



Independent Consultant's Report

Second Report: Report on Independent Assessment of Implementation Plans – due October 2017

Date: October 2, 2017

Period: Contract initiation in July 2017 through October 1, 2017

Observations and Findings:

We continue to see that the UC Office of the President is fully embracing the California State Auditor's (CSA) recommendations and is devoting significant resources, attention, and priority to achieving the intended improvements. We have reviewed draft work products from each of the ten work groups and find that they are focused on addressing the underlying issues raised by the CSA and outline the steps needed to develop appropriate policies and procedures by the deadlines established by the State Auditor.

Work Group meetings we attended were well managed and organized with agendas addressing the following:

- Review and implementation status of past action items
- Issues for consideration during current meeting
- Items for discussion, including previously prepared draft work products
- Upcoming milestones, due dates and development of policies
- Responsible members for completing each new action item

At these work group meetings we observed the processes and dynamics, asked questions when we needed additional information or insights, and responded to questions posed by work group members – which usually were focused on how an “auditor” would react to the information being provided.

Throughout this reporting period, the draft work products from each work group ranged from initial observations, data gathering and staff analysis to more refined power point presentations that were used by UCOP management for briefing internal UCOP executives. Subjects covered also included possible benchmarks, comparator peers (e.g. large AAU research universities), preliminary reimbursement policies and financial and budget system replacement plans.

Clearly, each of the 10 work groups have unique issues to address which will affect when they will be able to complete their work group's goals. While all appear on-target to meet the CSA's deadlines, one or two – such as business reimbursement policies and the financial audit of UCOP expenses will likely be completed early. Others, such as budget system upgrades, financial system replacement and Systemwide compensation policies will take the full period outlined in the CSA' recommendations.

Throughout our involvement with UC leadership and the work group members we have appreciated the cooperation, responsiveness and professionalism we received and have observed. Moreover, we are impressed with the significant dedication of staff resources and support we are seeing in UCOP's comprehensive approach to address the CSA's recommendations.

Potential Issues: None at this time.

Activities Conducted During the Period:

As mentioned above, we observed UCOP's ten work group meetings. The ten work groups are being led by the "UCOP Audit Implementation Task Force" chaired by Rachael Nava, EVP – COO which periodically meets with the key work group members to assure UCOP's overall approach to addressing the CSA recommendations is on-track and meeting goals. Ms. Nava's task force has created an Audit Implementation Master Work Plan that includes milestones and due dates from 2017 to 2019. (We also attended one of the Task Force meetings.)

Following is a recap of the roles and responsibilities of each 10 work groups. The 10 work groups are led by four Responsible And Accountable Officers (RAO); they are: Nancy Pluzdrak, Peggy Arrivas, Dave Baltaxe and Thera Kalmijn. The ten work groups are:

- 1.0 UCOP Employee Salary Work Group
- 2.0 Leadership Salary Work Group
- 3.0 Staff Salary Work Group
- 4.0 Workforce Planning Work Group
- 5.0 Employee Reimbursement Work Group
- 6.0 Funds Restrictions Work Group
- 7.0 Reserve Policy Work Group
- 8.0 Budget Presentation Work Group
- 9.0 Budget Process Work Group
- 10.0 Systemwide Initiatives Work Group

Since several of the individual work groups have common themes and goals, we have grouped them together as follows:

- 1.0 UCOP Employee Salary Work Group
- 2.0 Leadership Salary Work Group
- 3.0 Staff Salary Work Group

Nancy Pluzdrak, Executive Director, Local Human Resources is RAO for these three similar work groups.

