

**UNIVERSITY OF CALIFORNIA, DAVIS  
INTERNAL AUDIT SERVICES**

**School of Law  
Dean's Office Administrative Review  
Internal Audit Services Project #13-58**

**May 2013**

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**MANAGEMENT SUMMARY**

As part of the Internal Audit Services (IAS) audit plan for fiscal year (FY) 2012-2013, IAS conducted an administrative review of the School of Law (School) Dean's Office.

The mission of the School is to be a nationally and internationally recognized leader in the development and dissemination of legal knowledge, as well as the education of students to become socially responsible lawyers committed to professional excellence and high ethical standards, and to provide significant public service through law reform and professional activities.

The School offers a comprehensive three-year curriculum for the Juris Doctor (J.D.) degree in all major areas of the law. In addition to the traditional J.D. program, the School also offers a Masters of Law (LLM) program. Students participate in moot court and mock trial, and have the opportunity to earn academic units through the School's clinics and externship programs.

The School has approximately 570 J.D. students, between 15-25 LLM students annually, 37 tenure and tenure-track faculty, and between 35-50 part-time faculty each year. The School had fund sources (including carry-forwards) of approximately \$30.5 million in FY 2011-2012. Expenses for FY 2011-2012 were approximately \$25.4 million, with salaries/benefits (61%) and scholarships/fellowships (23%) representing the most significant categories.

The objectives of the review were to:

- Assess the financial performance of the School over the past five years, including the availability of and commitments against discretionary funds;
- Determine definitions of success within the School and assess the plans and processes to move the School toward success;
- Survey constituents including a sample of faculty, students, and staff to: (a) understand the key inherent risks facing the School and assess management plans and processes to mitigate those risks, and (b) report on perceptions of climate and culture within the School;
- Assess internal controls over financial and administrative processes;
- Analyze key operating statistics including number of faculty, staff, vacancies, and students; and
- Assess the organizational structure of the School including span of control.

To perform our review, we interviewed faculty and administrative personnel from the School's Dean's Office, School faculty members, School unit managers, and personnel from other campus offices. We reviewed the School's measures of success, such as its national and faculty rankings, admissions data, and employment statistics. We also reviewed statistics and data about the School's expenditures, faculty, staff, and students, much of which is available through the Provost's Dashboard. Additionally, we obtained and analyzed

reports from Davis Financial Information System (DaFIS) and other financial reports prepared by the Dean's Office and Budget and Institutional Analysis (BIA).

Based on the School's projections, as of June 30, 2013, the School will have accumulated funds across all funding sources of approximately \$3.9 million, approximately \$2.2 million of which will represent gifts and endowments (approximately 85% of which is restricted). The School's most significant outstanding commitment is a bridge loan from central campus amounting to approximately \$4.8 million related to the ongoing King Hall Renovation and Expansion project. The School has negotiated with BIA to repay this loan as funds become available. Separate from the bridge loan, the School has committed \$383,000 toward the renovation and expansion project that has yet to be funded.

By all measures of success, the School and its faculty are one of the most highly regarded in the country. The School's faculty is ranked #23 nationally in the prominent rankings by University of Chicago law professor Brian Leiter. Diversity is also an important measure of success for the School, which is housed in a building named after Dr. Martin Luther King, Jr., and values the principles of civil rights and social justice. The School has been recognized nationally for its diversity, as faculty placed 9<sup>th</sup> in *The Princeton Review's* annual ranking of diversity, and students placed 21<sup>st</sup> in the *US News and World Report (U.S. News)* diversity rankings. Overall, across the various publications that rank law schools, the School is currently ranked in the 20s-30s range, which is consistent with its goals, its ranking range over the five year period under review, and the current #38 national ranking for UC Davis by *U.S. News*.

Faculty interviewed by IAS agreed that many of the risks facing the School are not unique to UC Davis but instead reflect the crisis facing law schools across the country, such as the challenging employment market and the debt loads faced by law school graduates. In the face of these challenges, though, faculty unanimously support, trust, and respect the Dean as a leader, scholar and fundraiser to guide the School into the future.

Faculty and students generally reported that the culture within the School and the interactions between and among faculty and students are very positive and collaborative, and unique among law schools. Also, although some degree of friction arose this year between students and the administration as a result of the fee/tuition increases in recent years, the students and School responded by collaborating to form a Student Budget Advisory Committee, and students appear more optimistic about the future.

