



THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

April 5, 2017

1111 Franklin Street, 12th Floor
Oakland, California 94607-5200
(510) 987-9220
FAX: (510) 987-9224

Ms. Elaine Howle
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

State Auditor Howle:

Thank you for the opportunity to respond directly to the draft audit report on UC's Office of the President administrative expenditures. On April 3, the Compliance and Audit Committee met to discuss all aspects of the report, paying particular attention to its recommendations to the Regents and the Legislature. This response reflects the discussion of the committee members in attendance and is submitted in addition to UCOP's response. Of note, we formally request you remove recommendations from the report that we feel encroach upon the constitutional autonomy of the University and are inconsistent with many of the constructive recommendations related to improved processes, accountability, and transparency.

There is nothing that the Board of Regents takes more seriously than its fiduciary duty. Board members have committed ourselves to serving as strong stewards of the University and its tripartite mission of teaching, research, and public service. In doing so, we seek to be fiscally prudent, to deploy University funds in a manner most consistent with that mission, and above all else, maintain the public trust in this exceptional institution. We have done so consistently throughout UC's history and wish to reaffirm that to you now.

As you will note, UCOP agrees with the vast majority of the draft report's recommendations regarding budget and administrative processes. We, too, believe these recommendations are largely helpful and constructive. As in any large and complex organization, there is always room for improvement at the University and as UC's fiduciaries we are fully committed to working with UCOP to pursue greater efficiency and transparency. We look forward to discussing with the full Board of Regents how to best partner with UCOP to successfully implement the recommendations. We feel it important to note, however, that over the past several years, UCOP has made significant improvements to its budget and administrative process, and has demonstrated important leadership in advancing significant priorities for both the Regents and the State. We have great confidence in UCOP leadership and hope that overriding fact does not get lost in our discussion of this report.

While we agree with most of your recommendations, we have serious concerns with the recommendations you intend to make to the Legislature. As written, we believe these recommendations threaten the University's standing as a constitutionally autonomous entity, and the Board of Regents itself.

One of your recommendations calls on the Legislature to directly appropriate funding for UCOP's budget, while limiting its ability to seek additional financial support from campuses. This is deeply troubling for many reasons, key among them the undermining of the constitutional autonomy of the University.

Since its inception, UC's constitutional autonomy has ensured that the University's mission, vision and values emanated from its students, faculty and staff, free from political or sectarian influence, in the words of

Article IX, Section IX of our State Constitution. Along with the Master Plan for Higher Education, constitutional autonomy has allowed UC to grow into a world renowned system of 10 flagship quality research institutions. The scale and scope of this achievement distinguishes UC from other public university systems across the country.

A second problematic recommendation asks that the Legislature order the Regents to hire a third-party entity to manage a corrective action plan for UCOP. In addition to this fundamental issue of constitutionality, we embrace the notion of subsidiarity. This concept appropriately places the greatest authority in the most local decision-maker, which in this case, is the Board of Regents. Moreover, given the Board's fiduciary responsibilities, the Regents are best positioned to provide policy direction, guidance, and oversight of the University. As with all the recommendations in the report, the Board of Regents will carefully consider the best ways to ensure the recommended process and policy improvements.

We also want to address a third recommendation that calls for an open hearing on systemwide and presidential initiatives. The report implies that the initiatives are inconsistent with the University's missions and fail to incorporate adequate stakeholder input. We strongly disagree. These initiatives represent forward-thinking efforts that we and many in the UC community are most proud of. They also reflect all parts of UC's mission – educating the full range of California's population, conducting ground-breaking research and applying that research to real-world problems, and providing service to address some of the most critical issues facing the state.

In addition, these initiatives represent shared priorities with State leadership. They were, and continue to be developed with significant input from the Regents, campus leadership, student representatives and other key UC constituents. They have been discussed and promoted in a wide range of public settings – from Regents meetings, to state and federal legislative hearings, to public events throughout California. We recognize that there is room to provide even more robust reporting, and we intend to work with UCOP on future presentations. However, as currently presented, this report recommendation suggests defunding and devaluing these priorities, which we cannot support.

We would like to meet with you next week as part of our continued engagement with you and to underscore our commitment to comply with recommendations that will improve UCOP's budgetary and administrative processes. As we mentioned in the outset of this letter, we also formally request that the recommendations made to the Legislature be excluded from the final report. This step would preserve the established role of the Regents in the oversight of the University and ensure its constitutional autonomy. Our office will be in touch with you to schedule a meeting where we can discuss these matters in greater detail. Thank you for your attention to these important matters.

Respectfully,



Monica C. Lozano
Chair, UC Board of Regents



Charlene Zettel
Chair, Compliance and Audit Committee