Attachment 1
Recommendations from State Audit of UCOP Administrative Expenditures

<u>Staffing Recommendations</u>

Salary Levels and Ranges

By April 2018:

1. **Develop a method for weighing public and private sector pay data when establishing salaries for all positions.**
2. **Determine how to restructure salary ranges to make certain the ranges encourage employee development and ensure pay equity.**

By April 2019:

5. **Set targets for any needed reductions to salary amounts using the results from its public and private sector comparison and adjust its salaries accordingly.**
6. **Narrow its salary ranges.**
8. **Create a plan for reallocating funds to campuses that it saves as it reduces its staffing costs.**

By April 2020:

10. **Adjust its salary levels and ranges to meet its established targets.**
12. **Reallocate funds to campuses when adjustments to its salaries and benefits result in savings.**
15. **Report to the regents on the amount of funds it reallocates to campuses as a result of implementing our recommendations.**

Response:

UCOP agrees with these recommendations.

UC has already undertaken efforts consistent with this recommendation. UC updated the Market Reference Zones for executives in March 2016, incorporating compensation data from State, county, CSU, and other public higher education institutions where appropriate based on the criteria established by the 2016 Budget Act, e.g., for positions with comparable scope of responsibilities, complexity, breadth of job functions, experience requirements, and other relevant factors. Going forward, UCOP will leverage third-party published surveys, which include appropriate and relevant public and private sector pay comparisons, to define salary ranges and utilize midpoints in these ranges as proxy for the median pay in the market. Appropriate salary amounts for individuals will be based on pay comparisons, market information, individual experience levels, availability of talent, and other relevant factors.

UCOP will review salary market data to ensure ranges support both employee development and pay equity. This is consistent with existing practice, with such reviews occurring annually. UCOP will ensure guidelines for equity and promotion reviews are clear and applied consistently across UCOP.

Since implementing Career Tracks in 2013, UC has once narrowed salary ranges and once held ranges to prior-year levels based on market assessments and our internal analyses. UCOP's systemwide human resources will perform an annual review of salary ranges based on the cost of labor in the market. As part of this process, UCOP will consider the potential for narrowing its salary ranges. This is consistent with existing practice, with such reviews occurring annually. More generally, UCOP will follow cross-industry human resources best practices in maintaining appropriate salary ranges and salary range structures for non-represented positions, which make up the bulk of UCOP positions. Ranges for union-represented positions will be determined through negotiations with applicable unions.

UCOP will make changes to salary levels and ranges in accordance with our market analyses and the strategic plan. These salary adjustments will be implemented as attrition occurs in the organization.

UCOP will utilize savings either by reducing the total amount of the assessment or by directing them to initiatives and programs that benefit the campuses and the system. UCOP's primary goal is to effectively limit assessment growth, aiming to incorporate areas of savings where available.

UCOP will periodically report on the financial impact of implementing the audit recommendations at a frequency determined by the Regents.

Employee Reimbursement Policies

By April 2018:

3. **Evaluate and identify needed changes in employee benefit policies to ensure they include reasonable safeguards to control costs.**

By April 2019:

7. **Set targets for appropriate employee benefits and implement new processes that ensure employees adhere to the revised policies regarding employee benefits.**
8. **Create a plan for reallocating funds to campuses that it saves as it reduces its staffing costs.**

By April 2020:

11. **Adjust its employee benefits to meet its established targets.**
12. **Reallocate funds to campuses when adjustments to its salaries and benefits result in savings.**

15. **Report to the regents on the amount of funds it reallocates to campuses as a result of implementing our recommendations.**

    Response:

    UCOP agrees with these recommendations.

    UCOP will compare current employee benefit and reimbursement policies to comparable organizations. It will consider policy changes and incorporate any necessary safeguards to control costs. UCOP will adjust employee benefits and reimbursement amounts in accordance with updated policies and will implement processes to ensure employee compliance. UCOP has already taken efforts to review benefit policies. For example, Family Member Eligibility Verification is a project which, in calendar year 2012, validated every single individual claimed as a dependent and covered by UC's health benefits. By ensuring only eligible dependents are covered, the University realized a $35 million annual reduction in employer contribution costs beginning in the plan (calendar) year 2013. As part of the project, a more stringent set of verification measures was put in place and a systemwide Family Member Eligibility Verification process will be conducted every four years. The next full-scale verification of family member eligibility began in 2016.

