Independent Consultant's Report

Sixth Report: Independent Assessment of CSA Recommendations

Date: October 8, 2018

Period: July 1, 2018 through September 30, 2018 – Year 2 Second Quarter

Observations and Findings

Our prior quarterly report included addressing the CSA's response to the UCOP submission for April 2018 and examined the UCOP's subsequent actions related to the Year One report including budget documents presented to the Regents at the May 24, 2018 meeting. Further, that quarterly report assessed the UCOP's early plans and actions to meet the eleven specific recommendations for Year Two – due April 25, 2019.

As we previously reported, the first quarter of the reporting year was focused on finalizing the Fiscal Year 2018-19 budget information for approval by the Regents in May 2018 and providing this information to the CSA. UCOP also expended considerable effort in understanding and assessing the CSA's response to the Year One submission and determining the actions and timing for responding to the CSA's concerns.

As part of the Year 2 efforts, the UCOP has revamped its workstreams and consolidated those efforts from ten to six workstream groups: 1) Staff salary ranges; 2) Workforce planning; 3) Benefits Targets; 4) Budget process and planning; 5) Programs and initiatives; and, 6) Fund reallocation. Each of these workstream groups are assigned pertinent recommendations relating to Year 2 (due April 2019) as well as those for Year 3 (due April 2020). Work is in progress for each of the Year 2 recommendations—there were eleven in total, with five we find substantially complete with the submission of the May 2018 Regents' approved budget for FY 2018-19; we discuss all eleven items in the following sections.

While UCOP appears to be focusing on Year 2 (and many Year 3) deliverables, during this reporting period we also noted considerable efforts to address issues remaining from Year 1—particularly, the matter of developing a plan to restructure salary ranges (UCOP will submit to CSA in October 2018) and conducting the budget and reserves controls audit, expected to be completed in October 2018 (part of Regents' recommendation #9). Of important note, the salaries workstream #1 group determined that developing a true "plan" of "how to restructure salary ranges to make certain the ranges encourage employee development and ensure equity pay" (which CSA deemed as incomplete in April 2018) could not be meaningfully accomplished without conducting the underlying salary surveys and benchmarks (due in April 2019), and completing a significant portion of the work required to actually narrow the salary ranges (also due in April 2019). Thus, a significant portion of the work expected to be conducted over a nine-month period was essentially compressed into the June-September timeframe. As discussed in more detail later in this report, the workstream group accomplished exceptional amount of work, with the assistance of its contractor Sullivan Cotter, and submitted its Non-Represented Staff Salary Range Review to the Regents at the September 26, 2018 Regent meeting.

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 those set of recommendations due in April 2019. To date, we understand that while CSA has posed a few questions about outstanding issues, it has not provided formal responses.

Additionally, we observed various workgroups engaging campus representatives and others in the research and vetting of alternatives and solutions to meet CSA recommendations. Staff and leaders at UCOP remain vigilant and continue to demonstrate extraordinary efforts to address and meet not only the dynamic requirements set by the CSA but also the concurrent internal initiatives driven by the President and the Regents while continuing to meet responsibilities of their everyday positions.

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, responding to questions from UCOP leadership, and briefing several Regents. Moreover, we reviewed and assessed available supporting documents generated by each of the six workstream groups, UCOP and Presidential reports, letters and documents issued during this quarter and held numerous other conversations to understand UCOP efforts, deliverables, and Year 2 and Year 3 plans. In conducting this work, Sjoberg Evashenk has committed nearly 90 hours during the 60 workday reporting period.

Our July 2, 2018 quarterly report to the Regents focused primarily on matters relating to the CSA response to the UCOP First Year Report. This report, while following-up on efforts in still outstanding areas, focuses on UCOP activities commencing post auditor responses. During this reporting period we conducted the following activities.

- We critically reviewed, provided comments and participated in conversations related to the UCOP's efforts to meet the Year One recommendations and the approaches taken to continue to bring completion of all requirements.

- We participated in all EBC meetings held in July, August and September, and are scheduled to attend each monthly EBC meeting from now until April 2019. In these meetings we reviewed all documents provided to the EBC by UCOP leadership and all responses submitted by the EBC to 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 draft and final work products from each of the workstream groups, and assessed progress toward meeting the related CSA recommendations.

- Attended Regents committee meetings and briefed the Regents on the prior quarterly report as well as the UCOP work anticipated for 2019 CSA recommendations.

- Conducted follow-up conversations related to the FY 2018-19 budget document as well as obtaining and reviewing preliminary data for building the FY 2019-20 budget package.

