Independent Consultant's Report

Seventh Report: Independent Assessment of CSA Recommendations

Date: February 21, 2019

Period: October 1, 2018 through February 15, 2019 – Year 2 Third Quarter

Observations and Findings

Our prior quarterly report examined UCOP's actions related to the outstanding issues from the CSA's Year One report and its efforts to focus on accomplishing the 11 recommendations due in April 2019. In October 2018, UCOP submitted additional information to address the four outstanding 2018 recommendations and during the period, CSA accepted two of the four as fully implemented. Additionally, UCOP provided information pertaining to April 2019 recommendations and three of those 11 recommendations are now deemed fully implemented with two others partially complete—months ahead of schedule.

Currently, the CSA determined that 8 of the 10 recommendations due for Year One are complete, including Recommendation #11, UCOP's plan to narrow salary ranges which was provided to the CSA in October 2018. In our view, the auditor's role is to provide recommendations for improvement to the organization and it is up to the "auditee's" executive discretion to determine the best methods and processes to address the intent of the recommendation in the manner that best suits the organization and its stakeholders; the CSA, in several areas, is stipulating the expected change to the UCOP. In the case of the two remaining recommendations for 2018, Recommendation #4 and #5 as we discuss in the next section, we found the UCOP's solutions appropriate to address the recommendations but the auditor does not share our view.

Executive Budget Committee

One recommendation that was implemented early in the first year of the UCOP's efforts relates to the Executive Budget Committee that was reconvened to address CSA Recommendation #6. This recommendation focused on increasing opportunities for campus stakeholders to participate in the budget process by reconvening the campus budget committee. In our view, the Executive Budget Committee is far exceeding our expectations and has been incorporated into the fabric of UCOP and systemwide budget considerations and deliberations. Our observations at the monthly meetings is that campus representatives are actively engaged and involved in discussions on each area of UCOP budget operations.

The Executive Budget Committee's charter sets out that it is to "provide strategic counsel to UCOP divisions as needed in annual budget development" and to "apprise the President of significant developments in the course of performing [its stated] duties. In many ways, UCOP budget issues directly impact campuses, particularly relating to systemwide initiatives and programs. Key initiatives are vetted within the committee and in several instances the committee not only offered insightful and useful guidance and suggestions but also provided formal communications on issues brought to the table. Of note, in recent meetings, campus representatives have repeatedly expressed concern about the serious budgetary constraints imposed upon the UCOP and the negative impact these limitations pose on programs and services provided by the President's Office that directly serve and support campuses. For example, several important programs were recently discussed and campus leaders were integral in the development of these proposals and supportive of administering them at the UCOP level. Two areas would be supported by non-state non-UCOP funding yet the program costs would become a part of the UCOP budget, increasing its bottom line of expenditures. Other programs relate to services provided by or through UCOP and campuses desire to either update or increase these services or pay for the increased contract costs. These are not "nice to have" programs, they are cyber security, general counsel, or an integrated library program, all essential to delivering services to students and the public.

We observed that UCOP has actively reached out to CSA to ensure the University clearly understands the intent and expectations of the CSA relative to outstanding issues as well as the set of recommendations due in April 2019. To date, we understand that while UCOP continues to contact and institute communications with CSA, it has experienced limited success in these efforts and obtained little feedback, either informal or formal, to assist the UCOP in determining which future actions will meet the CSA's expectations.

Overall Status Of Recommendation Implementation

Because the CSA established a three-year implementation schedule for its 33 recommendations to the Office of the President, we provide a snapshot of the status as reflected on the CSA website as of February 5, 2019. In summary, 8 of 10 recommendations for 2018 are complete, 3 of the 11 for 2019 are complete already, and 1 of 12 recommendations for 2020 are fully implemented.

The table on the following page includes all recommendations, even those addressed to the Regents and the Legislature (to provide context to the numbering).

