Independent Consultant's Report

Eleventh Report: Independent Assessment of CSA Recommendations

Date: March 3, 2020

Period: January 4, 2020 through February 28, 2020. Year 3 Third Quarter

Observations and Findings

During this reporting period, University of California Office of the President continued its efforts to address all open CSA recommendations and is building its Fiscal Year 2020-21 budget. As we described in our last monitoring report, the majority of the 33 UCOP-related recommendations offered in the CSA's April 2017 report have been fully implemented including several with April 25, 2020 due dates. Although UCOP endeavors to address the three partially implemented recommendations still outstanding from Year 1 and Year 2, due to differences in opinion as to the fulfillment of these recommendations, we anticipate it is likely that these items will remain partially implemented in the CSA's view. Nonetheless, according to the CSA, UCOP has fully met 18 of 22, or 82 percent, of the CSA's Year 1 and 2 recommendations. While the goal of the Regents and UCOP remains 100 percent attainment, according to statistics posted by the California State Auditor[1], state agencies fully implemented approximately 84 percent of the CSA recommendations by the end of the first year suggesting that agencies typically do not fully implement all the CSA's recommendations.

In the November 2019 mid-year response to the CSA, UCOP stated its full implementation of 10 of the 12 Year 3 recommendations and our review agrees with the UCOP. The CSA deemed that 7 of these Year 3 recommendations were fully implemented with two others attaining a partial implementation status. This report will focus on the five Year 3 recommendations due by April 25, 2020. In our opinion, as detailed in the following, UCOP has successfully completed each of the outstanding five Year 3 recommendations.

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.

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[1] *Recommendations Not Fully Implemented After One Year,* January 2019 Report 2018-041

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	
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	
23	April 2019	Partially Implemented	
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 4
33	April 2020	Implemented	✓

Color Coding:
- ☐ 2018
- ☐ 2019
- ☐ 2020

Recommendation Number	Due Date	Status	Complete
34	April 2020	Pending	See page 5
35	April 2020	Implemented	✓
36	April 2020	Partially Implemented	See page 5
37	April 2020	Implemented	✓
38	April 2020	Pending	See page 6
39	April 2020	Partially Implemented	See page 7
40	April 2020	Implemented	✓
41	April 2020	Implemented	✓
42	April 2020	Implemented	✓

SJOBERG EVASHENK WORK UNDERTAKEN DURING THE REPORTING PERIOD

This eleventh reporting period is relatively short—approximately two months. 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 attended 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:

- Quarter 2, 2020 budget projections and the anticipated budget gap.
- 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.
- Understanding UCOP efforts to address all the CSA recommendations outstanding.

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 UCOP budget process and its new budget system, Planning & Budgeting System (PBS) is in practice and working as intended. The newly implemented system incorporates the results of the first two quarters of the fiscal year to begin projecting costs for the full current year and provides a beginning point for the budget year. The UCOP "budget call" went out January 27, 2020 for the development of the Fiscal Year 2020-21 budget. The Governor's Budget issued January 10, 2020 reflects the continued direct appropriation for the Office of the President, kept the budgeted amount flat[2], and disallowed the use of campus assessments[3]. The impact of the budget limitations is that UCOP begins this budget process with an estimated 15 percent structural deficit for the FY 2020-21 fiscal year. With the stringent limitations brought about by the State's provisions, the budget call instructions directed UCOP departments to plan for a general 5 percent reduction relative to unrestricted fund expenses, allow only critical and unavoidable cost increases, and puts a cap on the headcount to the current budget parameters. UCOP is actively assessing strategies for limiting expenses and funding its mission-critical operations.

Another aspect of the CSA recommendation relates to internal controls and safeguards within the UCOP budget. Deloitte conducted this review last year and found the appropriate controls and safeguards in place but, since the system was new, it could not test all these controls. Currently, the UC's internal auditors are testing the budget process internal controls to ensure that these built-in safeguards are in place and working as intended. This review is expected to be complete in the next few weeks.

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. This suite will allow budgets to be "pushed" into the financial system and provide spending controls, facilitate better fiscal management information, and enhance budget accountability for the "owners" of the budget resources. Importantly, the integrated 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.