- Followed the progress of the audit of UCOP's budget and internal controls commenced during this period and expected to be complete by the end of October 2018.

- Closely monitored the UCOP efforts related to salary range narrowing efforts including meetings vetting early Sullivan Cotter plans and results, observing the Sullivan Cotter presentation to the Working Group on UC Office of the President Salary Ranges, and subsequent presentations and discussions with the workstream group and Executive Budget Committee.

- Met with UCOP leadership to discuss restructuring plans in relation to the CSA recommendations and to understand their vision and plans for Year 2 and Year 3 efforts.

FOLLOW-UP TO 2018 DELIVERABLES

As reported in the last quarterly report, UCOP provided additional information relating to two CSA recommendations #3 and #5 in the areas of budget development and presentation. In April 2018, UCOP submitted budget templates and plans to the CSA and follow-up with the submission of actual Regent-approved budget detail in May 2018. While UCOP and Sjoberg Evashenk concurs that Recommendations #3 and #5 are fully complete, CSA has yet to provide any formal feedback or determination on these matters.

Similarly, the CSA assessment of Recommendation #4 is still outstanding. Recommendation #4 required "a reserve policy that governs how large its reserves should be and purposes for which they can be used." Although CSA recognizes the policy and establishment of the Central Operating Reserve for the University of California Office of the President, it appears that CSA does not understand that 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. The second reserve, established to respond to the CSA's recommendation to "combine both the disclosed and undisclosed budget into one budget presentation" is the Strategic Priorities Fund with explicit purposes to fund "term-limited priorities and initiatives." The demonstration of the implementation of this policy is reflected in the Fiscal Year 2018-2019 budget. This fund was created from fund balance reserves and fully disclosed in the Fiscal Year 2018-19 budget in a number of figures within the budget discussion as well as in Schedule E. UCOP, in Part 2 of the budget presentation, distinguishes the differences between "reserves" and fund balances and provides fund balance projections by classification—restricted, unrestricted designated, and unrestricted undesignated. Sjoberg Evashenk finds that UCOP has more than fully met this recommendation.

In regards to Recommendation #11, requiring UCOP to determine "how to restructure salary ranges to make certain the ranges encourage employee development and ensure pay equity," in our prior report we noted the divergence of interpretations of the recommendation between CSA and UCOP. Sjoberg Evashenk interpreted the recommendation similarly to UCOP because other of the CSA recommendations due in April 2019 would logically need to be accomplished first before actually presenting a complete plan to restructure salary ranges. Nonetheless, the Regents directed the UCOP to create such a plan and submit it by October 2018.

UCOP determined that a key component required in determining how to restructure salary ranges was to complete, to the greatest extent allowable within the compressed timeframe, the matching and benchmarking of UCOP jobs including applying the Regent-approved methodology which encompasses State and CSU weighting elements. The salaries workstream group created and applied a formal plan to benchmark UCOP jobs to comparable higher education institutions, general industry, CalHR, and CSU and based upon matching those jobs and applying the appropriate weighting. UCOP continues to receive information from CSU and from CalHR and updates its job matching and weighting appropriately; this updating will continue with a goal to accomplish the most complete matching possible.

UCOP also conducted a market analysis of numerous compensation sources to compare existing salary midpoints to various surveys as well as the CSU and CalHR data. Best practices use market data as a basis and apply geographic differentials in addition to aging factors to account for the "age" of the data used.

UCOP engaged Sullivan Cotter and Associates to assist in developing the plan to restructure salary ranges. Among other actions, Sullivan Cotter gathered and analyzed available data on salary range practices and policies of UCOP comparator groups and from human resource management organizations. Additionally, Sullivan Cotter reviewed the methodology and analysis done by UCOP in its market analyses including confirming the benchmark approach for the base salary data; compliance with the weighting methodology approved by the Regents; and validating a sample of jobs market priced by the salaries workgroup.