Status of Recommendations

Recommendation Number	*Due Date*	*Status*	*Complete*
1	Addressed to Legislature	Implemented	✓
2	Addressed to Legislature	No longer necessary	✓
3	April 2018	Implemented	✓
4	April 2018	Partial Implementation	See Page 5
5	April 2018	Partial Implementation	See Page 7
6	April 2018	Implemented	✓
7	Addressed to Regents--No deadline	Partial Implementation	
8	Addressed to Regents--No deadline	Implemented	✓
9	Addressed to Regents--No deadline	Partial Implementation	See Page 7
10	April 2018	Implemented	✓
11	April 2018	Implemented	✓
12	April 2018	Implemented	✓
13	April 2018	Implemented	✓
14	Addressed to Regents--No deadline	Partial Implementation	
15	Addressed to Regents--No deadline	Partial Implementation	
16	Addressed to Regents--No deadline	Implemented	✓
17	Addressed to Regents--No deadline	Partial Implementation	
18	April 2018	Implemented	✓
19	April 2018	Implemented	✓
20	April 2019	Implemented	✓
21	April 2019	Implemented	✓
22	April 2019	Pending	See Page 10
23	April 2019	Pending	See Page 11
24	April 2019	Pending	See Page 11
25	April 2019	Partial Implementation	See Page 13
26	April 2019	Pending	See Page 14
27	April 2019	Pending	See Page 14
28	April 2019	Partial Implementation	See Page 8
29	April 2019	Implemented	✓
30	April 2019	Pending	See Page 9
31	April 2020	Pending	
32	April 2020	Pending	
33	April 2020	Pending	

Color Coding:
- 2018
- 2019
- 2020

34	April 2020	Pending	
35	April 2020	Implemented	✓
36	April 2020	Pending	
37	April 2020	Pending	
38	April 2020	Pending	
39	April 2020	Pending	
40	April 2020	Pending	
41	April 2020	Pending	
42	April 2020	Pending	

Sjoberg Evashenk Work Undertaken During the Reporting Period

Sjoberg Evashenk has continued to monitor UCOP efforts by attending formal workgroup meetings, meeting separately with workgroup leaders on several occasions, attended every monthly EBC meeting, corresponded with key UCOP leaders, and reviewed and assessed all available supporting documents generated for these improvement efforts. We continued to critically review and provide comments on workstream group products and participated in conversations related to the UCOP's efforts to meet both Year One and Year Two recommendations.

- We participated in all EBC meetings held in October, November, December 2018 and February 2019 (the Chair of the EBC cancelled the January 2019 meeting). During these meetings the committee discussed a variety of budget-related issues including UCOP staffing, potential initiatives, task force reports related to the President's restructuring, and campus service needs from the UCOP.

- Participated in formal meetings of the workstream groups and held ad hoc conversations with every workgroup team leader.

- Reviewed working documents, timelines, plans and other materials developed by UCOP to achieve the Year 2 and Year 3 recommendations.

- Received work products from each of the workstream groups, and assessed progress toward meeting the related CSA recommendations.

- Attended or viewed each Regents meeting held during the period, including Working Group on UC Office of the President Salary Ranges.

- Reviewed the report prepared by Deloitte and Touche of UCOP's budget and internal controls issued in December 2018.

- Closely monitored the UCOP efforts salary setting and range narrowing efforts including several meetings to explore the UCOP methodology for salary matching, market evaluation, and vetting Sullivan Cotter plans, results, and reports.

- Met with UCOP leadership relating to its restructuring plans and updates between UCOP and CSA.

Follow-up to 2018 Deliverables

In the following, we discuss the status of the two April 2018 recommendations that the CSA deems not yet complete.

> **Recommendation #4:** *… the Office of the President should develop a reserve policy that governs how large its reserves should be and the purposes for which they can be used.*

CSA recognizes the Central Operating Reserve for the University of California Office of the President and the related policy and uses of these reserve funds. As previously noted, this reserve is not on UCOP's "books" as it is funded through the President's Endowment Fund. As an endowment fund, it is included as part of the university-wide endowment pool and not a "fund" used for UCOP operations. This endowment fund is not on UCOP's ledger but held at the system level and, therefore, no such reserve is reflected on the UCOP budget or in its reserves. CSA suggests that UCOP's reserve policies "allow it to retain an unreasonable amount of surplus funds" and cited that amounts held in its various funds combined exceed a GFOA-recommended 60-day operating reserve.

UCOP continues to endeavor to meet the CSA's specifications. It has already established a policy for the central operating reserve which was approved by the Regents in January 2018. Although this fund is supported by UC funds and not those under UCOP control, UCOP plans to include this reserve within its May 2019 budget document.