    UCOP will utilize savings either by reducing the total amount of the assessment or by directing them to initiatives and programs that benefit the campuses and the system. UCOP's primary goal is to effectively limit assessment growth, aiming to incorporate areas of savings where available.

    UCOP will periodically report on the financial impact of implementing the audit recommendations at a frequency determined by the Regents.

Workforce Planning

By April 2018:

4. **Complete phase one of CalHR's best practice workforce planning model by developing a strategic direction for its workforce plan.**

By April 2019:

9. **Implement phase two of CalHR's best practice workforce planning model by determining its current and future staffing and competency gaps. As part of this phase, the Office of the President should consider the input of stakeholders including campuses and students, regarding which elements of its organization are of critical importance and which elements it could potentially eliminate or downsize.**

By April 2020:

13. **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 publically available.**
14. **Implement phase 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.**

   Response:

   UCOP agrees with these recommendations and will implement human resources workforce planning best practices, including but not limited to CalHR, as part of the development of an integrated strategic plan for UCOP that leverages the strategic planning of all divisions. UCOP has already completed strategic plans for the Chief Financial Officer division and the Chief Operating Officer Division, and is well underway on the strategic plans for the Academic Affairs Division and the Agriculture and Natural Resources division. UCOP has a schedule in place for completing the strategic plans for all other divisions.

   UCOP will expand upon and further define a long-range workforce planning framework within our strategic planning process – one that is suitable for our organization and based on human resource management best practices. UCOP will ensure alignment with strategic plans, and review and analyze data to determine the overall impact. In preparation of this upcoming year's UCOP budget, all annual divisional budget submissions were required to include preliminary workforce plans.

   UCOP will continue its practice of regularly reviewing its programs and services. UCOP reviews the scope of its services and programs offered to ensure that the system creates and leverages efficiencies of scale; provides incentives for campus collaboration; and provides critical programs and services to its stakeholders. UCOP presents the programs and services it supports to the Regents in the annual UCOP budget presentation. It also works regularly with senior leadership from all the campuses through a variety of regular consultative meetings, including monthly meetings with the Council of Chancellors, the Executive Vice Chancellors (Provosts), the Vice Chancellors of Planning and Budget, and Vice Chancellors of Administration. The President also meets regularly with student government leadership across the campuses.

   In each instance of strategic planning by UCOP's divisions, formal and informal steps are taken to solicit campus feedback on the development of those plans.

   UCOP will ensure alignment with strategic plans, and review and analyze data to determine overall impact. Divisional strategic plans, which will include workforce planning elements, will be made publicly available.

As part of the implementation process of an appropriate workforce planning framework, UCOP will define metrics and produce management reports.

Budget and Expenditures Recommendations

Fund Restrictions and Commitments

By April 2018:

16. **Document and review the restrictions on its funds and fund commitments to determine whether it can reallocate any of these funds to its discretionary budget for reallocation to campuses.**

By April 2019:

20. **Publish the results of its review of fund restrictions and fund commitments and any funds it anticipates reallocating to campuses.**

By April 2020:

23. **Reallocate to the campuses funds that it identified during its review of fund restrictions and fund commitments.**

    Response:

    UCOP agrees with these recommendations.

    By July 2018, UCOP will review restricted funds.

    By July 2019, UCOP will publish the results of its review of fund restrictions.

    UCOP will utilize savings either by reducing the total amount of the assessment or by directing them to initiatives and programs that benefit the campuses and the system. UCOP's primary goal is to effectively limit assessment growth, aiming to incorporate areas of savings where available.

Reserve Policy

By April 2018:

17. **Develop a reserve policy that governs how large its reserve should be and the purposes for which it can be used.**

    Response:

    UCOP agrees with this recommendation.

UCOP will develop an operating reserve policy that governs how large its reserve should be and the purposes for which it can be used.

Budget Presentation

By April 2018:

18. **Implement our recommended budget presentation shown in figure 11. 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 budget into one budget presentation.**

By April 2019:

22. **Continue to present a comprehensive budget based on the presentation in Figure 11 to the regents, the Legislature, and the public.**

    Response:

    UCOP agrees with this recommendation.