As reported to the Regents in the September 26, 2018 meeting, UCOP recommends narrowing the CareerTracks positions for UCOP employees to reduce the range width at the lowest grade from 103 percent to 60 percent and the width at the highest grade from 177 percent to 105 percent. The Regent-accepted salary range plan differs from that suggested by the CSA. Sullivan Cotter recommended following the CPEC/AAC comparator universities[1] salary range widths that have an overall width of 90 percent. The CSA appears to have used a segment from "general industry" literature[2] to base its recommendation of 15 to 20 percent on either side of the midpoint or 35 percent to 50 overall width for ranges. Sullivan Cotter's work found that UCOP's existing range structure of 16 grades is typical of the higher education sector (64 percent of comparative universities have 10 to 20 grades) and recommended wider grades from 60 percent to 105 percent. The recommended ranges are broader than CSA recommendations but significantly narrower than before. The CSA recommendation was to present a plan to narrow the ranges—the results of Sullivan Cotter's salary range review clearly provides a plan supported by reasonable evidence and industry best practices and meets the CSA's recommendation. The actual application of the plan is part of Year 2 recommendations #23 and #24, discussed later in this report.

Of note in relation to the remaining part of the CSA recommendation, salary ranges are applied to CareerTrack by conducting a market study of the job and applying the salary range that most closely aligns with the market midpoint for that job. Together, with the human resource development aspect of CareerTracks, which intended to provide employee development and progression, the salary matching protocol works to ensure fairness and equity in pay.

YEAR TWO CSA RECOMMENDATIONS

We identified 11 recommendations directed for completion by UCOP during Year 2, ending April 25, 2019. As of September 30, 2018, we believe that 5 of the 11 are substantially complete. In the first section we address those recommendations we find complete and in the second section we provide progress information on those still in progress.

YEAR TWO RECOMMENDATIONS SUBSTANTIALLY COMPLETE

> **Recommendation #20**: *Publish the results of its review of fund restrictions and fund commitments and any funds it anticipates reallocating to campuses.*

The UCOP accomplished this recommendation as part of its budget package presentation in May of 2018. During the Year 1 efforts, UCOP completed a review of all of its more than 500 funds, created definitions, and classified the funds into these groupings. Within the May 2018 budget package, the UCOP published details of the projected FY 2017-18 balances within those fund categories, amounts that were deemed committed, and amounts available for reallocation or potential reallocation to the campuses or for other purposes.

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[1] CPEC and AAU institution group includes 32 public and 26 private universities.

[2] Sullivan Cotter noted that it appears that CSA used a best practice finding from SHRM and a 2016 WorldatWork published survey that includes significantly smaller organizations—only 4 percent have more than 100,000 employees whereas UC has over 200,000 and included only 2 percent in educational services. Sullivan Cotter views that this industry market benchmark does not represent the practices or talent market of higher education institutions.

Additionally, for the Fiscal Year 2018-19, the budget a reallocation of a total of $25.5 million of undesignated and uncommitted fund balances undesignated fund balances to campuses--$3 million to each of the 10 campuses for campus student housing initiatives and $10 million to the Riverside campus to support is School of Medicine.

Once the “books are closed” on the 2017-18 year (occurring in the next several weeks), fund balance information will become available for assessment for future reallocation within the coming year’s budget. It is reasonable to expect as budget processes become more sophisticated and precise, and particularly if the President’s budget remains limited, that fund balances will diminish and there will be little to allocate back to the campuses. Important to this issue, is evidence of already emerging budget challenges for the Fiscal Year 2019-20 budget period. Early budgetary information reveals that unrestricted funding sources will be some $20 million below the level of funds available for the Fiscal Year 2018-19 period. With “business as usual” increases of over $7 million, without any additional funding for initiatives, the budget is projected to be at least $27 million short. Further, the Special Initiatives Fund was supported in the current budget year from prior year fund balances at a $30 million level. Although not all the allotted funding within the SPF is entirely consumed or committed for the current year (Fiscal Year 2018-19), the UCOP already has proposals for half of the SPF for the upcoming budget year. Yet, given the condition of the projected undesignated funds it is uncertain how the SPF will be funded for the budget year. As part of the planning process to address this and other budgetary matters, at the October, 2018 EBC meeting there will be a strategic budget planning meeting to brainstorm and discuss UCOP operating budget matters and alignment and implications of activities on programs and services at the 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.*

As we noted in previous reports, the UCOP has researched and adopted many best and leading practices from NACUBO, GFOA, and others for policies, procedures, and presentations of its budget. In meetings with UCOP budget leaders, we noted that it continues to refine its budget processes and polish its presentation. UCOP managers convey that they are committed to continual improvement and evolution of these policies, procedures, and practices and will plan to research and consider best practices, and update as needed.