Regarding internal controls, after the former Senior Assistant Dean for Administration separated from the School, the interim Assistant Dean identified that internal controls over endowment, scholarship, grant, and gift accounts needed to be improved, as: (a) certain accounts had deficits or unspent balances, and (b) the purpose of some accounts was not documented.

IAS comments regarding statistics for faculty, staff, vacancies and students have been incorporated into the body of the report as applicable to the analysis of other audit objectives. No observations were noted regarding the organizational structure of the School.

## I. OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT CORRECTIVE ACTIONS

### A. FINANCIAL STATE OF THE SCHOOL

1. **Based on the School's projections, as of June 30, 2013, the School will have funds available across all funding sources of approximately \$3.9 million, approximately \$2.2 million of which will represent gifts and endowments (approximately 85% of which is restricted).**

The School's primary source of funds is the Professional Degree Supplemental Tuition (PDST) component of overall student fees. The following table presents total annual student fees for 2009 and 2013. As shown, over this five-year period, total fees for California residents, which are set by the Regents of the University of California (UC), have increased from \$28,515 to \$49,564, an increase of 74%, and nonresident fees have increased from \$40,760 to \$58,815, an increase of 44%. These increases are consistent with increases at the other UC law schools.

Law Student Fees		
	2009	2013
<u>California Residents<sup>1</sup></u>		
Professional Degree Supplemental Tuition (PDST)	\$18,439	\$34,182
Tuition	6,204	11,220
Health Insurance <sup>2</sup>	1,854	2,280
Miscellaneous UC Davis Fees	2,108	1,882
Total, California Residents	\$28,515	\$49,564
<u>Nonresident Adjustments</u>		
Reduction in PDST	--	(2,994)
Incremental Tuition	12,245	12,245
Total, Nonresidents	\$40,760	\$58,815

While the annual PDST income between 2009 and 2013 increased \$8.0 million, state support for the School decreased by \$545,000 (for a net increase of 40%). See Appendix A for a detailed explanation of income. The School's expenses have increased by \$8.3 million (41%) and scholarships and fellowships of \$6.6 million have doubled (\$3.4 million increase). See Appendix B for a detailed explanation of expenses.

Financial highlights of the School since FY 2009 are as follows:

- The School has undertaken the King Hall Renovation and Expansion project throughout the five-year period under review. In conjunction with this project, the School has accessed gifts and accumulated funds of approximately \$8.1

<sup>1</sup> 88% of the current student body is classified as California residents for tuition/fee purposes.

<sup>2</sup> Students must purchase health insurance unless they are able to prove comparable coverage under another insurance plan.

million to fund construction costs. In addition, between 2009 and 2013, the School expended approximately \$3.5 million related to this project for non-capitalized equipment, furniture, Material Management recharges, and Classroom Technology expenses. (See Appendix B for further details, as these expenditures are included primarily within the "Equipment and Furniture" and "Classroom Technology Services" lines of the schedule.) The King Hall Renovation and Expansion project is addressed in section I.A.2 below.

- Salaries and benefits increased 31% from \$12.7 million in 2009 to approximately \$16.6 million in 2013 (based on annualized actual salaries/benefits through April 30, 2013).
- Library books and services are approximately \$1 million annually. (Salaries/benefits for library staff are included in the overall salaries/benefits amounts.)
- Other noteworthy items of expense are detailed by year in Appendix B.

The School's newly-hired Senior Assistant Dean for Administration is in the midst of preparing FY 2014 budget scenarios in light of the School's overall financial position. Because FY 2014 fees will not be decided by the Regents until late summer 2013, uncertainty currently exists regarding the School's budget for 2014, and the School is proceeding cautiously. The School is budgeting conservatively and has made the decision not to hire any additional faculty for FY 2014 and not to fill four staff vacancies in FY 2014. The School plans to add several student-employee positions in FY 2014 to offset the vacant staff positions, as a cost-savings move as well as to provide students with employment experience.

