SJOBERG ✷ EVASHENK
CONSULTING, INC

Independent Consultant's Report

Final Report: Independent Assessment of CSA Recommendations

Date: April 15, 2020

Period: Summary of Three-Year Monitoring Period
June 2017 through April 15, 2020

Background

On April 25, 2017, the California State Auditor (CSA) issued a report related to administrative expenditures by the University of California Office of the President (UCOP). This report proposed 42 recommendations—33 addressed to the UCOP, 7 addressed to the Regents of the University of California, and 2 to the California Legislature. Recommendation #15 required the UC Regents to

> "*Develop a contract for an independent third party that can assist the regents in monitoring implementation of the three-year corrective action plan for the Office of the President. The independent third party should have expertise in higher education, public administration, and public finance. Moreover, the independent third party should have complete access to the Office of the President's documentation and its staff so that it has sufficient and appropriate information to verify the Office of the President's actions. The independent third party should report to the regents on the Office of the President's progress, challenges, and barriers to success at least quarterly.*"

In June 2017 the UC Regents engaged our firm, Sjoberg Evashenk Consulting, to be the independent third party monitor. This report, twelfth and final in our series, summarizes our assessment of the UCOP's activities over the three-year period.

The intent of audit recommendations is to bring about positive change and improvements to operations or situations deemed weak, non-compliant, inefficient, or ineffective. By definition, a recommendation is a suggestion or proposal for the best course of action; as such, the auditee leadership interprets the auditor's recommendations and implements appropriate corrective actions. Further, auditee executive judgement ultimately drives implementation decisions which could result in differing approaches to issue rectification than what was envisioned by the auditor. From the outset, as directed by the Regents, the UCOP committed to complying with each of the 33 recommendations within their control which were set forth by the CSA over a three-year phased approach.

In our independent opinion, the UCOP has met and in many cases exceeded the intent and spirit of each of the 33 recommendations. We find the UCOP addressed each matter with a view not only to achieve full implementation but to bring genuine improvement to UCOP operations and to better serve the interests of the University's campuses, medical centers, students and employees. Despite these outstanding accomplishments and its continued remediation efforts, at this point in time we cannot predict whether CSA will ultimately agree that all recommendations are fully implemented. In the appendix of this report we provide a matrix of all CSA recommendations included in the April 2017 report, the CSA's assessment of those recommendations as of November 2019, and reference to where in this report we discuss each recommendation implementation.

This summary report encompasses information we gathered from June 2017 through April 15, 2020 which includes much of the information that UCOP will submit to the CSA in its April 25, 2020 final response, but does not include final determinations by the CSA of this information.

Observations and Findings

The intent of performance auditing is to assist governmental entities to work more efficiently and effectively and thus better serve the public and its stakeholders. While addressing the numerous areas identified by the CSA for improvement proved onerous, difficult, and expensive, the result of the three years of arduous efforts by UCOP leadership and employees has created a more nimble, transparent, lean, collaborative, and efficient organization. The impact of these improvements span across the Office of the President and through to the campuses and ultimately the students. Actions resulting from audit recommendations sent funds back to the campuses; critically evaluated systemwide programs and services; vastly improved budget practices and reporting; revamped salary level setting and narrowed pay ranges; reduced benefits and reimbursements for UCOP leaders and staff; defined, reclassified and reduced the number of funds used by UCOP; and set up policies for fund reserves. Importantly, actions taken by the UCOP did generate the auditor's intended results—more than $166.3 million has been directly and indirectly reallocated back to campuses over the past three years.

The auditor's recommendations fall into eight broad categories: salaries, employee benefits and reimbursement, workforce planning, systemwide initiatives, budget process and presentation, fund restrictions and fund balances, reserve policies; and fund reallocation. In the following, we highlight the requirements, accomplishments and potentially unresolved issues of the CSA's April 25, 2017 report.

