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CONSULTING, INC

Independent Consultant's Report

Tenth Report: Independent Assessment of CSA Recommendations

Date: January 6, 2020

Period: October 16, 2019 through January 3, 2020. Year 3 Second Quarter

Observations and Findings

During this reporting period, CSA assessed the University of California's Office of the President November 1, 2019 submission of progress to meet all outstanding recommendations. As we anticipated and conveyed in our Ninth Independent Consultant's Report, the majority of the 33 UCOP-related recommendations offered in the CSA's April 2017 report have been fully implemented—many Year 3 recommendations completed long before the April 2020 end date.

As we previously noted, one Year 1 recommendation and two Year 2 recommendations remain in the partially implemented status. Although the UCOP is working with the CSA to come to an acceptable resolution of these items, it is possible that these three of the 21 recommendations slated for completion in Year 1 and 2 may not be fully implemented.

- **Recommendation #5** that requires the "departmental" budget of the UCOP to be completed by April of the year. Even though the UCOP budget is appropriately included as a "department" of the systemwide UC budget submittal in the fall of each year, which conforms with state budget cycle rules, CSA has chosen to treat UCOP differently from any of the other components—particularly the campuses— and continues to push for an April adopted budget. To put this request in perspective, the UC budget in total is about $38.2 billion and the UCOP budget is approximately $940 million or less than 2.5 percent of the UC's entire budget.

  The UCOP and the Regents continue to disagree with this timing as moving up the date would significantly impact the ability of UCOP to apply the best practices budget building improvements required by the CSA which requires calculations based on actual spending and forecasting rather than falling back to the State's historic methodology which is essentially "last year approved budget plus an incremental increase" approach. Further, UC maintains that a May adopted UCOP budget provides sufficient time for the Legislature and Department of Finance to consider this minor portion of the UC spending.

We anticipate that the UC and CSA will not come to full agreement over the full implementation of this recommendation.

- **Recommendation #22** also relates to the UCOP budget. While CSA recognizes that UCOP has met the vast majority of the elements included in the recommendation it views an additional inclusion needed in the budget presentation relating to beginning fund balances. The UCOP budget presented this information in Schedules H and I in its FY 2019-20 budget and provided additional data to the CSA upon its request that appears to have fulfilled this informational need.

  The majority fund balances in question are categorized as designated and nearly 70 percent relate to the national laboratories. At June 30, 2019, fund balances in the Regents Designated funds for the three Department of Energy Laboratories run by the UC totaled $52.5 million of which approximately $23 million is designated for research grants. A portion of laboratory management fees could be used within the laboratories operations or redesignated for other purposes. The Regents have discretion to allocate these funds as they deem fit and appropriate.

  The Regents and the laboratory managers also determined that the three Labs set aside contingency reserves for various purposes and have set target minimums and maximums for five main categories. Collectively, these defined reserves have a minimum of $41.5 million and a maximum of $55.5 million and at year end the reserves totaled $40.2 million, less than the minimum target.

  In total, the CSA recognizes the budget reserves are transparently presented in the budget and balances fall within the ranges set. The UCOP indicates that it is meeting with Regents and will work with CSA to further refine budget information and presentation and will implement with the next budget. Nonetheless, with the budget timing (Recommendation #5, above) still at partial implementation and the next budget several months in the future, we expect this recommendation to remain partially implemented.

- **Recommendation #23** relates to savings achieved for "any needed reductions to salary amounts" based upon public and private comparisons. As we previously reported, UCOP conducted numerous activities to revamp its salary scales and ranges. It hired an expert compensation firm to assist in its research, review, and weighting of its pay data and revised its pay methodology, scales, and ranges accordingly resulting in a 2 percent reduction in salary range midpoints overall. CSA agreed with these actions.

  CSA does not agree with the President's decision to also apply a market adjustment to pay ranges; an 8 percent increase of the midpoint intended to bring rates to market parity. CSA argues that if this adjustment was not made the scales would be more comparable to the State pay ranges and savings would be experienced. We see two issues—one is that the vast majority of UCOP employees reside in Oakland[1], a very high cost and competitive job

[1] The other major center for UCOP employees is in Riverside where UC Path is headquartered.

market, and two, moving the mid-point of pay ranges does not automatically move pay. Salaries in the Bay Area are uncommonly high as is the cost of living compared to most areas covered by the State's salary ranges. We have observed that over the past three years UCOP has been under the CSA scrutiny employee morale has suffered as well as a significant turnover of talent; we cannot directly link these circumstances to pay, but logically pay has to be a factor. Additionally, despite the efforts to revamp pay scales, CSA-anticipated savings did not materialize—primarily due to the narrowing of pay scales where the majority of the impact occurred at the low-end of the pay ranges where UCOP had to raise the salaries to meet the minimum of the narrowed pay range causing a cost increase. While not increasing pay ranges by the 8 percent to achieve market could result in minor savings in the short-term for those employees at the top of their pay range, more than 90 percent of UCOP employees fall below the 75th percentile of their pay range and thus, no savings would be achieved until they topped out.