**2. In connection with the recent renovation and expansion of King Hall, the School has a bridge loan of \$4.8 million currently outstanding with central campus. Separate from the bridge loan, the School has pledged \$383,000 toward the renovation and expansion project that has yet to be funded.**

In January 2011, the School entered into an agreement with the Provost through which \$4.8 million in loan proceeds were allocated to the School to complete the capital funding for the King Hall Renovation and Expansion project. According to the agreement, "The School will repay the full loan amount plus accrued interest with professional degree fee revenue or gifts as they become available." The original loan agreement called for a repayment period through 2018, beginning with an interest payment of \$193,000 in FY 2012 and a principal and interest payment of approximately \$1.1 million in FY 2013, but neither of those repayments was made. The School has recently negotiated with BIA regarding restructuring the repayment period and terms, such that repayment will begin to be made as funds become available. In addition to the bridge loan, the School has committed \$383,000 toward the King Hall project, which has yet to be funded.

The King Hall project is still ongoing, with completion expected during 2013. School and project personnel are estimating final costs, and the possibility currently exists that the bridge loan may need to be supplemented by up to

\$200,000, although the School is planning strategies to avoid the need for this supplementation.

### **Management Corrective Actions**

The School has been actively working to change its business operations culture, with many initiatives being led by the new Senior Assistant Dean for Administration. Among the changes which have been implemented or planned to be implemented are the following:

1. The Senior Assistant Dean is in the process of reviewing prior year expenditures in order to establish FY '14 budgets by business unit and making unit managers responsible for, and accountable for, the operations and expenditures of their units.
2. As noted previously, the School's budgetary climate is shifting to one of caution, with the decisions having been made to do no faculty hiring in FY '14 and leave four staff vacancies unfilled.
3. The Dean is now receiving regular periodic financial and business updates from the new Senior Assistant Dean. Several members of leadership have commented on the positive changes in recent months in terms of financial information sharing among the School's senior executive group.
4. The Senior Assistant Dean is preparing several budget scenarios for FY '14 depending on: (a) the FY '14 tuition/fee levels (which won't become finalized until early FY '14); and (b) the number of students to be admitted in the fall 2013 class, as discussed in section I.B.3 below (which also won't be finalized until early FY '14).

Because the School has been actively engaged with BIA regarding the funding issues on the King Hall project, no further corrective actions are considered necessary.

## **B. MEASURES OF SUCCESS**

**According to all commonly accepted measures of success for the School, the campus, and the national law school environment, the School and its faculty are one of the most prominent in the country.**

### **1. Faculty**

The faculty of the School was ranked 23<sup>rd</sup> nationally in the most recent comprehensive faculty quality assessment undertaken by Brian Leiter, a law professor at the University of Chicago, whose periodic rating of law faculty productivity and influence is often regarded as the single most systematic

evaluation of American law school quality. Professor Leiter wrote that faculty quality at the School “has improved significantly in the last generation” and is “now solidly top 25.”

The School has 19 members of the American Law Institute (ALI), the leading law reform organization in the country. ALI membership is a distinct professional honor and the elected membership consists of eminent judges, lawyers, and scholars selected on the basis of professional achievement. The School has among the highest proportion of ALI members on its faculty of any law school in the country.

The School's reputation among legal scholars has grown nationally and internationally, as demonstrated by many recently hired faculty who hold law degrees from some of the top schools in the country. Also, in recent years, the School has hired away faculty from other esteemed schools such as Stanford and Harvard, another sign of the School's progress.

## 2. Diversity

The School is named for Dr. Martin Luther King, Jr., and has been dedicated to the ideals of civil rights, public service, and social justice since its infancy, as the law building was named in Dr. King's honor following his assassination in the School's second year of instruction. Consistent with these founding principles, the School makes diversity among its faculty and students a priority. For faculty hiring between 2008 and 2013, the School hired a higher percentage (54%) of people of color than any other UC Davis school, college or division. According to the most recent data available on the Provost's Dashboard, the School's ladder rank faculty is comprised of approximately 50% people of color compared to approximately 25% for the campus as a whole. For 2013, students of color represent 49% of the total student population, which is line with the School's five year average.

The School has been nationally recognized for its commitment to diversity. Faculty placed 9<sup>th</sup> in *The Princeton Review's* annual ranking of faculty diversity in its publication “The Best 172 Law Schools.” Also, for the student population, the School was rated 21<sup>st</sup> in the *U.S. News* “Law School Diversity Index,” ahead of substantially all of its peer group schools.<sup>3</sup>

## 3. Admissions

One of the barometers for measuring the School's success is the quality of the students who apply and are admitted. Nationally, applications to law schools have dropped significantly<sup>4</sup> in recent years, primarily because of rising fees and decreased employment opportunities. Even in this challenging environment, the

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<sup>3</sup> The majority of schools ahead of UC Davis are smaller, less prestigious schools.