The CSA’s recommendation also required formal policies and procedures which UCOP memorialized in its Budget Manual. Further, UCOP is implementing its protocols for formally documenting, approving and justifying its one time expenditure requests. Our review reveals that this process is in place and appears to be working as intended. Specifically, at the September 14, 2018 Executive Budget Committee (EBC) Meeting, staff presented budget proposal documentation for a number of one-time funding requests for “projects and initiatives” and for “operational service contracts.” Approval processes are different depending upon the cost of the proposals—generally, those under $300,000 can be approved by the division leader whereas those above that threshold must go through a more rigorous process. Information provided to the EBC documented requests (and approvals, as approved) for both “major projects and initiatives” (those over $300,000) which require the preparation of a *MPI proposal form* and "operational service contracts" (also over $300,000) which involve a *decision memo.* Our review of the documentation of these processes show that MPI proposals detail a number of important elements related to each proposal including the problem/goal, solution, metrics and targets, whether campus consultation is appropriate/needed, cost, schedule, and all sources of funding. Each MPI is reviewed by a team who provides its view on the matter (as a part of the packet) to the President. Operational service contracts decision memos are more narrative in form and detail than MPIs and include information relative to the request, background, problem, discussion and analysis, solution scenarios, recommendations, as well as views from others. This memo must be approved by the division leader before being sent to the President for a decision.

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

Sjoberg Evashenk agrees with the President that the implementation of two recommendations are complete. The FY 2018-19 UCOP budget adopted by the Regents was "published" and includes spending targets and descriptions of the five categories included in "Programs and Initiatives." The budget details that this grouping comprises 45 percent of the UCOP budget, or $395.7 million. Within this budget, nearly 30 percent is targeted for functions benefitting the State, multiple campuses, or the entire system; 68 percent is directed to activities that are either required by current legislation or programs that UC operates on behalf of the State or federal government; and, two smaller components—Systemwide Initiatives (about 2 percent) is focused to fund time-bound or single occasion commitments such as the UC Health CHQI initiative; and the remaining less than $1 million supports campus specific programs.[3]

The UCOP separately provides targets and spending related to the President's Initiatives, which going forward will be funded through the newly established Strategic Priorities Fund. As noted in Recommendations #20 and #21 above, UCOP has formalized the spending of this pool of discretionary funds and as part of the process, setting budget targets for each initiative or program and a reporting element to gather progress and feedback on the spending of these funds.

Similarly, the FY 2018-19 budget document details budget targets for Central and Administrative Services, totaling 43 percent of the UCOP budget.[4] The budget separates the $379.5 million spending plan into the 12 divisions supporting the UCOP and the UC System. Five divisions comprise approximately 85 percent of the budgeted spending—Operations, General Counsel, Academic Affairs, Finance, and Investments. Figure 13 reflects the budget targets for these divisions and provides explanations for projected variances between the current and budget year. Further, Schedule D provides budget target and year-over-year variances for each division at the functional level.

[3] May 24, 2018, Board of Regents Budget item, Page 10 narrative and Figure 8.
[4] May 24, 2018, Board of Regents Budget item, Page 14 narrative.

Also as stated under Recommendation #20, the President identified and allotted funds for reallocation to the campuses for the 2018-19 fiscal year of $25.5 million. It is yet to be determined the amount of funds that may be available either from administrative, systemwide, or Presidential initiatives for reallocation to campuses in the future. The identification and reallocation will be a part of the annual budget processes and we will continue to monitor these areas.

As the UCOP and the President is committed to continual improvement, for each budget year going forward, the budget process should incorporate assessing and evaluating the upcoming needs of the UCOP, campuses and the system. We view that with the demonstrated detail provided and format established, the Regents, Legislature, and the public will have the information to view UCOP's budget targets and related cost of operations. We consider this recommendation is in full compliance and complete.

> **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. As a further demonstration of compliance with this recommendations, in October, 2018 the Regents are to receive the report from the UC Audit and Compliance unit relative to the currently on-going assessment to evaluate the reserve (also pertinent to Recommendation #4 completed for Year 1) and budgeting controls of the UCOP. Additionally, although not required by the CSA, UCOP is actively moving on selecting and implementing both a new financial reporting system for its "department" and an associated budget module. We expect the President to make decisions related to these initiatives during the coming quarter.

YEAR TWO RECOMMENDATIONS IN PROGRESS

There are 6 recommendations that are not yet complete and due for completion in April 2019. In the following we provide an update on each.

