation. • Identified management personnel at the six campuses who went on paid administrative leave since July 2014 and who were required to indemnify the university, and determined whether these individuals submitted a bond or promissory note indicating they would indemnify the university if they failed to render service to the university following a leave of absence. • Identified campus policies for reimbursing staff for moving and relocation expenses. Identified employees from each of six campuses who received moving and relocation reimbursements since January 2012 and determined whether a selection of moving and relocation reimbursements met CSU and campus criteria. • Analyzed lists of reimbursements that the six campuses we visited paid to employees to identify relatively larger reimbursement amounts. Although we did not perform a data reliability assessment of these lists, to gain assurance that the lists were appropriate for identifying relatively larger reimbursement amounts, we compared the larger reimbursement amounts to claim information and found no material exceptions. • Examined available records to determine whether the six campuses requested outside employment disclosures from faculty and from management personnel.
10 Review CSU's process for selecting the external auditor of its systemwide financial statements and determine whether this process complies with relevant laws, rules, regulations, and best practices.	<ul style="list-style-type: none"> • Obtained and documented laws, rules, regulations, and best practices for selecting external auditors. • Reviewed the contract, contract amendments, request for proposals, list of qualified bidders, and bids to determine compliance with bidding requirements.
11 Review and assess any other issues that are significant to the audit.	We did not identify any other significant issues.

Sources: California State Auditor's analysis of the Joint Legislative Audit Committee's audit request number 2016-122 and information and documentation identified in the table column titled *Method*.

Assessment of Data Reliability

In performing this audit, we obtained electronic files of CSU payroll data as maintained by the SCO for July 1, 2007, through June 30, 2016. The U.S. Government Accountability Office, 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. We performed data-set verification procedures and electronic testing of key data elements and did not identify any significant issues. To gain some assurance of the accuracy of these data, we compared the salaries for a sample of payroll records to CSU's published salary ranges for its positions and found that the payments were within these ranges. However, we did not perform full accuracy and completeness testing of these data because the source documents required for this testing are stored at various locations throughout the State, making such testing cost-prohibitive. Consequently, we found CSU's payroll data to be of undetermined reliability for the purposes of calculating the change in the number of, and total compensation for, various employee categories, and for determining the types and amounts of compensation CSU executives received. 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.

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 and Methodology 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: April 20, 2017

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



BAKERSFIELD April 4, 2017

CHANNEL ISLANDS Ms. Elaine Howle*

CHICO State Auditor

DOMINGUEZ HILLS California State Auditor

621 Capitol Mall, Suite 1200

Sacramento, California 95814

EAST BAY Dear Ms. Howle:

FRESNO The California State University (CSU) welcomes the opportunity to respond to

FULLERTON the draft audit report *California State University – Stronger Oversight is Needed*

HUMBOLDT *for Hiring and Compensating Management Personnel and for Monitoring*

Campus Budgets.

LONG BEACH Before responding to the specific recommendations, I wish to address a few

LOS ANGELES observations about the audit report that provide important context for the audit

MARITIME ACADEMY findings. One of the points noted in the audit is the higher growth rate of

MONTEREY BAY management personnel plan employees compared to other employee groups. ①

NORTHRIDGE However, the audit report does not note that there were four employee groups

POMONA (academic student employees, academic support, health care support and

SACRAMENTO confidential) with higher growth rates. Those groups combined grew by twice the

SAN BERNARDINO number of management personnel plan employees over the same period. Also, it

SAN DIEGO is important to note that the term “management personnel” is a very broad label

SAN FRANCISCO that applies to employees who perform a wide variety of functions in the CSU. As

SAN JOSE referenced in the audit, almost 60 percent of management personnel are classified

SAN LUIS OBISPO as professionals or supervisors and many provide direct support to students to

SAN MARCOS increase graduation rates, shorten time to degree, and close achievement gaps.

SONOMA Lastly, although the audit primarily addresses changes in internal staffing ②

STANISLAUS patterns, it is important to recognize that CSU’s management staffing levels and

administrative costs are much lower than other similar higher education

institutions both within California and nationally.

State Auditor Recommendations and CSU Responses

Recommendation 1: Develop a policy that requires its own divisions and departments and campuses to prepare written justifications for both the purpose and specific number of proposed additional management positions. As appropriate, these should justify the number of management personnel positions to be hired based on a workload staffing analysis and the number of people to be supervised.

Ms. Elaine Howle
April 4, 2017
Page Two

Response: We note that the State Auditor found that the purpose of management personnel plan positions was clear and supported. As described in the audit, each position requires a formal written description that specifies the job duties and time-base. As each hire is made on an individual basis, approval of the written position description constitutes approval of the purpose, specific job duties, and the time-base of the individual hired to perform those duties. Thus, the CSU believes that the current policy provides proper justification for both the purpose and number of positions. However, the CSU will provide additional guidance regarding information required to justify the number of management personnel positions when an entirely new classification or position is created or more than one position is contemplated.