Members: Six UCOP and four Campus's provide two HR representatives

Work to date:

- Establishing both UCOP and Systemwide staff and leadership salaries
- Identified 28 large peer AAU research universities to gather comparative salary data
- Obtained salary ranges for positions based on market salary data, from both the public and private sector surveys
- Reviewed annual Market Reference Zones (MRZs) for executive positions in labor markets in which UC competes for talent
- Establishing midpoint salary ranges for staff salaries based on market data
- Reporting and accountable to the UC Audit Implementation Task Force
- Supporting as requested the Executive Budget Committee (EBC) work group's task force initiatives
- Prepared draft work products covering CSA due dates, methods for collecting public sector salary data, labor market assessments, and compensation programs and policies

4.0 UCOP Workforce Planning Work Group

Nancy Pluzdrak is the RAO for Workforce Planning

Members: Seven UCOP and three Campus representatives

Work to date:

- Developing a work force plan (WFP) for UC to address future talent needs in the short, near and long-term
- Beginning with CalHR's WFP, identifying comparators from UC Merced, UCI, and UCSD, and UCOP's recent efforts at I.T. and Path Center
- Established a goal to design and implement a best practice WFP model including performance measures and annual assessments
- Assessing UC's current talent pool, training needs, recruitment strategies and succession planning
- Developing a charter and policies/procedures addressing the interrelationships with Budget Work Groups

5.0 Employee Reimbursement Work Group

Peggy Arrivas, Associate Vice President and Systemwide Controller is the RAO for Employee Reimbursement

Members: Six UCOP representatives

Work to date:

- Establishing Systemwide employee reimbursement policies, including meals, lodging, relocation, moving, performance bonus and stipend expenditures, etc.
- Compared UCOP policies against 16 comparators, including CSU, State of California and 14 large AAU universities
- Evaluating each of the nine reimbursement areas against the peer groups for elimination, amendment or continuation
- Addressing UC meal and lodging rates for travel to various high cost cities, such as San Francisco, Los Angeles and Washington DC, based on Federal, CA State and CSU policies
- Implemented several of the changes at UCOP, and discussions with campuses are being held to gain input for Systemwide application
- Contracted with PwC to conduct a financial audit of UCOP's expenditures (in progress) as CSA recommended
- Planned completion of most reimbursement policies in late October 2017

6.0 Fund Restrictions Work Group**7.0 Reserve Policy Work Group**

Dave Baltaxe, Executive Director, UCOP Budget and Finance is the RAO addressing UCOP's fund restrictions and Thelma Kalmijn is the RAO on Reserve Policy work group

Members: Six UCOP representatives on Fund Restrictions work group; and six UCOP and one campus representative on the Reserve work group

Work to date on Restrictions:

- Reviewing UCOP restricted funds to determine if any should be reclassified using updated definitions
- Identified approximately 500 existing restricted funds for evaluation
- Reviewing and documenting the funding sources of currently restricted funds to determine if donors or grants limit expenditures to specific areas, e.g. cancer research, tuitions or infrastructure, etc.
- Developing a process to regularly review funds and place them into three general categories: 1) Unrestricted; 2) Restricted; and, 3) Centrally-controlled
- Established a goal to implement a consistent, best practice standard for Fund Restrictions
- Planning to meet with key stakeholders and campus decision makers once funds have been reclassified into different categories using consistent definitions for feedback and vetting
- Assessing if savings can be realized by the campuses from leveraging the use of restricted funds

Work to date on Reserves

- Reviewing funds reserved in UC's financial statements to determine what amount the reserves should be and the purposes for which they can be used
- Completing a comprehensive review of all existing reserves to utilize as a baseline
- Conducting research and benchmarking public entities and universities to document best practices
- Developing a formal UCOP reserve policy and obtaining stakeholder agreement and Regental approval
- Determining and approving how the reserve will be funded
- Identified that campus reserve levels and types of reserves vary significantly by institution requiring coordination with campuses as reserve policies are developed
- Selected a preliminary benchmark group of 18 universities, cities and industry groups (incl. GFOA and NACUBO); with additional large AAU research universities to be added
- Identified that several benchmark groups have set reserve levels from 16.7% to 20% of expenses
- Focusing on UCOP central reserves for Central Operations and for Strategic Priorities, and not for building or IT infrastructure reserves that are self-funded and already established
- Determined that housing, medical centers and other campus reserves, and program reserves stipulated by regulation, are out-of-scope

8.0 Budget Presentation Work Group

Thera Kalmijn, Executive Director, Operations is the RAO on the budget presentation work group.