CSA used GFOA as its benchmark for amounts to be reserved. GFOA indicates that operating reserves should be no less than 60 days and does not appear to set a ceiling. While GFOA is one public sector benchmark, the stakeholder groups that GFOA targets is cities, counties, municipalities, and states and not higher education entities—as CSA recognized in its recommended best practices discussion for UCOP budgeting where it cited NACUBO. In reviewing CSA remarks both UCOP and Sjoberg Evashenk independently conducted best practice research and identified guidance from NACUBO, non-profit trade groups, state and local governments, and more than a dozen universities and systems including CSU and State of California. Our conclusions were similar—there is no general commonality among the groups for reserves—some governments tended to set a percentage of general funds as a minimum reserve whereas others set percentage of tuition, revenues or operating budget. We noted that reserve policies depended upon the entity, fund-type, and the purpose of the funds.

UCOP considered these benchmarks and is finishing drafts for reserve policies for four different categories of reserves: *Building and Capital Asset Reserves. Central Operating Reserve, Program*

Reserves, and Other Required Reserves. We have reviewed the draft documents (including the various best practice benchmarks, definition of categories and terms, proposed uses of the various reserves, and reserve levels) and find that the categorization of funds into the four groups and related recommended levels of reserves for each are prudent and appropriate.

In the same discussion as fund reserves, again CSA discusses fund balances and use of fund balances. We believe that CSA agrees that reserves are different than fund balances. In our view, fund balance discussions are separate from reserves and fund balance is the net position—beginning balance plus revenues minus expenditures—and measured at a point in time. Reserves are those amounts formally set aside from the activity of the funds and intended to provide a financial fallback or plan for the future (such as for obsolesce or plant) when the policy for using the reserve is met.

As reflected in the UCOP 2018-19 budget documents, each category of funds (unrestricted, unrestricted designated, and restricted) and various line-items within these categories reflect beginning balances, expenditures (for the year), commitments against the balance, reserves, and remaining balances. We viewed that the UCOP met the recommendations last May. However, the UCOP continues to try to appease the CSA by adding information and attempting new presentation approaches. Beginning in the FY 2019-20 budget, UCOP will no longer be reflecting reserves as a subset of the program or operating fund balance but will manage and reflect these reserves separately. UCOP has developed categories for reserves and related proposed policy and target amounts for each that it will present at the March 13, 2019 Regents meeting. As of the date of this report, UCOP had completed work on nearly all the categories and we found the proposed definitions, categorizations, and calculation of reserve targets to be reasonable.

Additionally, last year UCOP reallocated a substantial portion of fund balance from both the unrestricted and unrestricted designated categories out to campuses, funded the Strategic Priority Fund, and eliminated historic department deficits. We expect that for the upcoming budget year 2019-20, that UCOP will undertake a similar exercise with a goal to reallocate unspent available funds after setting aside reserve amounts.

Also included in the Recommendation #4 assessment discussion, CSA indicates that "it is unclear how the Office of the President intends to spend its unrestricted fund balances in future years". CSA recommendations for April 2019 and April 2020[1] address the reallocation of savings and fund balances. To meet its April 2019 deadline for Recommendation #26, CSA states that UCOP should "create a plan for reallocating funds that it saves to campuses as it reduces its staffing costs," UCOP is developing a fund reallocation plan for the Regents consideration in March 2019. This plan is developed to not be unique to just staff savings but would apply to any available unrestricted fund balances. The plan presents various decision trees and proposed budget manual guidelines for fund reallocation. This reallocation plan document, along with the proposed reserve policies and the demonstration of the application of these policies, should fulfill both Recommendation #4 and April 2019 Recommendation #26.

[1] Recommendations #26, 31, 33, 36, 41.

> **Recommendation #5:** *…implement our recommended budget presentation shown in Figure 11 on page 40. Specifically, the Office of the President's budget presentation to the regents should include a comparison of its proposed budget to its actual expenditures for the previous year. It should also include all its expenditures and identify changes to the discretionary and restricted reserves. The Office of the President should combine both the disclosed and undisclosed budgets into one budget presentation.*

While we maintain the view that UCOP has met this recommendation, based upon the CSA's comments we anticipate that Recommendation #5 will likely continue to be classified by CSA as partially implemented. Two outstanding issues remain in this matter. The timing of the UCOP budget presentation will remain the same and will be available to the public in very early May 2019 when posted to the Regents website prior to the Regents May meeting. This is some two weeks after the CSA determined date for the UCOP budget submission. Thus, since no change to the Regent's meetings will occur, this matter will remain outstanding. Nonetheless, the CSA stated that it "did not identify any issues" in the other areas (with the exception discussed below) of the budget presentation itself.