<sup>4</sup> The national decrease this year has been 30%, according to the School.

School's scores/data for the customary metrics<sup>5</sup> used in evaluating law school admissions success have remained relatively stable throughout the five-year period reviewed.

The School's administration is committed to enrolling the most highly qualified, diverse class possible for fall 2013. With the national drop in applications, many schools are decreasing the size of their entering classes, and the School is similarly anticipating admitting a smaller class for fall 2013. Whereas incoming classes typically average 190 students, the School expects to admit a first year class of 170-180 students for fall 2013.

Competition among schools for the elite students is fierce, with students often playing schools against each other to secure the most lucrative financial aid package. School leadership acknowledges that in this environment, recruiting applicants and marketing the School's appeal becomes even more critical. As such, the School will be looking to establish an aggressive approach to admissions, to advance the School's future success. Upon request from the School, the Provost's Office has funded the School with \$250,000 earmarked for merit-based admissions scholarships to recruit scholars with outstanding LSAT scores and undergraduate GPAs.

#### **4. Placement Success**

According to the School's self-study document written for the 2011 ABA accreditation process, the School believes that its graduates must achieve the following to be considered a success: pass the bar exam, obtain employment, become effective and ethical practitioners, and contribute to the public interest. Employment success is also of critical concern to students, substantially all of whom enter school with the goal of becoming lawyers and leave school with substantial educational debt to repay.

The following table summarizes employment data according to ABA categories for the School's graduating classes of 2011 and 2012 as measured nine months after graduation, which is a commonly accepted milestone. (Note that prior to 2011 these employment categories were not used for ABA reporting purposes, so comparisons to prior years are not meaningful.)

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<sup>5</sup> These metrics include median Law School Admission Test score; median undergraduate grade point average; and percentage of applicants accepted.

Category	2011	2012
Employed full time and long term - bar passage required <sup>6</sup>	56%	62%
Employed full time and long term – J.D. advantage <sup>7</sup>	4%	6%
Employed short term or part time – bar passage required	16%	5%
Employed short term or part time – J.D. advantage	11%	13%
Employed – professional position	1%	1%
Employed – non-professional position	3%	---
Pursuing graduate degree full time	1%	2%
Unemployed – seeking	1%	6%
Unemployed – not seeking	4%	1%
Employment status unknown	3%	4%
Total	100%	100%

Of the 2012 graduating class of 202 students, 68% were employed full-time on a long term basis in positions for which employers either required passage of the bar exam or sought/required an individual with a J.D. For 2012 and 2011, the School ranked 5<sup>th</sup> among fully-approved ABA schools within California based on the composite figures of 68% and 60%, respectively.<sup>8</sup> Nationally, the School ranked 93<sup>rd</sup> and 107<sup>th</sup> in 2012 and 2011, respectively.

The significant improvement from 60% to 68% in 2012 reflects the strength of the Career Services Office under its new leadership. In 2011, the School hired a new Assistant Dean of Career Services, and faculty and students generally praised the efforts of Career Services, especially in contrast to the past management of Career Services. Noteworthy also is the School's commitment of Career Services' resources and time devoted to recent alumni until they secure employment.

The School, with support and partial funding from the Chancellor and Provost, has also recently announced the expansion of its post-graduate fellowship program. New fellowship positions will be open to 2013 graduates of the School and will offer one-year paid positions within the School and within other University offices such as Campus Counsel, in order to assist recent graduates in this challenging legal job market.

<sup>6</sup> A position in this category requires the graduate to pass a bar exam and to be licensed to practice law in one or more jurisdictions.

<sup>7</sup> A position in this category is one for which the employer sought an individual with a J.D., and perhaps even required a J.D., or for which the J.D. provided a demonstrable advantage in obtaining or performing the job, but which does not itself require bar passage or an active law license or involve practicing law.

<sup>8</sup> Excludes U.C. Irvine, a new law school that was provisionally approved by the ABA in 2011. In 2012, Irvine had 56 graduates and ranked 3<sup>rd</sup> in California.