> **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.*

As we stated above, we view that the UCOP's budget, as presented in May, 2018 fully incorporates all the data the CSA is seeking and complies with the form and spirit of the recommendation, Yet, as we mentioned during our September 26, 2018 briefing to the members of the Compliance and Audit Committee, the fact that historically the UCOP submits its formal budget to the Regents during the

May meeting presents an on-going fundamental timing issue with the CSA set deadline. The CSA expects the UCOP to use budget to actual data in the forecasting and preparing data for coming year budget—closing the books of an enterprise as large as UC within 6 months (December) is commendable and UC is on target to do so. Further, the adopted budget development processes also use information based on the first six months of the current year for forecasting and budget purposes. Thus, while UCOP begins its budget process in the fall, critical budget components are not available until after the first of the calendar year and later. In order to meet an April deadline, the full budget package would need to be presented during the March meeting and, practically, finished in late February for final review and submission to the Regents. Moving up the date to meet the CSA's artificially set deadline, would present a very compressed, and in our view, unreasonable timeframe to not only undertake the amount of work needed to present the budget in the level of detail and precision that the UCOP and Regents need but also to be able to obtain, analyze, and use the actual data garnered from the prior year actual figures. Further, submitting the budget in the May meeting would allow time for the Governor, Legislature, and the public to review the UCOP budget while the state budget is still under deliberation.

> **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 that was 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; and 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.

In terms of Recommendation #25, policies, procedures and guidance were adopted to formalize the changes resulting from the implementation of Recommendation #12 and managers and staff notified of these new provisions. In addressing this year's initiative, the budget process requires that a number of these employee benefits and cost reimbursement provisions be budgeted on a zero basis—thus deliberating and creating targets for the spending of these controllable costs. Targets for lodging, meals, business meals and entertainment, mobile devices, stipends, and employee awards were included in the May 2018 budget. UCOP continues to work on the remaining categories and plans to report on its progress to the Regents in November 2018.

Three of the Year Two relate to employee wages and salary ranges.

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.*

To date, UCOP has not fully completed its public and private sector comparisons and weighting processes for all of the UCOP non-represented employee jobs. These jobs are included in UC's Career Tracks, which provides a classification framework that aligns non-represented jobs to the respective labor market by occupation, career level, and scope of responsibility. A job is placed in the appropriate Career Tracks salary grade by comparing the median pay for the job, as identified in the labor market, to the midpoint of the Career Tracks salary grade. Similar jobs have groupings within the 16 salary grades in Career Tracks and the salary structure is based upon the median market values.

UCOP conducted a market assessment based upon the Regent-approved methodology for over 722 staff jobs at UCOP (and Office of General Counsel, which is on a separate framework).

- UC's staff jobs were matched to benchmark survey jobs based on job content, reporting relationship, scope of responsibilities and other relevant factors.

- CSU and State job benchmarks were identified based upon job content by UC Systemwide Human Resources.

- UC reviewed about 1,136 Career Track jobs systemwide—it was able to benchmark approximately 64 percent of these jobs, with approximately 32 percent of those benchmarking being from State and/or CSU matches. Of the 1,136 job titles in Career Tracks, UCOP staff hold jobs in 291; benchmarking for these jobs was nearly 90 percent.

Sullivan Cotter reviewed a sampling of this work and found the survey benchmarking to be consistent with the Regent-approved methodology. Sullivan Cotter's preliminary results (developed to provide a proxy for gauging market movement) suggests that UCOP salaries are lagging behind the market by 5.5 percent. UCOP stated that its salary range midpoints had not been adjusted since 2016.

During the past quarter, UCOP met with the Regents Working Group on UCOP Salary Ranges where the salaries workstream group and Sullivan Cotter presented and discussed the results of the salary benchmarking, market assessment and their recommendations for the plan to narrow salaries. With the endorsement of that group, these results were presented to the Regents Governance and Compensation Committee on September 26, 2018.

As mentioned earlier, UCOP will continue to match and benchmark salaries in the coming months in preparation to determine any needed reductions to salaries based upon the results of its public and private sector comparisons. These conclusions will be brought to the President for consideration for adjusting salaries. We will continue to monitor the progress of the workgroup as it moves through its plan and will report in the next quarterly report.

Recommendation #24: *Narrow its salary ranges.*

The UCOP, with its consultant, Sullivan Cotter presented the recommended plan to narrow salary ranges to the Regents in September, 2018. The work to actually narrow the salary ranges is in process. Following the plan presented to the Regents, Sullivan Cotter preliminarily assessed the impacts of applying the narrowed ranges using the proxy data developed during the abovementioned benchmarking efforts. The preliminary data suggest that by narrowing the salary grades to the recommended widths (as noted in Recommendation #11 above) very few employees will be impacted. Specifically, the vast majority of UCOP staff are already clustered around the mid-point of each of the salary grades and since narrowing occurs from the center mid-point out equally in each direction, only those on each end (top and bottom) could be effected.

