



Independent Consultant's Report

Seventh Report: Independent Assessment of CSA Recommendations

Date: July 1, 2019

Period: February 16, 2019 – June 30, 2019 Year 2 Fourth Quarter

Observations and Findings

During this reporting period, CSA's Year 2 came to a close and Year 3 commenced. April 25, 2019 marked the end of Year 2 of the CSA's recommendations for actions directed primarily to the University of California Office of the President. In April 2019, UCOP submitted to the CSA evidence supporting actions taken to meet the outstanding Year 1 and its achievement of Year 2 recommendations. As we reported in February 2019, CSA accepted two of the four outstanding Year 1 recommendations as fully implemented as well as three of 11 recommendations relating to Year 2—months ahead of schedule.

Year 3 includes 12 recommendations; one of the 12 has already been accepted by CSA as fully implemented. Six of the 12 recommendations are premised on savings generated as a result of the improvements made as a result of the CSA audit. In the two years since the issuance of the CSA report, the UCOP has been subject to additional consultants reviews, undertaken numerous ambitious initiatives to address the intent of each audit recommendation. Moreover, they met with various groups of stakeholders within and external to the UCOP with goals to optimize and right-size operations, implemented the corrective and proactive measures, and reported the progress and achievements to the Regents, CSA, and the public.

There is no question that UCOP, UC stakeholders, and the public have benefited from these efforts—certainly in terms of efficiency, effectiveness, and ensuring that the services and programs provided by and through the UCOP are those valued and appropriate for the “central office” of the UC. While a sizable amount of funds were returned to the campuses in Year 1, it is unlikely there will be excess fund balances in the future. It is important to note that state funding provided to UCOP is on a reimbursement basis wherein allowable expenses are incurred and the state only pays for those costs—thus, any “fund balance” remaining in funds managed by UCOP are not those appropriated by the state and state funds cannot be reallocated to campuses.

Since 2016, funding for UCOP operations has remained essentially flat. In response to rightsizing recommendations made by Huron and resulting from Sjoberg Evashenk's 10 Campus Study, UCOP executed a number of strategic moves to reduce operating costs, align services with the needs of the stakeholders, and ensure programs are properly placed; such efforts have resulted in cost savings. At the same time, UCOP has

needed to accommodate legislative mandates to increase enrollment across the system, admit more transfer students, and administer additional grant programs in addition to adopting new financial and budget systems, and absorbing general operating cost increases as well as those associated with salary and benefits costs.

UCOP submitted Budget Change Proposals (BCP)'s to the State requesting an increase in state funds and requesting limited ability to assess campuses to accommodate increased funding needs. Both requests were denied. Although the Fiscal Year 2019-20 budget was brought before the Regents at the May 2019 meeting, the budget issue was continued to the July 2019 meeting. At this point, UCOP has not indicated the steps it will take to address the denied funding. However, we expect that desired initiatives or projects discussed at Executive Budget Committee (EBC) meetings that were requested by campuses and would be administered and paid for through the UCOP will not be funded, such as a unified UC-wide system for library access, increasing library acquisitions, additional funding for ANR, and increased general and specialized legal assistance to improve services and reduce the use of outside counsel by the campuses.

Our interpretation of CSA's underlying intent of many of the recommendations is to institute practices that ensure activities and costs incurred at the UCOP are in the best interests of the UC system and that campuses are involved in those deliberations. Over the past two years the President has adopted a number of practices to actively engage campuses, students, and other stakeholders into UCOP and systemwide decisions and our observations indicate these practices are not only in place but have become an integral part of UCOP operations. We found that Chancellors, campus leaders, and others are routinely engaged with UCOP in determining priorities, deliberating budgetary decisions, and policy formulation. A letter dated May 9, 2019, sent to the Regents and signed by all 10 Chancellors, advocates for the return of the campus assessment model to fund operations of UCOP stating that the campus assessment is "a means of empowering the campuses in determining the budget for the Office of the President" and ensures "that we all share in the funding and direction setting for the [UC] system." Thus, the campuses understand that it is their responsibility to fund, support, and participate in the direction for the UC system through financially supporting the system's headquarters.