## 5. Bar Exam Passage Rates

The School strives for a pass rate of 90% among graduates taking the California bar exam for the first time. The table below presents the School's bar exam pass rates for first-time takers in California compared to the average pass rate of first-time takers at all other ABA-approved schools in California for each of the last five years.

Year	UC Davis Pass Rate	ABA Average Pass Rate	UC Davis Rank vs Other CA Schools <sup>9</sup>
2008	80%	83.2%	12
2009	89%	79.3%	3
2010	81%	75.2%	8
2011	74%	76.2%	13
2012	79%	76.9%	8

The School is continuing to implement programs to identify earlier in their academic program students who are at-risk of failing to pass the exam. Resources are devoted to these students through the School's curriculum as well as through the School's Academic Success unit (Academic Success) which provides individualized assistance to students. Academic Success is under the leadership of a new Director who has only been with the School for approximately two years. He has designed a semester-long comprehensive bar exam prep course for third year students and seeks to enroll all students in the lowest quartile of the class in terms of grade point average. Also, as with Career Services, Academic Success continues to provide resources to alumni who fail the exam on their initial attempt and need to retake the exam.

## 6. Rankings

Several publications release annual rankings of law schools, and over the five-year period reviewed, across the various publications, the School has been consistently ranked in the top 20/30s range, which aligns with the School's goals. While the ranking slots for the group of law schools in the top 20 generally remain stable from year-to-year, the year-to-year ranking slots for the group of schools in the 20-40 range tend to fluctuate based on relatively minor changes that may have little relationship with the underlying quality of the schools.

The various publications utilize different ranking methodologies, and the criteria and weighting factors used by the *U.S. News*, whose influential rankings receive

<sup>9</sup> Represents the ranking of the "UC Davis Pass Rate" relative to the pass rates of the other California ABA-approved law schools.

widespread attention, are sources of national controversy among law school deans and professors, as well as School faculty interviewed by IAS. *U.S. News*, which currently ranks the School #38, bases its rankings on only four categories (quality assessment based on survey of peers, judges, and lawyers; selectivity; placement success; and faculty resources) and excludes factors such as diversity of faculty and students, teaching quality, student satisfaction, and quality of the law school community.

### **Recommendation**

No recommendations or management corrective actions are considered necessary. The analysis in this section is provided for the benefit of campus leadership.

## **C. SURVEY OF CONSTITUENTS**

This section includes the opinions of faculty, staff and students of the School; their viewpoints are included in this report for the benefit of campus leadership and Dean's Office personnel.

### **1. Risks Facing the School**

**Faculty interviewed by IAS agreed that the most significant risks facing the School are not unique to the School but instead reflect the crisis facing law schools across the country. In the face of these risks, faculty unanimously support, trust, and respect the Dean as a leader, scholar and fundraiser to guide the School into the future.**

The IAS survey of faculty encompassed approximately 50% of the School's tenured and tenure-track faculty, and was conducted via in-person interviews. Faculty generally cited the following risks facing the School and most all law schools: (1) the evolution of legal services over the past five years, with more work being handled by non-attorneys; (2) the reality that the number of law school graduates in this country exceeds the number of available jobs, as a result of the economic slowdown/recession; (3) the rising costs of fees/tuition and associated high debt load for law students, leading to the question of whether the financial model of law school is sustainable given the current legal employment market; (4) the declining number of college graduates applying to law schools; (5) the tension between the academic mission of universities vs. functioning as trade schools for the legal profession. Because the employment market is central to all of these issues, Career Services takes on a role of importance within the School. Overall, faculty acknowledged that the landscape surrounding legal education and the job market has changed very quickly and unexpectedly, and there are no easy answers to these realities. However, they expressed complete confidence and trust in the Dean and his ability to lead the School in these uncertain times. The School's Associate Dean is also well regarded and respected.

To the extent that there are risks specific to the School, faculty cited financial challenges such as the trend of State funding supporting less of the School's operating costs over the years, as well as the youth of the School compared to its peers/competitors, which results in a lower endowment and a smaller alumni fundraising base. A few faculty commented on their dissatisfaction with the overall quality of the School's three faculty support assistants (although they also acknowledged that finding more qualified personnel would be challenging, given the pay level for the positions).