Although CSA recognized that UCOP did include "summary information as part of its graphics in an earlier, narrative portion of the budget document," the CSA insists that a summary of fund balances be included in Schedule A of the Budget. UCOP is concerned, and we concur, that too general of a summary will inaccurately convey the availability of the various funds for reallocation and it continues to consult with CSA to come to a presentation consensus. As of February 15, 2019, UCOP is still working with the CSA on the approach they will accept related to Figure 11. At this point, we are not privy to the CSA's desired presentation, nor can we anticipate it, and cannot make a judgement whether the State Auditor and UCOP can come to an agreement.

Assessment of UCOP's Budget and Reserve Controls—Recommendation #9

In a recommendation directed to the Regents that did not include a deadline date, Recommendation #9 required "*the Office of the President to engage in a financial audit of only the Office of the President's operations."* The resulting financial-related audit, as we previously reported, could not be completed as a full audit since the UCOP is a department of a very large agency and not set up in a fashion to discretely report in a manner that would reasonably allow reporting in compliance with GAAP. To try to meet CSA's expectations, UCOP negotiated with CSA and agreed to meet this requirement with the submission to the Regents other unaudited financial schedules (which CSA deems complete) and to a second review. UCOP engaged Deloitte & Touche to complete the review. In December, Deloitte provided its "UCOP Budgeting and Reserve Assessment Report."[2] Deloitte found that "for the controls and processes assessed for operating effectiveness, the controls appeared to be operating effectively based upon the evidence reviewed and the samples tested." Although the CSA thought that a single budget cycle would be sufficient time for the controls to be in place for Deloitte to evaluate these new processes, Deloitte noted that "among the in-scope procedures and

[2] The report prepared by Deloitte & Touche was performed in accordance with Statement on Standards for Consulting Services issued by the American Institute of Certified Public Accountants and is not represented to be an audit, compilation, review, or attestation engagement.

operational activities which were evaluated as part of the assessment procedures, a number of controls were either newly implemented starting from Q1 FY 18-19 (but did not have enough control occurrences for assessment team to test the operating effectiveness as at the time of assessment)." We did not find this circumstance surprising given that UCOP has been in continual improvement mode over the last 18 months and these enhancement processes did not stop for the review—as such, many would not be complete or will not been through full cycles/multiple occurrences. Moreover, budget cycles are year-long processes and will likely take a number of iterations to allow for a particular practice to be in place long enough for evaluators to deem it effective. Regardless of whether the evaluator could assess the strength of the control, they did note the key control processes could be observed and were implemented. Overall, Deloitte offered only a minor recommendation to formalize a process to obtain Regent approval of material budget forecast adjustments, which the UCOP has embraced and has added a protocol to address.

YEAR TWO CSA RECOMMENDATIONS

We identified 11 recommendations directed for completion by UCOP during Year 2, ending April 25, 2019.

YEAR TWO RECOMMENDATIONS DEEMED SUBSTANTIALLY COMPLETE

In the CSA assessment posted on February 5, 2019, three Year 2 recommendations were deemed fully implemented:

> **Recommendation #20**: *…publish the results of its review of fund restrictions and fund commitments and any funds it anticipates reallocating to campuses.*
>
> **Recommendation #21:** *…implement the best practices for budgeting identified by GFOA and NACUBO, including developing budget policies and procedures and formally documenting, approving, and justifying all one-time and unexpended expenditure requests.*
>
> **Recommendation #29:** *…publish the results of the review of systemwide and Presidential Initiatives, including any funds the Office of the President anticipates reallocating to the campuses.*

In our prior report, we noted two other recommendations we believed were fully implemented. However, the CSA viewed these as partially implemented.