Under current budgetary constraints, it is uncertain how successful UCOP can be in addressing the several recommendations centered on sending funds back to the campuses.

OVERALL STATUS OF RECOMMENDATION IMPLEMENTATION

With the April 2019 submissions, the following 9 recommendations previously outstanding that related to Year 1 and Year 2 are now deemed "fully implemented": Recommendation #4, Reserve Policy; Recommendation #35, Narrowing Salary Ranges; Recommendation #25, Targets for Employee Benefits; Recommendation #26, Plans for Reallocating any Savings from UCOP Salaries; Recommendation #27, Phase 2 of Workforce Planning; Recommendation #28, Spending Targets for Systemwide Initiatives and Administrative Costs; Recommendation #29, Review of Systemwide and Presidential Initiatives; Recommendation #30, Restructuring of Budget System; and Recommendation #9 addressed to the Regents relating to the financial audit of the UCOP.

With these actions, the UCOP has one outstanding Year 1 (9 of 10 implemented) and two outstanding Year 2 (9 of 11 implemented) recommendations. We discuss these three prior year outstanding recommendations in this report. The following table recaps the progress in meeting UCOP's 33 recommendations and the other 9

addressed to the Regents and Legislature, as posted on the CSA's June 2019 website.

Status of Recommendations

<i>Recommendation Number</i>	<i>Due Date</i>	<i>Status</i>	<i>Complete</i>
1	Addressed to Legislature	Implemented	✓
2	Addressed to Legislature	No longer necessary	✓
3	April 2018	Implemented	✓
4	April 2018	Implemented	✓
5	April 2018	Partial Implementation	See page 5
6	April 2018	Implemented	✓
7	Addressed to Regents--No deadline	Partial Implementation	
8	Addressed to Regents--No deadline	Implemented	✓
9	Addressed to Regents--No deadline	Partial Implementation	✓
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	Partial Implementation	
18	April 2018	Implemented	✓
19	April 2018	Implemented	✓
20	April 2019	Implemented	✓
21	April 2019	Implemented	✓
22	April 2019	Partially Implemented	See page 5
23	April 2019	Partially Implemented	See page 6
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	Pending	
32	April 2020	Pending	
33	April 2020	Pending	

Color Coding:

- 2018
- 2019
- 2020

<i>Recommendation Number</i>	<i>Due Date</i>	<i>Status</i>	<i>Complete</i>
34	April 2020	Pending	
35	April 2020	Implemented	✓
36	April 2020	Pending	
37	April 2020	Pending	
38	April 2020	Pending	
39	April 2020	Pending	
40	April 2020	Pending	
41	April 2020	Pending	
42	April 2020	Pending	

SJOBERG EVASHENK WORK UNDERTAKEN DURING THE REPORTING PERIOD

Sjoberg Evashenk has continued to monitor UCOP efforts by attending formal workgroup meetings, meeting separately with workgroup leaders, attending every EBC meeting, corresponding with key UCOP leaders, and reviewing and assessing all available supporting documents generated for these improvement efforts. We continued to critically review and provide comments on workstream group products and participating in conversations related to the UCOP's efforts to meet all outstanding recommendations.

With the UCOP's submission of the April 2019 workproducts, the UCOP has completed the vast majority of the work to develop and implement the underlying initiatives needed to address the CSA's recommendations. As a result, most of the workstream workgroups were essentially disbanded with their members returning to their duties that now include the improved business processes. The workgroups that were formed to address areas like employee benefits, fund reserves and fund balances, presidential initiatives, and systemwide programs are now fundamentally working within the functional areas. We conducted meetings with these division leaders to understand their progress and continued efforts. In regards to the other areas, we met with project leaders and/or participated in meetings relating to:

- All EBC meetings held during the period, including a special meeting to discuss budget issues and approaches including matters relating to proposed State BCPs;
- Budget development and deliberation and projects relating to the new budget and accounting systems;
- Workforce development plans and progress for CalHR Phases 3-5 that commenced around March 2019 and continue through Year 3;
- Overall UCOP leaders activities to oversee each of the initiatives relating to the UCOP April 2017 audit and communications with the CSA as well as the Regents, Chancellors, EBC and process leaders.