## 2. Culture and Climate

**Faculty and students generally reported that the climate within the School and the interactions between and among faculty and students are very positive and collaborative, although friction arose this year between the student body and the administration, primarily because of the fee/tuition increases in recent years.**

Faculty perceive the School, their colleagues, and students very favorably. Many faculty members characterized the School and student body as a unique, nurturing community in contrast to the fractionalized, ultra-competitive environments that exist at many other law schools. The Dean and faculty are widely accessible to students, which many commented is uncommon in law schools. Several remarked that the renovations made to King Hall have positively contributed to the morale of faculty and students.

Students stated that their interactions with faculty are positive and that faculty members are generally excellent teachers. However, morale among some students has fallen recently, primarily as a result of the rapid increases in fees/tuition combined with the fact that general funds now support a smaller proportion of the School's operations than in the past. The perception of some students is that while their fees/tuition approach the cost of some of the top private schools in the country, the School is ranked #38 by *U.S. News*. When the current second and third year students committed to enroll at the School, their costs were lower and the School's ranking was better, so some students see the increasing costs and falling rankings as degrading the value of their degree. Some students believe that morale would be improved if the School better publicized that approximately 33% of revenues are returned as financial aid in some form, such that the average true cost of attendance is actually approximately 1/3 lower than what is referred to by students as the "sticker price" of approximately \$50,000 annually.

Some students view themselves as consumers of the School's services/product, and of primary importance to them is for the School and University to control tuition/fees, prepare them to pass the bar exam, and provide resources to them in finding employment. As such, effective and efficient functioning of the Admissions Office, Academic Success, and Career Services are critical to student morale.

The School's administration is well aware of student priorities and recognizes that managing student expectations will be essential to the future success of the School.

During the past year, the students were vocal in raising their financial/budgetary concerns to the Dean's Office, and the School responded by convening meetings with students and collaborating with the Law Students Association to form a Student Budget Advisory Committee which will provide formal input to the Dean's Office. The students appear to have an optimistic outlook regarding the formation of this committee and its future work, as well as to the openness of the Dean's Office to work with them in providing more transparency regarding the School's finances and business. Students expressed resounding support for the new Senior Assistant Dean for Administration, who has committed to making himself available to students through regular "office hours" in an area of the building readily accessible to students.

Finally, students believe that the admissions process could be bolstered by incorporating a personal outreach to applicants from faculty and students to "sell" UC Davis and all that the School has to offer, in order to attract the highest caliber students possible.

### **Management Corrective Actions**

The formation of the Student Budget Advisory Committee in FY 2013 is seen by students and the School's leadership as a positive development to address student financial concerns. Also, to enhance transparency, in FY 2014, the Senior Assistant Dean will be posting the School's FY 2014 budget online, where it will be accessible to all students. No additional recommendations or corrective actions are considered necessary.

## **D. INTERNAL CONTROLS**

The former Assistant Dean of Administration officially separated from the School effective October 2012, and a staff member from BIA was subsequently appointed as interim Assistant Dean until the appointment of the new Senior Assistant Dean effective April 1, 2013.

- 1. The interim Assistant Dean identified that internal controls over endowment, scholarship, grant, and gift accounts needed to be improved, as: (a) certain accounts had deficits or unspent balances, and (b) the purpose of some of these accounts was not documented.**

The interim Assistant Dean began reviewing the School's accounts and identified deficit balances in a number of endowment, scholarship, grant, and gift accounts. This discovery led to an effort to analyze all of the School's endowment,

scholarship, and gift accounts and balances. The School compiled a schedule with account balances as of October 31, 2012, and personnel from the Dean's Office, Development, and Financial Aid are now working together to understand the purpose of each account and the activity underlying the account balances. The schedule includes 141 accounts (18 of which have debit balances) which total a net surplus of approximately \$2.2 million.

The School's recent past practice has been to set a minimum scholarship award amount of \$5,000, yet many of the associated ledger accounts do not have the funds necessary to meet this minimum requirement. In these cases, the School often has been using discretionary funds to meet the minimum award amount. In conjunction with the overall analysis of accounts, the School is also evaluating its past practice with regard to these scholarship awards.