Salaries

The April 2017 auditor's report took issue with the UCOP's salary levels and pay ranges and set forth five recommendations[1] requiring evaluation, benchmarking, and methodological assessments of the fundamental pay structure. A number of workgroups assumed the extensive tasks to address and complete the various requirements of the CSA's recommendations. UCOP took an academic approach and, in our view and that of the independent compensation consultant[2], completed a comprehensive and responsible review of the pay structure and recommended the adjustments borne from these examinations. In our view, the UCOP fully complies with all five of the related recommendations in form and intent. In the following bullets we highlight key efforts:

➢ Through convening a Regents Working Group on Executive Compensation, the UC developed a comprehensive policy relating to executive compensation and amended the UC's Senior Management Group (SMG) Market Reference Zone parameters. The results of these deliberations and studies set forth the methodology and philosophy, particularly the inclusion of weighting public and private sector data, to compensation programs for all non-represented staff below the SMGs across the University. (Recommendation #10)

➢ With the assistance of compensation experts Sullivan Cotter and Associates, UCOP conducted numerous activities to match, benchmark, weigh, and adjust pay levels. The efforts included UCOP matching 70 percent of all operational/administrative senior management positions to state positions and Sullivan Cotter independently matching 40 percent of all of the university's positions with marketplace matches to state positions. (Recommendation #10 and #11)

➢ Sullivan Cotter also assisted in developing the plan to restructure salary ranges and gathered and analyzed 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. (Recommendation #10, #11, and #23)

➢ UCOP narrowed the CareerTracks and Office of the General Counsel positions 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 and reduced the number of salary grades. (Recommendation #23 and #24)

➢ UCOP conducted a comprehensive review of employee salaries following the approved

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[1] Recommendation #10—develop a weighing methodology for salaries; #11—restructure salary ranges to encourage employee development and ensure pay equity; #23—set targets for any needed salary reductions resulting from comparisons to public and private benchmarks; #24—narrow salary ranges; and #34—adjust salary levels to meet targets.
[2] UCOP engaged Sullivan Cotter and Associates to provide independent assessment and consulting on several issues in this area.

methodology and weighting formulas and noted 66 percent of employees fell below the midpoint and 34 percent above; Sullivan Cotter reviewed these findings in terms of best practices at higher education and other comparators and found UCOP practices aligned with its peer institutions. (Recommendation #23)

➢ UCOP applied salary ranges to CareerTracks by conducting a market study of jobs and applying the salary range most closely aligning with the market midpoint for the 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. (Recommendation #11 and #23)

➢ A market study found UCOP had fallen behind the market salaries as they had not been adjusted since late 2016 and recommended to the UC President and discussed with Regents an 8% increase in pay scale midpoints. Additionally, UCOP has subsequently determined that pay scales will not be adjusted for the current year resulting in an eight percent change over a four year period, or approximately 2 percent per year overall.

➢ The 2019 actions to narrow salary ranges and the move range midpoints to align with market resulted in 18 employees falling below pay scales requiring modest pay increases to be within range, salaries of 49 employees deemed compressed[3] and thus not equitable and requiring adjustment, and 1 OGC employee with a salary that was above the pay scale maximum and would be frozen. (Recommendation #23 and Recommendation #34) Narrowing pay scales limits the pay that employees may earn—wider scales allow more room for step increases while narrowing restricts the number of increases achievable before hitting the top—and should provide some long-term savings as employees reach the pay maximum over time.

➢ UCOP continues to resolve Recommendation #23 particularly the CSA's position relative to five job classifications CSA identified for comparison. During the three-year examination process, and again recently, UCOP conducted compensation surveys using best practices and found that in comparison to state labor data[4], federal Department of Labor data, and market data, UCOP pay for those five jobs is well within the mid-points of those benchmarks while State of California employee salaries align in two jobs but significantly behind the comparators in the other three positions.

We view that the UCOP fully complied with the methodologies and the outcomes of the salary level, pay scale, and market data examinations and the CSA recognized full compliance with Recommendations # 10, #11, and #24.