As we noted previously, UCOP is still working with the CSA on this issue and we will continue to monitor the matter.

In the November 2019 mid-year response to the CSA, UCOP stated full implementation on 10 of the 12 Year 3 recommendations. The CSA agreed that 7 of the 12 Year 3 recommendations have been fully implemented with two other partially implemented and three yet to be completed, although they are still not due until April 2020.

OVERALL STATUS OF RECOMMENDATION IMPLEMENTATION

In the following, we recap progress in meeting the 33 UCOP and the other 9 recommendations addressed to the Regents and the Legislature, as officially posted on the CSA as of January 2, 2020.

STATUS OF CSA RECOMMENDATIONS

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

Color Coding:
☐ 2018
☐ 2019
☐ 2020

Recommendation Number	Due Date	Status	Complete
34	April 2020	Pending	See page 6
35	April 2020	Implemented	✓
36	April 2020	Partially Implemented	See page 7
37	April 2020	Implemented	✓
38	April 2020	Pending	See page 7
39	April 2020	Partially Implemented	See page 8
40	April 2020	Implemented	✓
41	April 2020	Implemented	✓
42	April 2020	Implemented	✓

SJOBERG EVASHENK WORK UNDERTAKEN DURING THE REPORTING PERIOD

This tenth reporting period is relatively short—approximately two and one-half months including holiday breaks. As the majority of the recommendations are implemented, the work to fulfill the remaining five recommendations is modest compared to prior efforts. Sjoberg Evashenk continued our monitoring efforts through targeted workgroup discussions and meetings and critical review of work efforts and documents. We attend every EBC meeting, regularly correspond with key UCOP leaders, and attend and/or watched Regents meetings.

During this reporting period certain areas were of key importance and focus:

- FY 2019 budget actuals and Quarter 1 2020 budget to actuals.
- The evolution and development of the new budget system and the plans for multiyear budgeting.
- Progress to address Phases 4 and 5 of the CalHR Workforce Development Plan.
- Issues relating to salary setting, salary ranges, and related targets.
- Understanding detail related to each category of funds reallocated to campuses.

In the following, we report the results of these reviews.

YEAR THREE OUTSTANDING RECOMMENDATIONS

As mentioned previously, the UCOP has successfully implemented, in the CSA's view, 7 of the 12 Year 3 recommendations months ahead of schedule. Of the five outstanding, two are partially implemented and three remain pending. In the following, we provide analysis of the remaining five outstanding Year 3 recommendations.

> **Recommendation #32:** *… by April 2020 the Office of the President should evaluate its budget process to ensure that it is efficient and has adequate safeguards that ensure that staff approve and justify all budget expenditures. If the Office of the President determines that its safeguards are sufficient, it should begin developing a multiyear budget plan.*

The CSA views this recommendation as "pending" and both UCOP and Sjoberg Evashenk agree that this effort is still in progress and scheduled for full implementation in April 2020. Early last year, Deloitte conducted an internal control review over the UCOP budget process and found generally appropriate safeguards and controls over its budget processes. UCOP continues to strengthen safeguards and controls and UC Internal Audits is monitoring the on-going adequacy of the control environment. In the past year, UCOP adopted a new budget system and is currently utilizing the system to build the FY 2020-21 budget. The new system affords a variety of benefits for budget-related activities including quarterly forecasting and budget tracking, statistical analysis, and monitoring of balances and uses of funds. Full benefits of the new budget tool will not be realized until UCOP implements the new financial system suite and its records are fully transferred off the UCLA platform—expected to be in 2021.

UCOP has developed the framework for its multi-year budget process and is developing the related plan. The plan will incorporate long-term and long-range budget forecasting and planning and will align these efforts with the UCOP and divisional strategic plans and initiatives. UCOP is developing an annual, repeatable process using the budget tool that will support and promote a rolling budget with the associated policies, procedures, and targets. Implement of this additional functionality and enhancements are expected to continue into a July 2020 timeframe and will include not only multi-year budgeting, but enhancements for project capital project and grant management, strategic workforce planning (in collaboration and conjunction with the results of Recommendations 37 and 38), and will afford enhancements to management reporting and dashboards. We will continue to monitor progress on this initiative and report to the Regents.