Members: Five UCOP and one Campus representatives

Work to date:

- Developing a UCOP budget presentation using improved use of actual and forecasted expenditures
- Assuring that UCOP budget presentation includes all expenditures and whether they have discretionary or restricted reserve balances
- Implementing a budget presentation that separately identifies Permanent and One-Time Temporary budget items
- Evaluating industry best practices (e.g. GFOA and NACUBO) for budget presentations and details for Regent's and others stakeholder use
- Identified existing problems managing UCOP's \$798 million budget funded by a variety of sources
- Determined that UCOP budget tool, BDS, does not contain the functionality needed to achieve desired outcomes or to meet the CSA recommendations, consequently, it needs to be replaced

9.0 Budget Process Work Group

Dave Baltaxe is the RAO on the Budget Process work group

Members: Five UCOP representatives

Work to date:

- Ensuring that UCOP budget process includes consistent, timely and appropriate input from campuses, addresses gaps between current UCOP budget process and industry best practices, and follows GFOA and NACUBO standards
- Includes UCOP Executive Budget Committee (EBC) chaired by EVP-COO Nava made up of Campus Leadership Councils, UCOP division leaders, Academic Council, Academic Senate, CUCSA and UCOP Policy Committee
- Identifying capacity and capability of UCOP's current budgeting system that relies upon UCLA general ledger and other financial systems
- Considering staying with UCLA as it implements a new ERP system or partnering with another university. UCLA's new system has robust planning tools that may benefit UCOP
- Testing demonstration schedules and timing for UCSF and UCSB's system replacements for comparison with UCLA
- Coordinating with Work Group 8 because of the overlap and common challenges between Budget process and presentation's goals and objectives
- Deciding by October what approach will be used for needed replacement of the general ledger and financial systems
- Selecting the ERP/GL system (UCLA or other) that will then provide the timelines for meeting the CSA's recommendations on budgeting issues since system implementation takes time
- Evaluating cost and effectiveness of the system choice with a goal of obtaining a standardized budgeting system to improve timeliness, consistency, relevance and usability of budget and expense reports

10.0 Systemwide Initiatives Work Group

Dave Baltaxe is the RAO on the EBC Audit Governance work group

Members

Ten UCOP representatives

Work to date:

- Identifying key initiatives sponsored by UCOP including Systemwide and presidential initiatives

- Delineating and defining the differences between ongoing administrative costs and larger Systemwide and presidential initiatives.
- Improving management and budget reporting for tracking the initiatives and identifying accountabilities associated with each
- Determining how planned budget and financial system upgrades can display the various initiatives and capture needed key information
- Determining how budget and accounting systems can distinguish between Systemwide initiatives, presidential initiatives and administrative costs
- Evaluating how budgets can appropriately be determined to report both annual and quarterly amounts
- Identifying Systemwide and presidential initiatives that are not mutually exclusive and allowing the President to categorize them
- Identify whether reallocating funds or administrative cost savings can be returned to the campuses

Work to be Completed during the Next Period:

Following the agreement with the Regents and its Compliance and Audit Committee to report quarterly, Sjoberg Evashenk Consulting will submit our next formal progress report no later than December 31, 2017. During this next reporting period, the UCOP will be submitting its Six-Month Response to the CSA. We plan on reviewing the response the submission to assure that it meets the CSA's requirements.

Further, using the baseline data developed to date, we will do the following:

- Follow-up on the elements and initiatives discussed in our RAO interviews
- Visit a few work group meetings to see how they are progressing toward their internal deadlines and goals
- Review work group plans, analyses, and benchmark data at a detailed level
- Assess work group progress against planned work streams and internal milestones
- Select a sample of work group final draft documents and test the underlying evidence used to support all of the statements made
- Continue to review work group draft and final documents as they are created
- Review the processes UCOP uses to obtain and consider campus or Chancellor inputs and insights on Systemwide changes being proposed and the impacts on campuses from the potential changes
- Meet with RAOs and other knowledgeable parties as needed or requested
- Brief Regents on status as requested