However, although the UCOP followed the agreed-upon methodologies, the overall outcomes of the

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[3] According to Sullivan Cotter "Pay compression may occur because 18 UCOP employees (in ten jobs) are identified for pay adjustments to the minimum, while other employees at or slightly above the minimum in the same or related positions are not identified for market based adjustments. The compression analysis aims to identify employees in the same or similar positions and estimate the cost to potentially increase their pay to avoid pay equity concerns." January 17, 2019

[4] State labor data as compiled by the California Employment Development Department for labor costs reported by employers.

salary-setting efforts did not align with the CSA's conjecture regarding Recommendation # 23 that UCOP salaries were inflated and compensation surveys and weighting methodologies would warrant downward adjustments to salary targets. The actual outcomes of the best practice evaluations did result in some salary adjustments, both up and down, but generally reflected that UCOP's salaries were in line. In prior assessments CSA deemed Recommendation #23 only partially implemented arguing against the UC President's decision to move pay midpoints 8 percent to better align with market (done in 2019) and that when considering the State of California employee salaries for the five comparators mentioned above UCOP salaries were higher. However, in considering the outcomes related to this recommendation and Recommendation #34[5] over the entire period since 2016, UCOP has not only complied with all technical provisions of the auditor's recommendations but has followed the spirt of these directions and allowed only modest changes to its pay even during a very robust economic cycle and operating within a very high cost-of-living area. While not readily calculable, UCOP has also likely achieved savings from salary range narrowing (more long-term) but also from setting very modest salary level targets—about 2 percent increase per year as salary targets will remain static for 2020. While we cannot predict the CSA's final determination of these two recommendations, we find that UCOP has fully implemented both.

Employee Benefits and Reimbursements

The CSA identified 10 "employee benefits" for evaluation such as reimbursements moving/relocations, costs for business meals and travel, automobile and cell phone allowances, and employee specific benefits like stipends, awards, and supplemental executive retirement provisions. The UCOP conducted benchmarking to the State, California State University, and other universities and adopted changes to address CSA concerns. With actions by the Regents and administrative changes executed by the President, each of the audit issues were addressed and Recommendations #12, #25, and #35 deemed fully implemented by CSA at the end of Year 1. Key areas of change include:

➢ **Automobile Allowance.** The amended Regents Policy terminated automobile allowances for any new SMG hires or appointees.

➢ **Moving Reimbursement.** The new policies exercise tighter controls over costs for moving or relocation and generally allow for reimbursement of reasonable actual costs incurred in moving/relocating within stipulated limits and requires receipts, evidence of cost, and time limitations for reimbursement. Relocation allowances were discontinued.

➢ **Senior Management Supplemental Benefit Program PPSM II-71**. This program benefitted Senior Management (SMGs) by the University contributing to the Retirement Savings Program Plans in lieu of the benefit provided under the Senior Management Severance Pay Plan. This program is terminated for new hires or new SMG appointees but allows those currently participating to continue until separated from their current positions or change positions within the University.

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[5] Recommendation #34 stipulates that UCOP "adjust its salary levels and ranges to meet established targets."

➢ **Business Meetings and Entertainment**. In April 2018, the UCOP significantly restricted parameters for hosting business meals and entertainment. The new rules set forth modest daily maximums for these events; these provisions apply only to UCOP activities and were not issued systemwide.

➢ **Retirement Events, Morale Building, STAR Awards Programs/Performance Awards.** Prior UCOP policies afforded a number of cash and non-cash awards for various purposes. UCOP reduced, restricted, or entirely curtailed some of these programs in response to CSA recommendations—UCOP will not fund retirement or appreciation events or gifts; it reduced the STAR program from a maximum of the lesser of 10% of salary or $5,000 to a maximum of $500 one time annually and limited Spot Awards to a maximum of $75; and, put strict guidelines and limits on morale building events.

➢ **Stipends**. The amended policy better aligns the UCOP's approach to compensating "administrative stipends" for employees temporarily assigned the responsibilities of a higher-level position or duties not part of the employee's regular position (in State government termed as "Out of Class" assignments).