> **Recommendation #28: …***establish spending targets for systemwide initiatives and administrative costs.*

The CSA considers this recommendation as only partially implemented. While Sjoberg Evashenk finds that UCOP met the provisions of the recommendation in its submission of the FY 2018-19 UCOP budget, the CSA views that as it was the first year to provide the budget in the new format and the budget included a number of accounting changes and one-time adjustments, and therefore the impacts of setting spending targets would not become clear until the next cycle. The upcoming budget cycle will be a second year and targets will become more clearly reflected and again will demonstrate adoption of the CSA's recommendation. Additionally, the UCOP will add additional information as it intends to uniquely include systemwide initiatives and administrative costs in its upcoming budget. The presentation of the FY 2019-20 budget is expected to fulfill Recommendation #28.

> **Recommendation #30:** …*restructure budget and accounting systems to ensure the costs of the Office of the President can be clearly tracked and reported annually. Specifically, the budget and accounting systems should be able to distinguish between systemwide initiatives, presidential initiatives, and administrative costs.*

UCOP completed the needed improvements and upgrades to its existing budget system (BDS) to ensure that costs can be tracked and reported annually. These upgrades included a number of improvements including elements that allow the distinguishing between systemwide initiatives, Presidential initiatives, and administrative costs. These improvements were demonstrated in the presentation of the Fiscal Year 2018-19 budget in May 2018. CSA recognized that these improvements are complete and in place. Thus, it would appear that UCOP met the provisions of the recommendation.

UCOP has long recognized the need for a new General Ledger (GL) and integrated financial system and with that change the opportunity to upgrade to an integrated budget and forecasting system. It has been working with UCLA and other campuses over the past few years to identify needs and investigate opportunities. Because of UCOP's forward thinking objectives, CSA has decided that it will not clear this recommendation "until the new system is operational."

UCOP has selected the two systems and intends to work in conjunction with UCSD to implement the Oracle Cloud modules consistent with UCSD's approach. The charter for the financial and budget systems implementation is set, milestones established, process owners identified, and project underway, we recognize much progress has been made since our last report in October on these related activities. The financial system implementation will be a combined effort with UCSD likely to go live first and UCOP intends to adopt that system with minimal changes. The adoption of the financial system will require transition from the UCLA system. The budget system is also progressing and its implementation running concurrent with the financial system. We view the timelines for the "go live" for both systems quite optimistic; the financial system is slated to go live in late 2020 with the budget system going-live earlier.

With the CSA deciding to change the provisions of this recommendation to include the implementation of the new budget system, it is unclear whether the UCOP can expect to achieve full implementation status from CSA before the Year 3 deadline in April 2020.

YEAR THREE RECOMMENDATION COMPLETE

> **Recommendation #35:** **…***by April 2020, the Office of the President should adjust its employee benefits to meet its established targets.*

In fulfilling April 2018 Recommendation #12, UCOP fully implemented this recommendation.

YEAR TWO RECOMMENDATIONS DUE APRIL 2019

> **Recommendation #22**: …*by April 2019, the Office of the President shall continue to present a comprehensive budget based on the presentation in Figure 11 to the regents, the Legislature, and the public.*

We expect the budget submitted to the Regents in May 2019 will again more than meet the elements to reflect a comprehensive budget based on CSA's Figure 11. However, as previously noted, CSA has recently determined a new approach to the data related to Figure 11 but the actual components have not yet been finalized, UCOP has not yet refined the related presentation, and we cannot comment at this point.

Since the submission of the FY 2018-19 budget in May 2018, UCOP has continued to refine, streamline, and improve its budgeting processes. Budget leaders issued budget call instructions, timelines, templates, and checklists, and provided training to communicate expectations and processes across the office. Key elements of this year's process improvements include:

- Outside of merits and mandated benefit cost increases, department budgets were to remain flat (with many aspects zero based) with unavoidable or expected cost increases to be submitted.
- Departments completed budget narratives (based upon a template) to articulate priorities, trade-offs, and value propositions. Strategic initiatives, approved through the MPI and decision memo process during the 2018-19 year and will continue into the future are included in the department's operating budget submission.
- The FY 2019-20 process introduced "budget-by-month" capabilities within the BDS system to allow improved phasing of UCOP expenditures—which applied to personal services and other costs.
- Budget approach was changed from incremental to strategic leveraging actuals and forecasting. FY 2019-20 budgets were developed using 2nd Quarter actuals that were forecasted for the full current year.
- All salaries and headcounts were included in budget submissions and based upon actual information from UCPath and aligned with priorities established within workforce plans (see Recommendation # 27). Vacancies were budgeted based upon the expected month of hire/termination. UCOP budgets will assess the overall vacancy factor.