### **Recommendations**

The School should finish its analysis of all of these endowment, scholarship, gift, and grant accounts to (a) identify and document the purpose of each account; and (b) make adjustments as necessary to account balances. The School should then make strategic decisions regarding its future scholarship awards and establish practices for spending funds in accordance with the purpose of the accounts. Finally, the School should establish processes and practices for monitoring and reporting on these account balances to personnel in offices throughout the School as considered necessary.

### **Management Corrective Actions**

By April 15, 2014, the School will complete the following actions:

1. Review all available information regarding each endowment, scholarship, gift, and grant account, and document the purpose of each of these accounts.
2. Make any necessary accounting entries to adjust the account balances as deemed appropriate based on research conducted into the purpose of the account and the activity to date.
3. Implement internal control procedures to ensure that funds are expended in the future in accordance with the purpose of the accounts.
4. Implement internal control procedures surrounding new accounts so that documentation as to the purpose of these accounts is readily available and accessible to personnel as deemed necessary.
5. Come to agreement on strategic decisions regarding the awarding of scholarships within the School.

6. Establish processes, practices, and responsibilities for reporting on these accounts/balances among personnel in the Dean's Office, Development, Financial Aid Office, Admissions Office, and Business Office as considered necessary.

## **2. The School's general ledger reviews are not current.**

Policy and Procedure Manual 330-11, *Departmental Financial Administrative Controls and Separation of Duties*, requires departments to review their general ledger and payroll ledgers monthly to certify the validity of charges and credits to their accounts. General ledger reviews are a key internal control within the University's accounting structure, and failure to perform monthly general ledger reviews increases the risk that charges and credits are invalid.

The former Assistant Dean for Administration acted as the account manager for all general ledger accounts within the School; however, he did not establish any procedures for the required monthly review. As a result, some of the School's general ledger plans had not been certified dating as far back as 2010. Once this was pointed out by IAS, the School immediately began reviewing its ledgers.

### **Recommendation**

The School should continue with its efforts to bring its ledger reviews current as quickly as possible.

### **Management Corrective Action**

The School has designated one of its Accounting Analysts to be the account manager for its accounts and has established procedures for the monthly ledger review process. As noted, the School is also in the process of certifying all past ledgers and expects to be current with its ledger reviews by January 15, 2014.

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## Appendix A

## Income from Students and General Funds Compared to Expenditures between 2009 and 2013

	FY 2009	2013 (1)	\$ Change since 2009	% Change since 2009
<b>Income</b>				
Income from students	\$ 10,694,000	\$ 18,777,000	\$ 8,083,000	76% (2)
General Funds:				
Base and current year adjustments	8,383,000	7,838,000	(545,000)	-7% (3)
Combined income	\$ 19,077,000	\$ 26,615,000	\$ 7,538,000	40%
<b>Expenditures (4)</b>				
Total operating expenditures	\$ 19,965,000	\$ 28,227,000	\$ 8,262,000	41%

(1) Income amounts for 2013 are actual through April 30, 2013, while total operating expenditures presented for 2013 are actual expenditures through April 30 plus School of Law projections through June 30, 2103.

(2) Income from students is substantially all Professional Degree Supplemental Tuition (PDST). Between 2009 and 2013, PDST increases for California residents and nonresidents were 85% and 69%, respectively. Based on the number of residents and nonresidents, the weighted-average increase in PDST between 2009 and 2013 was approximately 83%. The difference between the weighted-averaged increase in PDST of 83% and the 76% increase in income from students shown above results from fee waivers in 2013 for veterans.

(3) The University's implementation of the incentive-based budget model in 2011 has affected the calculation of the general funds allocations to all schools and colleges including the School of Law. For 2013, BIA calculated that approximately \$1.5 million of the School's general funds allocation represents State support for the School, i.e., unrelated to student tuition. No comparable calculation was made for 2009.

(4) In 2009, expenditures of \$1,247,000 (6.2% of total expenditures) were funded by sources other than student income and general funds (e.g., gifts, contracts and grants, and reserves). In 2013, through April 30, 2013, expenditures of \$895,000 (3.7% of total expenditures through April 30) were funded by these other sources.