➢ **Cell phones**. In October 2017, the UCOP issued more stringent mobile device policies and practices.

➢ **Meals and Lodging.** UCOP amended its Travel Policy to more stringently limit meals and incidental expenses and to fall within the limits set by the State and CSU.

Workforce Planning

In its April 2017 report, the auditor found that UCOP had "not completed a thorough workforce plan that could enable it to justify the size and cost of its staff and identify any redundancies between work it performs and work campuses perform." It made four recommendations that essentially required the UCOP to adopt and implement the CalHR Workforce Planning Model. From the beginning, the UCOP committed to fully implementing this model showing authentic effort, full executive sponsorship, collegial partnering with departmental stakeholders, and goals to develop and establish a workforce system that is viable, sustainable, and value added to the entire organization.

Concurrent with the undertaking of Phase 1, Set the Direction for the Workforce Plan, in the summer of 2017, the UC Regents sponsored a study by Sjoberg Evashenk Consulting to conduct a 10 Campus Study[6] to obtain views and data from each of the 10 University of California campuses and the various departments at UCOP to consider the value of services provided by the UCOP. The goal was to identify which services and efforts are best centered at UCOP, campuses, or elsewhere; any effort deemed duplicative or not valued; ideas of services that could be centralized or made more efficient; and, to obtain first-hand perceptions of service and leadership provided by the UCOP. During this same

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[6] Sjoberg Evashenk Consulting, Inc. "The University of California 10-Campus Study," April 27, 2018
https://regents.universityofcalifornia.edu/regmeet/jan19/g5attach.pdf

period, the President hired Huron to perform a UCOP-wide organizational review and to provide optimization opportunity and efficiency options.

The UCOP Workforce Plan leveraged information provided in the two consulting reports as well as other data gleaned from departmental strategic plans, focus groups, and external research to set the foundation for its plan. From the outset, the UCOP's Workforce Plan was not limited to the guidance set by CalHR but broadened to industry best and leading practices with a goal to ensure the efforts would be adopted and sustainable in the long-term.

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

UCOP achieved the desired outcomes, accomplished the provision for each phase of the prescribed 5-step model, and met the CSA's timeline for meeting these goals—thus fully implementing Recommendations #13, #27, #37 and #38. UCOP has not only implemented these efforts but has documented each step in its continually evolving comprehensive written workforce plan, the most recent version, *Three Year Strategy & Implementation Plan 2019-20 to 2021-22.* The plan reports the blueprint, tasks, and deliverables for each phase of the underlying efforts which we view meets or exceeds, the achievement of the four CSA recommendations[7].

The last year of the workforce planning efforts require not only the determination of the workforce strategies and plan (Phase 3) but also the implementation (Phase 4) and the evaluation of the outcomes of these efforts. In Phase 3 UCOP identified five target areas: talent acquisition, knowledge sharing, employee development, retention, and talent assessment and succession and established strategies and objectives for each. In Phase 4 it implemented the strategies first using a 90-day "proof of concept" approach which successfully moved into the Year 1 implementation that further incorporates Phase 5 which is the monitoring, evaluation and revision of the plan. These steps are iterative and learning and UCOP has adopted an ongoing approach that will continually implement, assess, modify, measure, and evolve these activities that will ensure alignment with the UCOP's overall strategies and goals into the future.

In addition to the required five phases of the CalHR workforce plan, UCOP developed and incorporates its *Communication and Change Management* plans and strategies into the workforce plan. It insightfully recognizes that to be successful and fully adopted the sponsors need to "bring the plan to life" and ensure stakeholders have open communications, feel invested and involved, obtain the appropriate training and tools, and realize the value and purposes of the efforts.

It is our opinion, based upon our experience in the area of human resources, particularly in government and higher education, that UCOP's efforts are best and leading practices and can possibly provide the

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[7] Recommendation #13 required implementation of CalHR workforce plan phase 1 by April 2018; Recommendation #27 required the completion of phase 2 by April 2019; Recommendation #37 completion of phase 3 by April 2020; and Recommendation # 38 implementing phases 4 and 5 by April 2020.

model for others as they adopt strategic workforce planning.