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Recommendation 2: Require human resources units to maintain these justifications and make them publicly available to stakeholders when requested. No later than one year following the issuance of this new policy, the Chancellor's Office should begin monitoring its own divisions and departments and campuses to ensure that they are properly justifying all new management personnel hires.

⑤

Response: The CSU will provide additional guidance regarding the maintenance and provision of records related to establishing management personnel plan positions as well as compliance monitoring protocols.

Recommendation 3: Ensure that each campus creates, implements, and adheres to a written merit evaluation plan for management personnel in accordance with Title 5 of the California Code of Regulations. Furthermore, the Chancellor's Office should monitor campuses to ensure that they are complying with their merit evaluation plans and are only granting raises to management personnel based on merit as evidenced by documented current performance appraisals.

⑥

Response: The Chancellor's Office will provide additional guidance to campus presidents (who are responsible for hiring and evaluating management personnel) to ensure that appropriate processes are in place regarding monitoring and compliance with management personnel policies, including existing policies that require performance evaluations prior to granting merit increases.

Recommendation 4: Work with campuses, bargaining unit representatives, the Public Employment Relations Board, and others as necessary, to come to an agreement on the appropriate classification of coaches. The Chancellor's Office should take into account the concerns that San Diego State raised about the labor market for these employees.

Response: The CSU has initiated discussions and meetings have been held with the campuses and the relevant collective bargaining unit to implement changes required to accommodate classification and compensation needs for athletic coaches.

Ms. Elaine Howle
April 4, 2017
Page Three

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

Response: Numerous reports are presently provided to the state legislature regarding state performance measures including student access, such as the Report on Greater Statewide Degree Attainment; California State University Report: Preliminary Institutional Financial Aid Programs; Report on Utilization of Facilities; Report on Academic Sustainability Plan; an annual report to the Director of Finance and the state legislature pursuant to section 9795 of the Government Code regarding progress in improving CSU's four-year graduation rates and two-year transfer student graduate rates; and many others. The annual report recommended in the audit duplicates some information already found in other reports. The CSU remains committed to working with the Legislature to develop and improve appropriate and meaningful reporting regarding the critical services provided by the university. ⑦

Recommendation 5: 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.

Response: Responsibility and accountability for budget management and oversight is delegated to the campus president and chief financial officer. The Chancellor's Office will provide additional guidance regarding best practices for campus budget oversight as suggested in this recommendation. ⑧

Recommendation 6: To minimize concerns regarding possible conflicts of interest, the Chancellor's Office should work with the Board of Trustees to develop, approve, and implement an executive compensation policy that expressly prohibits the use of foundation funds to pay campus presidents.

Response: The Chancellor's Office will propose to the Board of Trustees a revision of the existing executive compensation policy to reflect the current practice prohibiting the use of foundation funds to pay campus presidents.

Recommendation 7: To better ensure the reasonability of the reimbursements CSU pays for moving and relocation expenses, the Chancellor's Office should take the following actions by October 2017:

- Place an appropriate cap on the amount it will reimburse campus presidents for moving and relocation expenses based on either a dollar amount or percentage of

Ms. Elaine Howle
 April 4, 2017
 Page Four

base salary. If the chancellor authorizes a reimbursement amount greater than this cap, the chancellor should submit a written explanation to the board to justify the payment.

- Revise its policy to require campuses to place an appropriate cap on the amount it will reimburse campus staff for moving and relocation expenses based on either a dollar amount or percentage of base salary. If the campus president authorizes a reimbursement amount greater than this cap, the president should submit a written explanation to the chancellor to justify the payment.
- Follow up with the campuses to ensure that they have sufficiently complied with its policy regarding the adoption of thresholds and caps for reimbursing staff for moving and relocation expenses and that those thresholds and caps are reasonable. If necessary, the Chancellor's Office should provide more exact guidance to the campuses on how to establish these thresholds and caps.

- ⑨ **Response:** Moving and relocation payments that are necessary to recruit high level talent to CSU can vary considerably based on the circumstances of the relocation. As the audit notes, in some cases payments associated with a sale of a residence factor into the reimbursement and increase the total reimbursed cost. The CSU will consider establishing a cap on relocation payments accompanied by opportunities for written exceptions to the cap if approved by an appropriate administrator and consistent with compliance monitoring protocols.
- ⑩

Recommendation 8: The Chancellor's Office should finish developing the Common Human Resources System and implement it as scheduled by December 2019.

Response: We concur.

Recommendation 9: Once it receives the results of its consultant's study on executive compensation, the Chancellor's Office should collaborate as soon as possible with interested parties, such as the legislative analyst, to develop methodologies for future compensation comparisons that consider total compensation.