    While UCOP agrees with the substance of this recommendation, UCOP disagrees with the characterization that there is a "disclosed" and "undisclosed" budget. Nevertheless, by July 2018, in consultation with the Regents, UCOP agrees to implement a revised budget presentation format, evaluating best practices and incorporating what would be most useful to the Regents in their budget review.

    By July 2019, UCOP will present a comprehensive budget to the Regents and make it available to the Legislature and the public, in formats developed in consultation with the Regents.

Budget Process

By April 2018:

19. **Increase campus stakeholder input in the budget development process by reconvening the campus budget committee and establishing an agreed upon charter that describes the committee's scope, role, and protocol for reviewing and providing comments on the Office of the President's annual budget.**

By April 2019:

21. **Implement the best practices for budgeting identified by GFOA and NACUBO, including developing budget policies and procedures and formally documenting, approving, and justifying all one-time and unexpended expenditure requests.**

By April 2020:

24. **Evaluate its budget process to ensure it is efficient and has adequate safeguards that ensure staff approve and justify all budget expenditures. If the Office of the President determines that its safeguards are sufficient, it should begin developing a multi-year budget plan.**
25. **Report to the regents on the amount of funds it reallocates to campuses as a result of implementing our recommendations.**

    Response:

    UCOP agrees with these recommendations, which are consistent with plans already in place to improve UCOP budget processes.

    UCOP will continue its efforts to engage campuses in its budget process. UCOP currently engages campus leaders monthly on various topics and the UCOP budget is consistently discussed.

    By July 2019, UCOP will ensure budgeting best practices, including but not limited to GFOA and NACUBO, are being utilized. UCOP will ensure that budget policies and procedures that formally document, approve, and justify all one-time and unexpended expenditure requests are being utilized.

    By July 2020, UCOP will evaluate its budget process to ensure it is efficient and has adequate safeguards to ensure all budget expenditures are approved and justified. UCOP will begin developing a multi-year budget plan by this date.

    UCOP will periodically report on the financial impact of implementing the audit recommendations at a frequency determined by the Regents.

Systemwide and Presidential Initiatives Recommendations

By April 2018:

26. **Develop and use a clear definition of systemwide initiatives and administration that will be used to ensure consistency in future budgets.**
27. **Develop a comprehensive list of systemwide initiatives and presidential initiatives including their purpose and actual cost that will be used in the regents hearing recommended below.**

By April 2019:

30. **Restructure budget and accounting systems to ensure the costs of the Office of the President can be clearly tracked and reported annually. Specifically, the budget**

and accounting systems should be able to distinguish between systemwide initiatives, presidential initiatives, and administrative costs.

Response:

UCOP agrees with these recommendations.

By July 2018, UCOP will develop a clear definition of systemwide initiatives within the budget, consistent with our plans to enhance budget reporting. UCOP will also provide a comprehensive list of systemwide initiatives and presidential initiatives, including their purposes and costs. UCOP has already implemented a process to track actual expenditures against budget for systemwide initiatives.

To provide the more extensive reports recommended, UCOP's current budget and accounting software may not be adequate. To the extent possible within the current systems, separate accounts for collecting costs for systemwide initiatives will be established. If UCOP systems are replaced in the future, a more robust approach for gathering costs for systemwide initiatives will be built into the software's functionality.

By April 2018:

28. **Establish spending targets for systemwide initiatives and administrative costs.**
29. **Publish the results of the review of systemwide and presidential initiatives including any funds the Office of the President anticipates reallocating to the campuses.**

By April 2020:

31. **Publish its progress in meeting systemwide initiative and administrative cost targets publically.**
32. **Reallocate funds from the review of systemwide and presidential initiatives as well as any administrative cost savings to campuses.**
33. **Report to the regents on the amount of funds reallocated to campuses.**

Response:

UCOP agrees with these recommendations.

By July 2019, UCOP will set annual budget targets, mindful of the fact that unexpected events will require spending flexibility. UCOP will also publish the results of its review of systemwide and presidential initiatives.

By July 2020, as part of its annual budget presentation, UCOP will report progress related to systemwide initiative and administrative costs.

UCOP will utilize any savings either by reducing the total amount of the assessment or by directing them to initiatives and programs that benefit the campuses and the system.

UCOP's primary goal is to effectively limit assessment growth, aiming to incorporate areas of savings where available.

UCOP will periodically report on the financial impact of its review of systemwide and presidential initiatives at a frequency determined by the Regents.