Systemwide Initiatives

The CSA was critical of the UCOP's approach to fund and report temporary, one-time systemwide initiatives and programs and the funding streams supporting these programs. The UCOP took these matters seriously and endeavored to address each of the five related recommendations early on in the recommendation implementation process; as a result, most were deemed complete within the first year. These efforts by UCOP continue to benefit the Regents, stakeholders, and the pubic with robust, reliable, and transparent information developed and disclosed for systemwide programs and initiatives and areas related to the UCOP budget. Five of the 33 recommendations were captured within the systemwide initiative topic umbrella.

Recommendations #18 and #19, due in April 2018, required UCOP to develop and use clear definitions to distinguish between UCOP functional areas—central and administrative services—and systemwide programs and initiatives relating more to campus activities, and to build a comprehensive listing of these programs. By the end of Year 1, UCOP fully implemented both recommendations by developing an inventory of all central, administrative, and systemwide services and programs and applying a decision tree with definitions and detailed summaries for differentiating between primary UCOP functions and UCOP-affiliated functions. UCOP also developed five categories for classifying affiliated functions generally by nature and funding source—state/federal programs, campus programs, systemwide programs, systemwide initiatives, and Presidents Initiatives.

Recommendation #28 and #29 although not due by the CSA for completion until April 2019 were also complete in Year 1[8] and determined fully implemented by CSA. Recommendation #28 required that UCOP develop spending targets for its systemwide programs. With the submission of the FY 2018-19 UCOP budget, UCOP separately provides targets and spending related to statewide initiatives, discretely outlines aspects of the President's Initiatives, and establishes a separate and budgeted Strategic Priorities Fund for funding the President's programs. Further, with the adoption by the Regents of the FY 2018-19 budget it meets the provisions of Recommendation #29 with the delineating and "publishing" UCOP central and administrative budget along with spending for the five categories of statewide programs and initiatives. The recommendation also requires identifying funds to be redirected to the campuses; the budget included the results of the AB97 proposal whereby the UCOP redirected $15 million back to campuses to fund undergraduate enrollment programs that, in part, entailed reducing the funds allotted to the President's Initiatives by $2 million and reducing other programs by $500,000.

Finally, Recommendation #40 requires that UCOP spending aligns with the needs of the stakeholders, aligns with the administrative and systemwide targets, and is widely and clearly communicated. With each of the UCOP budgets presented and adopted since May 2018, the data is detailed, clear, and defensible. The CSA found this recommendation fully implemented in April 2019—ahead of the stipulated April 2020 milestone.

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[8] Recommendations #28 and #29 were further validated in April 2019 by UCOP and accepted by CSA with the submission of subsequent budgets and materials.

Budget Process and Reporting

Significant areas of the CSA's April 2017 report relate to budget development, detail, and reliability and requires clear and transparent reporting. The UCOP's efforts to address the five related recommendations prove transformative as the evolution of the underlying processes, tools, and practices have not only vastly improved and updated prior budget preparation and reporting, but along the way, positive cultural and attitude shifts have taken shape. In addition to the integral participation of the OP-wide budget community and leadership, the reconstituted Executive Budget Committee (Recommendation #6), comprised of top financial leaders from each campus, actively contributes important input and feedback in all UCOP budget elements and its guidance is strongly regarded by UCOP in its budget decisions. The current state of UCOP's budget development process is inclusive, deliberative, automated, fully supported, widely communicated, and adopted across the organization and, in our view, meets and greatly exceeds the intent of the auditor's recommendations.

While Recommendations #5 and #22 speak to technical components for budget presentation purposes, we see that substantial benefits accrued from the changes in practices, procedures, and tools necessary to achieve the requisite level of reliable and defendable data to be included in the budget. Information is provided to the Regents at the macro and micro levels with narrative and graphics to assist in understanding the various components and highlighting key takeaways. The budget reflects fund sources and uses and differentiates funds by the three fund categories—unrestricted/undesignated, unrestricted/designated, and restricted. As discussed earlier in our report's Systemwide Initiatives section, this data provides sources and spending for programs and initiatives and descriptions of Presidential Initiatives and schedules of this spending. The annual budget also offers important information on UCOP central and administrative services and schedules for fee-for-service and flow-through funding. Importantly, the budget includes a full section with specifics on fund reserves and fund balances.