- ⑪ **Response:** The Chancellor's Office is in the process of gathering data required for consideration of institutions for compensation comparisons. Once the data is available, the Chancellor's Office will collaborate with relevant parties to consider institutions for compensation comparison purposes.

Recommendation 10: Within six months, the Chancellor's Office should revise its policy to clarify when campuses need to obtain indemnifications from management personnel who will be on paid administrative leave and should begin monitoring campuses to ensure that they are adhering to its policy.

- ⑫ **Response:** The Chancellor's Office will evaluate the existing policy for clarity and will implement a training program designed to ensure that campuses follow the existing

Ms. Elaine M. Howle
April 4, 2017
Page Five

management personnel plan paid administrative leave policy and provide recommended compliance monitoring protocols.

Recommendation 11: Within six months, the Chancellor's Office should begin monitoring campuses to ensure that they are complying with the faculty bargaining unit requirements for disclosing outside employment.

Response: The Chancellor's Office will implement a training program designed to ensure that campus faculty follow outside employment reporting requirements and provide recommended compliance monitoring protocols.

Please do not hesitate to contact me if you have questions.

Sincerely,



Timothy P. White
Chancellor

TPW/bw

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COMMENTS

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

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

The chancellor's statement that our audit report "does not note" certain employee groups with higher growth rates than the growth rate for management personnel is inaccurate. In Figure 5 on page 13 of our report, we specifically identify the growth rates of the various employee categories that we included within *nonfaculty support staff*, including the four employee groups the chancellor references in his response. We also include on page 12 the Chancellor's Office's perspective explaining the growth rates for two of these categories—*academic support employees* and *academic student employees*.

①

The scope and objectives of our audit did not include comparing CSU's management staffing levels and administrative costs to those of other similar higher education institutions in the State and nationally. Therefore, we have no comment on the applicability of the chancellor's statement to our audit report. Nevertheless, it does not change our conclusion that staffing levels and compensation for CSU management personnel have increased at a faster rate than other employee groups and that CSU needs to improve its oversight for hiring and compensating management personnel, as we discuss extensively on pages 11 through 25 of our report.

②

Despite the chancellor's assertion to the contrary, we believe that CSU's current policy falls short of providing proper justification for increases to the number of management personnel positions. CSU's policy—HR 2012-15, dated November 2012—states that campuses should provide position descriptions to management personnel and staff, and that those position descriptions should contain a *purpose section* (reason the position exists), among other information. However, as we mention on page 18 of our report, we expected to see staffing analyses or other evidence that justified both the purpose of the additional personnel and the number of personnel that were hired. We further state on page 19 that campuses were often unable to justify the number of management personnel they hired and consequently could not demonstrate that they are providing services in the most cost-effective manner.

③

The chancellor's statement that "CSU will provide additional guidance regarding information required to justify the number of management personnel positions" may not fully address our recommendation.

④

On page 25 of our report, we recommended that the Chancellor's Office *require* its divisions and departments and campuses to prepare written justifications for both the purpose and specific number of proposed additional management personnel positions. We believe this recommendation falls squarely within the responsibility of the Chancellor's Office to develop systemwide policies. We are concerned that the issuance of mere guidance to campuses with no mandate for adherence will not sufficiently correct the issues we identified in our report. When reviewing CSU's updates on its implementation of our recommendations in two, six, and 12 months, we will assess CSU's new *guidance* to verify that it actually requires written justifications of the number of management personnel.

Additionally, it is unclear from the chancellor's comment whether campuses will have to justify the hiring of an additional management personnel position for a classification already in existence. The chancellor stated that CSU's guidance will apply "when an entirely new classification or position is created or more than one position is contemplated." We will review CSU's updates in two, six, and 12 months to make sure that they appropriately address our recommendation.

- ⑤ The chancellor's statement that "CSU will provide additional guidance regarding the maintenance and provision of records related to establishing management personnel plan positions" may not fully address our recommendation. On page 25 of our report, we recommended that the Chancellor's Office *require* human resource units to maintain justifications and make them publicly available when requested. We are concerned that the issuance of mere guidance to campuses with no mandate for adherence will not sufficiently correct the issues we identified in our report. When reviewing CSU's updates in two, six, and 12 months, we will assess CSU's new *guidance* to verify that it actually requires human resource units to maintain justifications and make them publicly available when requested.

Similarly, the chancellor's statement that the CSU will provide "compliance monitoring protocols" may not sufficiently address our recommendation. The statement implies that the Chancellor's Office may not perform the monitoring itself, but rather provide such protocols (or guidance for the protocols) to the campuses so that they monitor themselves. Because the concerns we describe on pages 18 through 21 of the report occurred at the campus level, we specifically directed our recommendation to the Chancellor's Office. Our recommendation on page 25 states that the Chancellor's Office should begin *monitoring* its divisions and departments and campuses to ensure that they are justifying all new management personnel hires. We will review CSU's updates in two, six, and 12 months to make sure that they include steps for the Chancellor's Office monitoring.