- Attended or viewed key Regent committee meetings.

We also reviewed working documents, timelines, plans and other materials developed by UCOP to convey actions and achievements to fulfill remaining Year 1 and 2 recommendations and to address Year 3 recommendations.

FOLLOW-UP TO Year 1 and Year 2 DELIVERABLES

One recommendation relating to Year 1 remains at partial implementation:

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

While we maintain the view that UCOP has met this recommendation, based upon the CSA's comments we anticipate that Recommendation #5 will likely continue to be classified by CSA as partially implemented. Two outstanding issues remain in this matter. UCOP continues to follow the Regent's calendar to present its budget at the May Regents meeting. This year the budget was prepared and posted publicly about two weeks before the May 16-17, 2019 meeting. The Regents ran short of time at its meeting and desired additional time to review the budget thus postponing action on the item to its July 2019 meeting. Nonetheless, the budget information was available to the public early in May and available to the Department of Finance during its deliberation of the UCOP budget item in the Governor's budget as well as for the BCPs. Nonetheless, despite efforts by UCOP and the Regents to have the auditor revise the budget due date, CSA has not agreed to amend this recommendation. Therefore, although the State and Legislature had access to a proposed budget, the data available was not yet approved by the Regents. Since the CSA maintains that UCOP budget information should be available for deliberations as part of the Governor's May Revise, we anticipate this item will remain as partially implemented.

Two recommendations relating to Year 2 remain at partial implementation:

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.*

The CSA rated this recommendation as partially implemented even though UCOP demonstrated, particularly for the proposed Fiscal Year 2019-20 budget, all the recommended components and the auditor stated¹ this budget "is more transparent because it is generally easier to understand" and highlighted examples of some of the detail. Although the CSA stated this budget includes "summary line items that clearly display the Office of the President's total reserves and fund balance amounts" it still raises issues with amounts classified as "designated" funds.

At a June 17, 2019 meeting of the Regent's Governance Committee, regents asked UCOP to provide greater detail

¹ Per CSA website <https://www.auditor.ca.gov/reports/recommendations/2016-130>, June 28, 2019

on the fund line-items classified as designated; specifically, the origin and nature of the line item, reason it was designated and who is the controlling party of the designation (e.g. regents, administrative, fee-for-services, etc.) and amount in each. The UCOP agreed to bring this detail back to the Regents at the July 2019 meeting in addition to information as to how the UCOP plans to address the budget gap that is projected for the Fiscal Year 2019-20.

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.*

In its assessment of UCOP's actions relating to Recommendation #23, the CSA essentially agrees that UCOP accomplished all the components required in benchmarking, matching, weighing, and narrowing salary ranges. The CSA assessed Recommendation #23 as partially implemented because it disagrees with the policy decisions made by the President and vetted with the Regents relative to moving the midpoint of the salary ranges closer to market. In its review, CSA determined that if UCOP had not made this decision that the salary ranges would be closer to state employee salaries. The 8 percent market movement was deemed necessary and a best practice by UCOP since salary ranges were frozen in 2016 and as a result had not been adjusted by changes in the market or economy. These factors were included in all the materials and fully disclosed as an element for salary setting to the Regents and CSA. The auditor hypothesizes that if this market adjustment was not applied, salary saving would be achieved and savings could be sent to campuses. As the President has discretion to make policy and salary decisions, she determined that adjusting salary ranges was essential to retaining and attracting qualified and talented employees to the UCOP. It is our view that audit recommendations are just that, a recommendation not a directive; and the leadership of an audited organization retains full discretion and is responsible for the determining how a recommendation is to be addressed and implemented, and is ultimately accountable for those decisions.