- All projected revenues or funding sources are budgeted in BDS based on the uses of the funds.

UCOP will provide its mid-year forecasts for the remainder of the 2018-19 fiscal year at the March 13, 2019 Regents meeting. Draft information we reviewed suggests at mid-year, budget to actual expenditures are running lower than budget. However, the six-month actual figures are not adjusted for seasonal fluctuations and are not necessarily indicative of year-end results. The forecast for the full budget year suggests that the UCOP will end the year spending about 1 percent more than budget. These overages relate primarily to the programs and initiatives[3] category and UC Path which added staff to support anticipated increased work volume and to address unexpected deployment challenges. Central and administrative services costs are expected to be below budget due to salary savings due to vacant positions.

Although we anticipate that UCOP will fulfill all aspects of this recommendation with the submission of its FY 2019-20 budget, the budget will not be provided to the CSA by April 25, 2019, rather it will become available publicly when the agenda is noticed approximately two weeks prior to the May 15-16, 2019 Regents meeting.

> **Recommendation 23: …***set targets for any needed reductions to salary amounts using the results from its public and private sector comparison and adjust its salaries accordingly.*

> **Recommendation #24**: *…narrow its salary ranges*

UCOP has accomplished an extraordinary number of tasks over the past 7 months to fully meet the provisions of both of these recommendations. Its salaries workstream workgroup, which includes a number of representatives from campuses as well as other UCOP departments have provided input and insight as the requisite tasks to accomplish this work were undertaken.

As reported in our October 2018 report, the group completed the plan to narrow salary ranges. This plan was provided to the CSA and was accepted in November 2018. In order to complete the salary narrowing plan, the workgroup had to substantially complete its job benchmarking and comparisons for non-represented employees to CSU, State of California, and through surveys that include higher education and industry. UCOP uses a compensation tool, MarketPay, to assist in its weighting as it houses related industry, higher education, and public sector salary survey data. The data acquired through the benchmarking relating to CSU and the State is also included in the model. Data received relative to CSU and State salaries are updated quarterly as information continues to come in. UCOP has substantially accomplished applying the weighting factors to the UCOP jobs and those of the Office of the General Counsel (OGC). We reviewed various worksheets and the UCOP processes for salary setting and noted the changes from prior practices to the new weighting methodology and

[3] State and Federal Programs are expected to exceed budget amounts due to higher research awards for Tobacco-Related Disease Research and increased revenue and expenses relating to the ANR division. These overages are somewhat offset by under expenditures in systemwide programs—primarily Laboratory Research Fee and UC Washington.

found it consistent with policy; Sullivan Cotter also reviewed and confirmed these practices and results.

When the Regents Working Group on UC Office of the President Salary Ranges endorsed the UCOP's proposed plan for narrowing salary range widths, which were to be based on typical salary structures of comparator universities, it also adopted methodology to evaluate market salaries to UCOP's current salary range midpoints. To conduct the market competitiveness evaluation, UCOP conducted a market assessment based on the new benchmarking and weighting methodology that included market data for higher education (public and private universities and the CSU) and/or general industry and the State of California. UCOP found, and Sullivan Cotter confirmed, that the market for UCOP and OGC Career Track jobs had moved more than the earlier calculations that used the old market data—initial calculations showed a 5.5 percent increase (and 5.2 percent for OGC) but the updated market data reflects an approximate 8 percent change. This means that the UCOP and OGC current salaries ranges lag the market median by 8 percent. This was not unexpected as salaries had not been revised since 2016[4] and during the ensuing three-year period economic conditions, particularly in Oakland and the Bay Area, continued to escalate. Moreover, Sullivan Cotter noted that within higher education during the same three year period non-represented salaries increased between 2.4 percent and 2.8 percent annually which is consistent with these findings. As such, Sullivan Cotter recommended that the mid-points of the salary ranges be increased by 8 percent to allow UCOP and OGC to be competitive in the local job market. This issue was presented to the Regents Working Group on UC Office of the President Salary Ranges at the January 17, 2019 meeting and met with agreement.