The chancellor's response that his office "will provide additional guidance to campus presidents...to ensure that appropriate processes are in place regarding monitoring and compliance" does not sufficiently address our recommendation. Rather than providing guidance to campus presidents regarding monitoring, the recommendation on page 25 of our report states that "the Chancellor's Office should monitor its own divisions and departments and campuses to ensure they are complying with their merit evaluation plans and are granting raises to management personnel only based on merit as evidenced by current, documented performance evaluations." We will review CSU's updates in two, six, and 12 months to make sure that they appropriately address this part of our recommendation.

⑥

We disagree with the chancellor's statement that the annual report we recommend "duplicates some information already found in other reports." As we indicate on page 32 of our report, none of the reports to the Legislature that we described require CSU to specify how it used state appropriations to improve student success. Our recommendation to the Legislature on page 33 eliminates this gap.

⑦

The chancellor's statement that CSU "will provide additional guidance regarding best practices for campus budget oversight" does not fully address our recommendation. On page 33 of our report, we recommended that "the Chancellor's Office should require campuses to develop and implement budget oversight policies..." We are concerned that the issuance of mere guidance to campuses with no mandate for adherence will not sufficiently correct the issues we identified in our report. We will review CSU's updates in two, six, and 12 months to make sure that they appropriately address our recommendation.

⑧

CSU's reluctance to provide written justifications for moving and relocation reimbursement amounts above a certain threshold is troubling. As indicated by our recommendations on page 44 of the report, we believe that CSU needs to do more than merely "consider establishing a cap on relocation payments." We state on page 41 of our report that CSU's current policy contains no cap on the amount of reimbursements executives can receive. Based on the range of moving and relocation reimbursement amounts shown in Table 4 on page 42 of our report, we are concerned that some of the larger reimbursements appear questionable. For instance, Table 4 shows that CSU reimbursed the president of Sonoma State University \$31,375 for relocation expenses. CSU reported this reimbursement amount to the board in 2016 for the president's relocation from Sacramento, which is about 90 miles from the campus and resulted in a relocation reimbursement of about \$349 per mile. Table 4 also shows that CSU reimbursed the president of San Diego State \$24,571 for relocation expenses. CSU reported this 2012 reimbursement amount to the board

⑨

for the president's relocation from Sterling, Virginia, which is about 2,675 miles from San Diego and resulted in a relocation reimbursement of about \$9 per mile. Without a further justification, this first reimbursement appears questionable. We acknowledge that CSU may have valid business purposes for paying large reimbursements to executives and that the reimbursement amounts claimed may in fact be reasonable and necessary. However, written explanations for larger reimbursements would help CSU increase transparency for stakeholders that those relatively high reimbursement amounts paid to CSU executives and campus employees for relocation and moving expenses are in fact reasonable and necessary.

⑩ The chancellor's response failed to address the last bullet point of our recommendation on page 44: "Follow up with the campuses to ensure that they have sufficiently complied with [CSU] policy regarding the adoption of thresholds and caps for reimbursing staff for relocation and moving expenses and that those thresholds and caps are reasonable." We will review CSU's updates in two, six, and 12 months to assess the status of its implementation of this recommendation.

⑪ The chancellor's response does not completely address our recommendation. Specifically, it omits mention of collaborating with interested parties "to develop methodologies" for future compensation comparisons "that consider total compensation," as we state on page 46 of our report. We will review CSU's updates in two, six, and 12 months to make sure that they address all aspects of our recommendation.

⑫ The chancellor's response that his office "will evaluate the existing policy for clarity and will implement a training program" does not sufficiently address our concern or our recommendation. On page 47 of our report, we describe how two campuses improperly applied the Chancellor's Office policy related to administrative leave. Because of the campuses' misapplication of this policy, we recommended that the Chancellor's Office revise the policy for clarity. We will review CSU's updates in two, six, and 12 months to make sure that they sufficiently address our recommendation.

Furthermore, the chancellor's response that his office will "provide recommended compliance monitoring protocols" does not sufficiently address our recommendation; it implies that the Chancellor's Office will not perform the monitoring itself. Our recommendation states that the Chancellor's Office "should begin monitoring campuses to ensure that they are adhering to its policy." Because we found that all five instances of the problem occurred at the campus level and because the campuses misapplied the Chancellor's Office's policy, it's important that the Chancellor's Office itself be responsible for the follow-up monitoring. We will review CSU's updates in two, six, and 12 months to make sure that they appropriately address this part of our recommendation.