YEAR THREE RECOMMENDATIONS

Fully Implemented

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

Pending

Recommendation #31: *... by April 2020 the Office of the President should reallocate to the campuses funds that it identified during its review of fund restrictions and fund commitments.*

Schedule I in the Fiscal Year 2019-20 proposed budget² includes details of the beginning fund balances for the year (at June 30, 2018) by fund classification (unrestricted undesignated, designated, and restricted) and applies commitments against those balances. Within each of the classifications, detail is provided relative to the specific funds, programs and initiatives, and sources. During the current fiscal year, UCOP projects that funds within the undesignated unrestricted category available to meet both UCOP and systemwide needs will

be approximately \$11.8 million by June 30, 2019. Unrestricted designated funds reflect a much higher remaining balance at year-end, approximately \$85.3 million. A major portion of that balance, approximately 65 percent, resides within funds relating to the Department of Energy Laboratories; which by policy, the Regents have designated specifically for lab-related purposes. Numerous other funding streams are classified as unrestricted designated—UC Health Care Collaborative, ICAMP, and the Writing Placement Exam—and by definition are to be used for the intended program.

The proposed budget does not include reallocation of funds for the budget year; however, once UCOP closes its books for the fiscal year end, June 30, 2019, it can better assess the availability of remaining moneys in the various funds and plans to assess the amount of funds that may be available for reallocation. UCOP established Budget Manual Guidelines (narrative and a decision tree) for reallocating savings or available fund balances in January 2019. These guidelines were vetted with the Regents at the January 2019 meeting and will be applied to determine how available funds (fund balances and CSA recommendation savings) will be determined by November 30 each year, which is the target date for full year-end closing and the action to be taken in accordance with funding sources.

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.*

In the past year, Deloitte conducted an internal control review over the UCOP budget process. This review found appropriate safeguards and controls over its budget processes. Further, UCOP is currently developing and intends to implement, in time for the budget development for the Fiscal Year 2020-21 (November 2019), a new budget system which will further automate and include a variety of controls over the budget. In June 2019, UCOP engaged Deloitte to implement an Oracle cloud-based planning and budgeting tool and is currently establishing project teams and the framework for workstreams to be conducted over the next several months. The goal is to bring the system live in November 2019 for budget development and continue to implement additional functionality and enhancements subsequently. As a part of this project, UCOP intends to develop the framework and timelines for implementing the functionality in the system that will afford future multiyear budgeting. As the recommendation indicates “begin to develop a multiyear budget plan,” with the goals for these plans to be shared with the Regents this fall, it is likely that UCOP will achieve full implementation status on this recommendation during the year.

Recommendation #33: *... by April 2020 the Office of the President should report to the regents on the amount of funds it reallocated to campuses as a result of implementing our recommendations.*

In the Fiscal Year 2018-19 budget, UCOP reallocated approximately \$30 million back to campuses for specific purposes which was reported to the Regents in the May 2018. The proposed Fiscal Year 2019-20 budget is not yet approved but does not include reallocations since any available funds are expected to be needed in the budget year. The UCOP plans to revisit this matter after the final close of the year in November 2019. We expect the UCOP will report its fund conditions and its plans for reallocation to the Regents in a subsequent Regents meeting. We will continue to monitor this matter.

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

The UCOP has completed implementation of this item, and in our opinion, is fully compliant. It has narrowed its 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. As we stated in Recommendation #23, the CSA does not agree with the President's decision to apply an 8 percent cost of living (market) change to salaries; as a result, we anticipate this item will be deemed partially implemented by the CSA.

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.