## Appendix B - Summary Schedule of Expenditures and Funds Available (in Thousands)

	FY 2009	FY 2010	FY 2011	FY 2012	Year-to-Date 4/30/2013	FY 2013 Projected <sup>(1)</sup>	Variance FY09 - FY13	Variance Explanation
<b>EXPENDITURES</b>								
Salaries and Benefits:								
Salaries	\$ 10,514	\$ 10,241	\$ 11,274	\$ 12,143	\$ 10,701	\$ 12,841	\$ 2,327	See note (2)
Benefits	2,206	2,427	2,914	3,296	3,142	3,370	1,164	Higher pension and healthcare costs
Subtotal: Salaries and Benefits	<u>12,720</u>	<u>12,668</u>	<u>14,188</u>	<u>15,439</u>	<u>13,843</u>	<u>16,611</u>	<u>3,891</u>	
Scholarships & Fellowships	<u>3,290</u>	<u>3,891</u>	<u>5,088</u>	<u>5,721</u>	<u>6,477</u>	<u>6,661</u>	<u>3,371</u>	Scholarships of \$6.6 million have doubled
Other Expenditures:								
Library - books and services	1,201	990	999	1,023	900	1,080	(121)	Less printing/binding services, moving to digital solutions
Equipment and Furniture	152	175	893	512	753	903	751	King Hall renovation project noncapital
Classroom Technology Services	14	2	370	425	99	119	105	King Hall renovation project noncapital
(3) Services	709	(55)	389	475	529	635	(74)	King Hall renovation project noncapital
Travel (including conference fees)	513	389	437	413	438	526	13	Variance immaterial for analysis
UCOP assessment	-	-	-	-	282	282	282	Assessment of all schools/colleges based on expenses
Entertainment (including meetings)	282	226	285	322	233	280	(2)	Variance immaterial for analysis
Communication resources	122	117	137	141	124	149	27	Variance immaterial for analysis
Temporary Employment Services	186	34	65	89	95	114	(72)	Career Services support in 2009 during Director transition
Reprographics recharges	89	105	89	79	65	78	(11)	Variance immaterial for analysis
General office supplies	85	161	148	66	46	55	(30)	Variance immaterial for analysis
(4) Other expenditures	602	567	690	710	612	734	132	Individually immaterial changes in various categories
Subtotal: Other Expenditures	<u>3,955</u>	<u>2,711</u>	<u>4,502</u>	<u>4,255</u>	<u>4,176</u>	<u>4,955</u>	<u>1,000</u>	
<b>Total Expenditures</b>	<u>\$ 19,965</u>	<u>\$ 19,270</u>	<u>\$ 23,778</u>	<u>\$ 25,415</u>	<u>\$ 24,496</u>	<u>\$ 28,227</u>	<u>\$ 8,262</u>	41% increase
<b>FUNDS AVAILABLE</b> <sup>(5)</sup>	<u>\$ 3,572</u>	<u>\$ 8,663</u>	<u>\$ 5,684</u>	<u>\$ 5,039</u>	<u>\$ 7,605</u>			
Less: projected expenditures/external encumbrances as of and through June 30, 2013					<u>\$ (3,731)</u>			
<b>Projected funds available at June 30, 2013</b>					<u>\$ 3,874</u>			

(1) Projections are based on ten months actual plus two months projected at average actual monthly expense, with the exception of the one-time UCOP assessment, and Scholarships & Fellowships, which was adjusted to match the Senior Assistant Dean's total expense projections for the School through June 30, 2013.

(2) Faculty increased 4.5 FTE (approximately \$600,000). Increase in post graduate assistance writer program of approximately \$200,000. Campus-wide salary/wage increases in 2011-2013 for represented/non-represented staff totaled approximately \$500,000. Staff hires, recalls, equity increases totaled approximately \$250,000. New hire for the Environmental Law Center of approximately \$160,000. Merit and range increases of approximately \$450,000.

(3) Services total for 2009 includes King Hall project expenditures of \$343,000 that were transferred in 2010. The \$343,000 represents architect/professional fees from the pre-planning stage that were transferred to the plant account in 2010 after project approval.

(4) Includes expenditures in categories such as the following: computer expenses (software, supplies, maintenance); memberships; honoraria; insurance, supplies, and mail charges, none of which individually total as much as the categories presented in the table above.

(5) Funds available at year-end exclude external encumbrances with the exception of projected external encumbrances at June 30, 2013.

Note: A revenue analysis is not included because of the University's phased rollout of the incentive based budget model beginning in FY 2011, which changed the method of allocating general funds to the School. The new model makes comparisons to prior years impractical.