UCOP has developed a high-level framework for its multi-year budget process. The plan anticipates

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[2] Governor's Budget continued the ANR appropriation and added a 5% increase like that afforded to the general UC appropriation.
[3] Governor's Budget allows for campus assessments for UCPath support.

encompassing a three-year timeframe and will use PBS tools to forecast budgets and test potential scenarios over the periods. Specific detailed plans are being formulated to allow the incorporation of various assumptions, cost and revenue drivers, workforce plans, and presidential strategies. Many of the particulars will require the vision and input of the new president and will be completed with his/her direction. In the interim, the budget department is conducting listening sessions with its community of users to ensure the new tools will appropriately include their needs and uses.

The integrated FIS/PBS will offer several significant tools to provide much needed additional functionality for the UCOP. The adoption of additional system components such as for project capital, grant management, and strategic workforce planning (in collaboration and conjunction with the results of Recommendation 38) will be phased in during the coming months.

With UCOP Internal Auditor's review nearly complete and the fundamental plan for multi-year budgeting being submitted to the Regents, we consider this recommendation fully implemented.

> **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, and we consider this recommendation fully implemented, as of November 2019 CSA still considers this recommendation pending due to the issues we discussed in Recommendation #23. As a result, we will continue to monitor this item.

> **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.*

In November 2019, the UCOP reported to the Regents the amount of funds reallocated to the campuses and the sources of those funds. Within those reallocations, the figures revealed modest amounts attributable to salary and benefit adjustments, about $3.1 million. Additionally, other actions involving revisions to budgetary factors for vacancies and position reductions 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 (a Year 3 recommendation) which was considered by CSA as complete.

As we previously reported, 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 benefits were already 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, CSA considered this recommendation only partially implemented in its midyear review and cited the "policy choices of the Office of the President" related to the 8 percent market pay range adjustment as the reason for its assessment of the item. 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 has implemented Phase 4 and 5 of CalHR's workforce planning model. The plan was set forth in Phase 3 and 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.

Phase 4, implementing the workforce plan, was launched using a 90-Day Action Plan in August 2019 (and completed in November 2019). This 90-Day Plan implemented 27 specific activities over five focus areas—talent acquisition, learning and development, knowledge transfer, retention, and talent assessment and succession—and is now in daily use for the targeted positions.

With the workforce plan launched, the UCOP is in the process of socializing the new approaches across the President's Office and has established processes for communicating the information and assisting in change management. The communication is multi-channeled and targets training, meetings at various levels and departments, informal brown-bag sessions, newsletters, and website magazine information. With the full buy-in by UCOP leadership, the engagement of managers, open communication with staff, and deliberate communication of best practices, UCOP intends to attain a culture shift and strives for long-term success of the program.

Phase 5 requires the evaluation of the workforce plan. With the adoption of the actions relating to the five focus areas, UCOP developed metrics and measures to assess the efficiency and effectiveness of these initiatives, and thus, evaluate the workforce plan on an on-going basis. UCOP views the implementation of Phase 5 as iterative and anticipates that the workforce plan initiatives will continue to be assessed and improved over the next two years. Since the workforce plan is currently in production, UCOP is using the metrics data and feedback to assess the various components and make adjustments that will assist in the rollout of the workforce plan to all positions across UCOP. The final report on the Recommendation #38 for submission to the CSA is in the last stages and will be submitted in April 2020 as required.

We believe that UCOP has completed all five phases of the State of California Workforce Planning model and fully implemented Recommendation #38.

> **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 discussed in length in our previous reports, the CSA made a number of the recommendations relating to savings resulting from salary-related changes. UCOP identified only modest savings resulting from the many pay-related improvements—about a 2 percent reduction in salary range midpoints overall with these changes influencing the far ends of the pay scales. Even though the UCOP followed the agreed-upon methodology in addressing these recommendations, ultimately, the CSA disagreed with the President's decision to implement an 8 percent salary scale market adjustment that stemmed from the CSA-driven market studies and salary scale evaluations.

We fully expect the UCOP to continue its transparency in reporting budget information and to fully utilize the salary and pay scale methodologies established to comply with the CSA's various recommendations. We consider all aspects of this recommendation fully implemented as, in our view, agencies retain the final discretion as to the development of polices and methods that CSA recommendations are fulfilled. Nonetheless, UCOP continues conversations with the CSA over this recommendation and those related, Recommendations #23, #34, and #36. However, because the CSA disagrees with the President's policy decision as noted above, we anticipate that CSA will retain its position that this recommendation is partially implemented. We will continue to monitor this matter.