The salary narrowing plan adopted in October 2018 established that UCOP would retain its 16 grades but would narrow the ranges from 103 percent to 60 percent at the low end (Grade 15) and from 177 percent to 105 percent at the high end. Applying these parameters result in 18 UCOP employees falling below the minimum within their paygrade with only one employee exceeding the top of their pay scale. If UCOP follows its long-standing policy and best practices (which we independently confirmed) the employees falling below the pay scale will be moved up to the minimum and the single employee above the maximum will receive a lump-sum payment in lieu of any future increases. Moreover, when the ranges are narrowed a "compression" may occur where employees already in the pay grade lose pay equity when lower paid employees are moved up to the new minimum. Taking into account the 18 employees to be moved into the new ranges and adjusting for compression pay equity, UCOP calculated an impact to 67 employees at a cost of approximately $200,000 annually.

While these calculations will result in lower pay than would have been under previous methodologies for a few UCOP jobs, for the most part, these examinations reflected that pay had not kept pace with the local job market and it is unlikely that UCOP will experience the salary savings expected by the CSA from range narrowing or changing weighting methodologies. Thus, data reflects that UCOP set targets for conservative parity with the local job market which did not result in lower job salaries and,

[4] Sullivan Cootter noted that market based salary range midpoint increases [which were usually considered annually] had been deferred by UC due to the pending actions to be taken in response to the CSA audit.

because most employees have pay close to the pay grade median, they will not be impacted until they reach the top of the now-narrowed pay scale.

Career Tracks is a systemwide program and is intended for consistency and pay equity, encourage employee development, and provide transparency. UCOP will implement the new pay schema in April 2019. Systemwide transition to using the new weighting methodology and imposition of range narrowing is strongly encouraged by the President for the campuses. Like at UCOP, these new practices are expected to have campus specific implications, with employees falling above and below the range limits. Examination of these elements has begun at the campuses and UCOP is providing assistance in these efforts; all locations are expected to narrow their salary ranges by July 2021.

> **Recommendation #25**: …*set targets for appropriate employee benefits and implement new processes that ensure employees adhere to the revised policies regarding employee benefits.*

Recommendation #12, achieved in Year One, stipulated that UCOP "should evaluate and identify needed changes in employee benefit policies to ensure they include reasonable safeguards to control costs". As we previously reported, during Year One, the UCOP and the Regents took a number of actions and changed several policies involving employee benefits and reimbursements. As a result, car allowances and employer contributions to retirement savings plans are phasing out; new limits were placed on travel costs, meeting and entertainment allowances, and relocation and moving reimbursements; with additional controls on stipends, cell phones, and performance bonuses. CSA agreed that each of these targets were met and achieved the intent of the auditor's first year recommendation.

UCOP identified 12 separate expense categories related to "employee benefits" and reimbursements and analyzed spending related to each to create baseline costs for spending targets. These targets establish spending limits around each category. Based upon the new policies and the implementation of these changes, UCOP forecasts savings for FY 2018-19 in all but three categories: relocation allowance, moving reimbursement, and stipends. As relocation allowance is no longer allowed, and had not been tracked as an individual cost line-item, UCOP did not calculate savings for the category. Moving reimbursement is the new policy and is a reimbursement of actual costs. UCOP anticipates a small increase over the base year for these costs. Stipends, at least for the FY 2018-19 year, are expected to be somewhat higher than the base year due to delayed promotions and the need to pay stipends to employees working out of class.

The remaining 8 categories are expected to reflect overall savings over the base year. This results in cost avoidances in these categories that will translate into budget reductions in those areas in subsequent years.

We view this recommendation fully implemented.

> **Recommendation #26:** *…create a plan for reallocating funds to campuses that it saves as it reduces its staffing costs.*

The CSA made a number of recommendations that discuss reallocation of funds—Recommendation #26 relates to creating a "plan" for funds it saves from reduced staffing costs and is due April 2019. The other recommendations are due in April 2020 and address reallocating "savings," or funds made available due to its review of classifying funds as restricted or committed. UCOP has determined, and we agree, that the deliberative process related to funds available to reallocate remains the same no matter how the fund availability may arise. We viewed the UCOP's plan for fund reallocation and found the process it created for fund reallocation to be sound and able to be applied regardless of where savings or fund availability may originate. The plan incorporates fund source as the defining component within the decision model.