As we previously reported, the UCOP identified approximately \$2.8 million in cost avoidance by implementing the changes to its employee benefits and reimbursement policies (Recommendations #12, #25, and #35). As the UCOP has absorbed a number of significant cost increases (approximately \$21.4 million net related to Central and Administrative services) savings from this item were applied within the budget to offset some of these costs. Also as stated, the UCOP has not experienced savings from all the salary-related recommendations. We will continue to monitor the matter through Year 3.

Recommendation #37: ... by April 2020 the Office of the President should implement phase three of CalHR's best-practice workforce planning model by presenting the final workforce plan to its staff and beginning its implementation by carrying out workforce planning strategies covering a three-to five-year period. The Office of the President should make its final workforce plan publicly available.

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

Over the past two years, UCOP's workforce planning workstream group has taken a full- scope approach to fulfilling all the related requirements presented for the three-year period by the CSA. There are many dependencies as well as complementary activities required to complete and implement all five phases of the workforce plan. UCOP successfully completed Phase 1 and Phase 2 on time. Completing the remaining three phases in a single year may prove too aggressive and perhaps, unrealistic. Nonetheless, the workgroup has plans to fulfill the requirements of all three phases and is actively working on the projects. The project timeline sets a goal to complete the three phases, to the best of their ability, by December 2019 to allow the results to be presented to the Regents at the March 2020 meeting.

The workforce workstream team is in the first round of review of Phase 3 strategies and plan drafts and these documents are currently under review by UCOP leadership to obtain buy-in. These

strategies serve as the base on which the implementation approach is being built. Embedded in the strategies are points of implementation, metrics, and evaluation—the plan describes that as aspects of all the strategies are implemented, they will be assessed against proposed metrics, allowing midpoint corrections of the strategies, implementation plan, and of the measures. We will continue to actively monitor this project throughout the next several months.

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.

The UCOP has adopted a frequent reporting process to the Regents regarding its actions in implementing the CSA recommendations. We expect this transparency to continue throughout Year 3 and beyond. As decisions are made relative to cost savings and funds available to reallocate to the campuses, we will monitor the UCOP's actions to report to the Regents on these matters.

Recommendation #40: ... by April 2020 the Office of the President should publicly publish its progress in meeting systemwide initiative and administrative cost targets.

In our view, UCOP fully meets this recommendation with the delivery of its proposed annual budget in May. The annual UCOP budget sets out cost targets for its administrative and systemwide programs and initiatives. Several schedules within the proposed Fiscal Year 2019-20 budget detail spending targets for programs and initiatives (Schedule C, G), administrative costs (Schedule D,G), strategic priorities (Schedule F) and a new schedule detailing ANR (Schedule E). The annual proposed budget is published on the Regents webpage and is available approximately two weeks prior to the meeting.

Recommendation #41: ... by April 2020 the Office of the President should reallocate funds from the review of systemwide and presidential initiatives, as well as any administrative cost savings, to campuses.

UCOP has adopted policies to continue to assess each of the systemwide programs and presidential initiatives on an ongoing basis. Appendix 3 of the proposed Fiscal Year 2019-20 budget includes budgets and descriptions of all the Presidential Initiatives. The prior year budget included nine Presidential Initiatives with proposed funding of \$7.8 million; the proposed budget for 2019-20 includes seven initiatives with a budget of approximately \$7.7 million and remaining balance of about \$132,000. As stated earlier in this report, due to significant budget constraints it is unclear whether cost savings from UCOP optimization efforts and audit recommendation implementation will be available for reallocation to campuses. We will monitor the UCOP's efforts in these areas.

Recommendation #42: ... by April 2020 the Office of the President should report to the regents on the amount of funds reallocated to campuses.

As we stated elsewhere in this report, the UCOP has adopted a frequent reporting process to the Regents regarding its actions in implementing the CSA recommendations. We expect this transparency to continue throughout Year 3 and beyond. As decisions are made relative to cost savings and funds available to reallocate to the campuses, we will monitor the UCOP's actions to report to the Regents on these matters.