The next phase of this effort will review the impact of potential revisions for employees within the ranges, particularly those that would fall outside of the new range parameters. Sullivan Cotter will develop a cost/saving impact strategy once new salary ranges are approved by the President. The preliminary calculations suggest that that less than 1.5 percent of UCOP employees will fall below the grade minimum and, to be within the ranges, could experience a pay increase—calculations based on the proxy data find the cumulative impact just less than $83,000. On the top side of the grades, just over one percent are likely to fall outside of the top step—with a calculated value of just below $42,400.

UCOP expects to finalize its decisions related to salary range narrowing in March 2019. We will continue to monitor the progress of achieving the recommendation in the coming weeks and will provide a progress report in the next quarterly report.

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

Once the work is complete to narrow the salary ranges UCOP will be in a better position to ascertain the true impacts of these efforts. Preliminary benchmarking, market studies, and salary range planning results suggest that salary savings on these factors alone will unlikely result in the CSA's expected outcome. Nonetheless, during the budget process, UCOP will develop a strategy for reallocating funds to campuses as staffing cost reductions are identified.

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 the entire workforce plan. The UCOP delivered and the CSA accepted Phase 1 of the Workforce Planning model. During the past year and

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

continuing into this year, UCOP not only has commenced tasks related to Phase 2 of CalHR's best practice plan, but also has begun tasks relative to Phase 3.

Pertinent to Phase 2 of CalHR's model, staff have completed the step to gather and analyze staffing data from the corporate personnel system and the HR system to understand the current state of the UC workforce. It has also gathered, analyzed and trended three years of hiring and recruiting data.

The workstream group is in the process of finalizing tools to assess staff competencies as well as for determining staff demands and supply. For Phase 2, the workgroup is concentrating its efforts on those positions deemed critical and will complete a supply, demand, and gap analysis using those positions. During the period of September to November, the workstream group plans to complete its talent assessment pilot with the goal to complete the supply analysis by the end of November, 2018.

To gather information relative to the UCOP workforce demand, the workstream group is rolling-out a workforce planning template with a vision covering three to five years. The group is introducing the template with meetings to explain the endeavor and the tools. These meetings are occurring in September and October 2018. Each division is to complete, in alignment with the November budget call, the workforce template. This template will gather stakeholder information in areas such as strategic direction, changes in business objectives, anticipated organizational changes or initiatives, new or changing roles, and information related to obsolete, evolving, and needed skills and abilities. The template will also gather data pertinent to recruiting and retention of the particular workforce.

The supply analysis and examination of staff competency will be used in conjunction with a risk assessment that considers age, years of service, criticality of the position, knowledge transfer strategies, separations, vacancies, turnover, and recruiting to determine where its staffing risks exist. The results of these efforts—competency, supply, demand, gap analysis, and risk analysis and prioritization (all slated to be complete by the end of January, 2019—with a Whitepaper to be presented to the Regents in March 2019.

As part of the workforce planning efforts, and stated within the CSA's recommendation, is the gathering of input from students and campuses regarding the elements of the UCOP that are of critical importance and those that could be eliminated or downsized. The President commissioned the Huron Study to conduct a restructuring study for the UCOP. Further, the Regents commissioned Sjoberg Evashenk to conduct a 10 Campus Study to determine the services and programs that campus chancellors and leadership value, do not value, and determine whether any duplication exists. As far as we are aware, neither study involved obtaining the input of students.

UCOP is currently acting to explore many of the areas brought out in both studies. The President directed a number "consultations" relative to opportunities for OP restructuring. These consultations relate to UC Press, Research Grants and Program Office, UC Washington Center, and UC Sacramento Center and are exploring various aspects of these "businesses." Lead by UCOP leadership, these consultations are to involve campus leadership, the Academic Senate, and other advisory committees. The President has provided an update on these consultations to UCOP staff in August, 2019 and the Executive Budget Committee received reports on restructuring at its September 14, 2018 meeting. Changes to these programs, in addition to the consultation relating to UC Health are particularly relevant to the workforce planning efforts and have potential to have a significant impact on the UCOP workforce.

There is a significant amount of work to be completed in the next few months to complete Phase 2 while also commencing a number of efforts to allow UCOP to meet April 2020 requirements. We will continue to monitor the progress of achieving these many activities in the coming quarter.