One aspect of Recommendation #5 may not be resolved with CSA—the timing of the delivery of the UCOP budget to the Regents. Historically, the Regents calendar the UCOP's budget delivery and approval for its May meeting in time for the July 1 fiscal year start. Over the decades, as the Office of the President is under the purview of the Board of Regents, the UCOP budget was submitted as one minor component within the vast University of California budget delivered in time for the State's fall budget call. However, with the auditor's release of the report on April 25, 2017, CSA's idea of requiring the UCOP to provide the Regents its budget earlier (in time for the April 25 milestones) was raised citing that the Department of Finance and Legislature should have such detail on this minor component of the UC budget earlier than May. Over the three years, the CSA has determined this recommendation partially implemented primarily due to this disagreement; as the Regents have not moved to change the timing of the UCOP budget submission from its current May date to meet the auditor's recommendation, this item may remain partially implemented.

Recommendation #21 stipulates incorporating best and leading practices for budgeting including the development and formal documentation of policies and procedures. In particular, the auditor requires guidelines for requesting and using funds for one-time or temporary programs or efforts. UCOP has developed and instituted vigorous protocols for requesting, reviewing, and approving funding for such

requests and the processes are memorialized in the UCOP's comprehensive Budget Manual. This manual covers all aspects of the budget processes and policies and reflects the UCOP's adoption of best and leading practices. It is considered a living document and expected to be updated as appropriate.

The final recommendation in this area, #32, which is due in April 2020 is also complete. This recommendation requires UCOP to evaluate and ensure the integrity and efficiency of its budget processes. The UCOP budget process and its new budget system, Planning & Budgeting System (PBS) is in practice and working as intended (implemented to exceed provisions of Recommendation #30). The new PBS system affords a variety of benefits for budget-related activities including quarterly forecasting and budget tracking, statistical analysis, and monitoring balances and uses of funds. Full benefits of the new budget tool will not be realized until UCOP implements the new financial system suite scheduled to go live in July 2020. This new system, IFS, will provide a fully integrated system and work in concert with the PBS. The fully integrated budget and financial system will provide UCOP leaders and management with a single source for fiscal information that is reliable, timely, and synchronized—timely budget and actual financial information that is complete and in full agreement. With these tools, the UCOP fulfills the auditor's expectations for the control, approval, and justification of expenditures. Further, both external and internal auditors have appropriately reviewed internal controls over the PBS.

Recommendation #32 also requires the UCOP to begin developing a multiyear budget plan. UCOP is developing this plan and has created a framework for its multi-year budget process. This summer it will begin building models to develop and test various assumptions, cost and revenue drivers, and workforce plans. Many of the particulars will require the vision and input of the new president and will be completed with his/her direction.

Fund Restrictions and Fund Balances

As part of its review of UCOP's budget information, the CSA conveyed concerns about the classification and number of funds within its fiscal system. Recommendation #3 and #20 focused on restricted and designated funds, those earmarked for specific purposes, and stipulated that UCOP explore these to ascertain whether the funds could be used for discretionary purposes and reallocated to campuses. Since one aspect of the CSA's discussion focused around determining a full "inventory" of funds, tracing the nature and underlying provisions for the use of those funds, and evaluating when a fund could be reclassified as unrestricted and be available for systemwide spending was needed. UCOP completed the comprehensive inventory of its 534 funds and assessed fund balances in each – and over the audit period it streamlined the number of funds; defined, classified, and grouped each fund in accordance with generally accepted accounting principles (restricted, unrestricted/designated, unrestricted/undesignated), and critically assessed the fund balances in each.