> **Recommendation #34:** *… by April 2020 the Office of the President should adjust its salary levels and ranges to meet its established targets.*

Both Sjoberg Evashenk and UCOP view this recommendation as complete. UCOP narrowed the salary ranges to the established targets, evaluated the impact of narrowing ranges on employees who were impacted by the narrowing (both below minimum, above maximum, and compressed) and adjusted salaries for the 51 employees. New salary ranges were posted on the UCOP Human Resources website. Although UCOP has completed all steps as required, in November 2019 CSA still considers this recommendation pending due to the issues we discussed in Recommendation #23. We will continue to monitor this item through audit Year 3.

Recommendation #36: ***…** by April 2020 the Office of the President should reallocate funds to campuses when adjustments to its salaries and benefits result in savings*.

Previously we reported in relation to Recommendation #23 that despite completing the required salary restructuring and range narrowing, these efforts did not result in any sizable savings. However, the UCOP's draft budget report to the Regents, which was submitted to the Regents in November 2019 revealed modest amounts that could be reallocated as a result of salary and benefit adjustments, about $3.1 million. Additionally, there were other actions involving revisions to budgetary factors for vacancies and position reductions that resulted in nearly $12 million being freed up over the three years for reallocation to campuses—these amounts were previously reported in relation to Recommendation #31, which was considered by CSA as complete.

The majority of the savings from employee benefit reductions were one-time and reallocated to campuses in Year 1 (subsequent benefits are cost avoidance and not measured). As these results were provided to campuses and no additional reallocations are anticipated through April 2020, we view that UCOP has achieved the intent of this recommendation and this item to be complete.

Nonetheless, as it contends in relation to Recommendation #23, CSA considers this recommendation only partially implemented due to the "policy choices of the Office of the President" in relation to the implementation of the 8 percent market pay range adjustment. We will continue to monitor this issue and report to the Regents.

Recommendation #38: … *by April 2020 the Office of the President should implement phases four and five of CalHR's best practice workforce planning model by implementing its workforce plan strategies and annually evaluating the completed workforce plan strategies against defined performance indicators and revising the plan where necessary.*

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 is actively working to implement Phase 4 and 5 of CalHR's workforce planning model. The plan set forth in Phase 3 adopts strategies requiring the UCOP to look at its organization on an ongoing basis, its structure, level of workforce, assessments of skills, knowledge, and abilities, and planning for succession. UCOP is now implementing the plan's key strategies relating to employee development, talent acquisition, and knowledge sharing. UCOP recognizes that the success of the plan is contingent upon acceptance and adoption by UCOP stakeholders and has continually involved stakeholders throughout the process. It is also implementing efforts to facilitate change management.

As a part of its implementation of Phase 4, UCOP engaged external sources (including student-led initiatives) and adopted new tools to assist in developing, piloting, and refining the strategies and steps in the plan. On an on-going basis, UCOP is assessing each of the implementation efforts on the pilots (including the measurement metrics required in Phase 5) and refining elements as the results reveal. Efforts are on-going and will be reported in the March 2020 Regents meeting.

We believe that UCOP is making substantial progress on Recommendation #38 and we will continue to monitor its efforts and report to the Regents.

> **Recommendation #39: …** *by April 2020 the Office of the President should report to the Regents on the amount of funds it reallocates to campuses as a result of implementing our recommendations [relating to staffing costs].*

In November 2019, the UCOP provided detailed reports to the Regents and the CSA on the amount of funds it determined were or could be reallocated to campuses as a result of the CSA recommendations. As noted in the various discussions above, a number of the recommendations relate to savings resulting from salary-related changes. Even before the President decided to implement the CSA-rejected salary scale market adjustment, savings resulting from the many pay-related improvements were very modest—2 percent reduction in salary range midpoints overall—thus, any changes would influence the far ends of the scales. With 91 percent of the employees falling under the 75th percentile of the pay scales, even without the market adjustment, there would be little savings as it would immediately impact only those whose salaries were at the far ends and savings would be realized at hire or at the top end.

Despite the fact that this recommendation pertains to reporting of such data, and we fully expect the UCOP to continue its transparency in reporting budget information, the CSA is withholding the determination of full implementation of this recommendation for the same reasons as provided for Recommendation #23, #34, and #36—as it disagrees with the related policy decisions made by the President related to salaries.

We will continue to monitor this matter.