Further, the fund reallocation workstream group also proposed budget manual guidelines for evaluating savings that pertain to both budgeting and to year-end business cycle closings. We anticipate these changes will be adopted and incorporated into the budget manual in the near term. As noted in Recommendation #24 and #25 above, the change in salary setting and the impacts of salary grade narrowing is not likely to result in a cost savings this year due to moving staff up to the new minimums and pay compression. Also, due to pay scale freezing over the past three years and market increases in the local labor market, pay for UCOP jobs actually was lagging, suggesting an eight percent increase to bring pay to market levels. Thus, we see no near-term salary savings from these processes and no availability for reallocation of funds due to narrowing salary ranges or changed weighting methodology. Nonetheless, UCOP has adopted a reallocation model for the reallocation of any funds available for campuses.

State of California Workforce Planning Model

- Phase 1 - Set The Strategic Direction for the Workforce Plan
- Phase 2 - Gather and Analyze Departmental Data for the Workforce Plan
- Phase 3 - Develop the Workforce Strategies and Plan
- Phase 4 - Implement Strategies
- Phase 5 - Evaluate the Workforce Plan

Recommendation #27: *…implement phase two of CalHR's best practice workforce planning model by determining its current and future staffing and competency gaps. As part of this phase, the Office of the President should consider the input of stakeholders including campuses and students, regarding which elements of its organization are of critical importance and which elements it could potentially eliminate or downsize.*

UCOP's workforce planning workstream group has taken a full-scope approach to fulfilling all the related requirements presented for the three-year period by the CSA. There are many dependencies as well as complementary activities required to complete and implement the workforce plan. The UCOP delivered and the CSA accepted Phase 1 of the Workforce Planning model. Over the past few months, UCOP has accomplished much, primarily related to completing Phase 2 of CalHR's best practice plan, but also has begun tasks relative to Phase 3.

At the March 13, 2019 Regents Meeting, UCOP will present its Workforce Plan. This is a comprehensive, well documented work product that we believe not only meets the CSA's recommendation, but likely sets the benchmark for its higher education (and government department) peers. The over 80 page plan details statistics and findings that will provide the foundation for the implementation of a workforce plan for the entire President's Office. Moreover, the FY 2019-20 budget call incorporated a workforce plan tool into the personal services budget planning processes.

Phase 2 of the Workforce Plan development included a workforce summary, benchmarking analysis, and a gap analysis. Generally, the workforce planning group completed a full "as is" analysis by evaluating three years of data in terms of existing competencies and determined staff competency strengths and opportunities across job families. This entailed completing a supply analysis, demand analysis, and gap analysis. It also examined the demographic trends of UCOP over the past 5 years and results of staff performance appraisals[5] as well as exit surveys.[6] Using this data, the workstream group focused on four competency areas—job mastery, collaboration and communication, customer and client services, and people management.

Using quantitative and qualitative data on the identified workforce attributes, it determined the strengths and gaps in talent skills and abilities. The workgroup team surveyed and met with division leaders to discuss divisional strategic plans, new or changing organizational initiatives and how goals and objectives relative to those plans impact the immediate and near-term workforce needs. Job profiles and risks were also determined considering critical or high risk positions and the impacts of retirement, separation and turnover, vacancies, and recruiting challenges. Through these deliberative processes the workforce team identified five high risk "profiles" that UCOP will focus on in Phase 4—specifically, financial analysis, institutional research, project policy analyst, applications programming, and systems and infrastructure administration.

The plan identifies the next steps—importantly the development of workforce strategies and plan and the implementation of such strategies. In the coming year, UCOP plans to leverage the analyses developed within Phase 2 and develop the strategies within Phase 3 to implement in Phase 4. These efforts are slated to focus on strategies of recruitment, retention, employee development, knowledge transfer, and talent and succession planning. During the Phase 2 process the workgroup laid the foundation for these strategies.

[5] UCOP uses the Halogen performance appraisal system.
[6] UCOP uses a Gartner tool to collect feedback from departing employees. Exit surveys are not mandatory.