As described in the Budget Development and Reporting section of our report, UCOP's budget presentations are detailed and transparent with schedules of each classification of funds and comprehensive data on the balances reflected for each grouping. The CSA sought for UCOP to provide information in the format of a particular table; UCOP adopted, expanded, and refined the table as well as providing additional fund balance exhibits to fully address the required provisions. Moreover, as we

describe in the Fund Reallocation section later in this report, the UCOP continues to assess the use of all of its funds to support not only UCOP operations and programs but those at campuses. For example, in its FY 2018-19 budget, the UCOP reallocated about $40 million back to campuses—$10 million to the UC Riverside School of Medicine and $3 million to each of the 10 campuses for housing strategies (total of $30 million). It also established a $30 million Strategic Priorities Fund[9] to replace the President's temporary funds and established a rigorous process to allocate these funds for one-time and temporary programs and strategies. The UCOP budget includes a detailed portfolio of uses of these funds. The CSA deemed both of these recommendations fully implemented.

Fund Reserve Policies

Recommendation #4 kept with the themes to ascertain the amount of money UCOP could reallocate to campuses and to ensure the presentation of comprehensive and accurate budget information and target reserve policies with a goal to set levels for reserves to define the appropriate uses of such reserves. UCOP thoroughly reviewed the funds holding reserves and researched best practices to update or establish policies and levels for each type of fund reserve. As a result of these efforts, UCOP has responsible and fully vetted guidelines for fund reserves.

To develop the guidelines UCOP conducted best-practice research and industry benchmarking from over 38 institutions including GFOA, NACUBO, federal, state, and local governments, and higher education institutions such as CSU. To assess UCOP's efforts, Sjoberg Evashenk Consulting independently examined best practices set out by Government Finance Officers Association (GFOA), National Association of College and University Business Officers (NACUBO), as well as more than a dozen universities and systems including CSU and State of California, and we concur with UCOP's findings that 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 depend upon the entity, fund-type, and the purpose of the funds. UCOP considered the various benchmarks and completed and adopted reserve policies for four different categories of reserves: *Building and Capital Asset Reserves. Central Operating Reserve, Program Reserves, and Other Required Reserves.* These guidelines clearly define the target ranges for reserve balance, differentiate between fund balance and fund reserves, and set out parameters for the use of reserves. Furthermore, annual budget packets include several detailed schedules that report fund balances, reserves, and commitments. CSA deems this recommendation fully implemented.

Fund Reallocation

At the time of the auditor's report, UCOP funds included significant fund balances that had accrued over time. Since some of these balances could be attributed to collections by UCOP for campus assessments and others were considered inappropriately high, the CSA focused several recommendations to reallocate funds back to campuses. These reallocations were generated from

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[9] Strategic Priorities Fund replaced the President's temporary funds and is used for one-time and temporary programs and strategies and was established at half the prior amount. Currently, the SPF is funded at $30 million. The UCOP budget includes a detailed portfolio of uses of these funds.

excess fund balances, redefining fund restrictions, or savings generated from implementing other recommendations. As we discussed in each section above, the UCOP significantly addressed each issue area surfaced by the auditor and achieved remarkable operational results—vastly improved budget development and reporting, adoption of best practice salary levels and pay grade setting, revamping and critical assessment of fund classifications, establishing defensible and realistic fund reserves and guidelines, creating industry-leading workforce development plans and implementation, revising and significantly limiting employee benefit and reimbursements, and full-scale examination and evaluation of systemwide programs and initiatives. Furthermore, it also succeeded in directly and indirectly reallocating funds back to campuses. The UCOP reported to the Regents (see the following table) and to the CSA a total of $166.3 million in direct and indirect reallocations to campuses over the three year audit recommendation period.

Source: UCOP submission, November 2019 UC Regent's meeting, *Report of Budget to Actual- FY 2018-2019 for UCOP and First*

Schedule G: UCOP Reallocations to Campuses from Fund Balances and Budget Reductions

$ in millions

Summary - UCOP Reallocations to Campuses from Fund Balances and Budget Reductions by Recommendation

CSA Rec #	Total Reallocations By CSA Recommendation #	Direct	Indirect	Total
#31	Reallocate funds identified from fund restrictions and commitments	$ 87.6	$ 64.7	$ 152.3
#36	Reallocate funds to campuses from salary and benefit adjustments		$ 3.1	$ 3.1
#41	Reallocate funds from systemwide initiatives and administrative costs		$ 10.9	$ 10.9
	Total Reallocations By CSA Recommendation #	$ 87.6	$ 78.7	$ 166.3

Quarter FY 201-20 Results.

With the UCOP's mid-year submission to CSA in November 2019, the CSA found five of the seven[10] recommendations we classified as relating to reallocating funds back to campuses as fully implemented. As we noted in the Salaries section of this report, because of the differences in opinion relating to UCOP's decisions pertaining to salary setting (Recommendation #23), the auditor has not fully accepted UCOP's positon of fully implementing Recommendations #36 and #39.

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[10] In addition to the three specified by UCOP in the reallocation table, we also classified an additional four recommendations as relating to reallocation of funds to campuses that are encapsulated in the three primary ones noted--two concerning salaries and employee benefits (#26 and #39), one relating to budget savings (#33), and Recommendation #42 relating to reallocations for systemwide and administrative cost savings.

APPENDIX: STATUS OF CSA RECOMMENDATIONS AND TRACING TO REPORT

Recommendation Number	Due Date	CSA Status—November 2019	Complete per SEC?	Report Page
1	Addressed to Legislature	Legislation enacted	✓	N/A
2	Addressed to Legislature	No longer necessary	✓	N/A
3	April 2018	Implemented	✓	Page 10
4	April 2018	Implemented	✓	Page 11
5	April 2018	Partial Implementation	✓	Page 9
6	April 2018	Implemented	✓	Page 9
7	Addressed to Regents--No deadline	Partial Implementation	✓	N/A
8	Addressed to Regents—No deadline	Implemented	✓	N/A
9	Addressed to Regents--No deadline	Implemented	✓	N/A
10	April 2018	Implemented	✓	Page 3
11	April 2018	Implemented	✓	Page 3
12	April 2018	Implemented	✓	Page 5
13	April 2018	Implemented	✓	Page 6
14	Addressed to Regents--No deadline	Partial Implementation	✓	N/A
15	Addressed to Regents—No deadline	Pending	✓	N/A
16	Addressed to Regents--No deadline	Implemented	✓	N/A
17	Addressed to Regents—No deadline	Implemented	✓	N/A
18	April 2018	Implemented	✓	Page 8
19	April 2018	Implemented	✓	Page 8
20	April 2019	Implemented	✓	Page 10
21	April 2019	Implemented	✓	Page 9
22	April 2019	Partially Implemented	✓	Page 9
23	April 2019	Partially Implemented	✓	Page 3
24	April 2019	Implemented	✓	Page 3
25	April 2019	Implemented	✓	Page 5
26	April 2019	Implemented	✓	Page 11
27	April 2019	Implemented	✓	Page 6
28	April 2019	Implemented	✓	Page 8
29	April 2019	Implemented	✓	Page 8
30	April 2019	Implemented	✓	Page 10
31	April 2020	Implemented	✓	Page 11
32	April 2020	Pending	✓	Page 10
33	April 2020	Implemented	✓	Page 11

Color Coding:
☐ 2018
☐ 2019
☐ 2020

Recommendation Number	Due Date	CSA Status—November 2019	Complete per SEC?	Report Page
34	April 2020	Pending	✓	Page 5
35	April 2020	Implemented	✓	Page 5
36	April 2020	Partially Implemented	✓	Page 11
37	April 2020	Implemented	✓	Page 7
38	April 2020	Pending	✓	Page 7
39	April 2020	Partially Implemented	✓	Page 11
40	April 2020	Implemented	✓	Page 8
41	April 2020	Implemented	✓	Page 11
42	April 2020	Implemented	✓	Page 11