

Office of the President

TO THE REGENTS OF THE UNIVERSITY OF CALIFORNIA:

DISCUSSION ITEM

For Meeting of July 13, 2017

UCPATH UPDATE

EXECUTIVE SUMMARY

This report provides a brief review of the original UCPATH business case, the future state business model, costs and a brief review of the remaining milestones for UCPATH deployment across all UC locations. When UCPATH is fully implemented, UC will have standardized systemwide payroll, human resources (HR), and benefits processes; replaced aging legacy technology; and centralized transactional processes in a shared services center. This business transformation fundamentally changes how UC will deliver HR, payroll, and benefits services to its employees and supports long-term administrative, operational, and technological efficiencies.

BACKGROUND

UCPATH is a business transformation initiative designed to meet UC's complex operational and workforce needs through standardization, centralization, and automation. The term UCPATH contains an acronym of its core service components – Payroll, Academic Personnel, Timekeeping, and Human Resources. Initially, UC will implement a single payroll, benefits, human resources, and academic personnel solution for more than 220,000 UC employees. The system implementation will also serve as a catalyst for operational changes to support further UC administrative efficiencies.

The existing legacy system, Payroll Personnel System (PPS), is more than 35 years old and consists of 11 different versions that are disconnected, outdated, and expensive to maintain because they vary from one location to the next. Furthermore, the old technology is insufficient for UC's complex employee population and changing business needs, and its frailty represents a serious risk to effective payroll and HR operations. The University can no longer effectively manage employee records or assure payroll accuracy with the legacy system and must move forward to a new solution.

With its core technology upgrade, UCPATH immediately improves the quality of employee, job, and payroll data, and supports the intricacies associated with UC's complex and diverse workforce. UCPATH provides a common administrative platform, shared services model and consistent business practices, enabling UC to realize greater efficiency, productivity, and scalability across the system.

Business Case for UCPATH

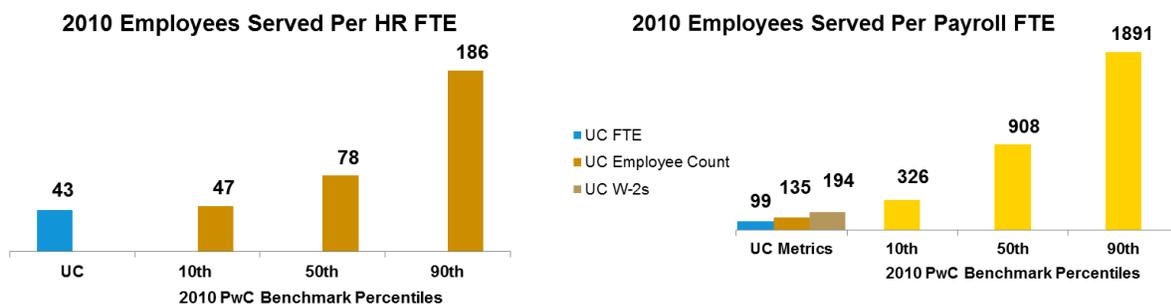
In July 2009, UC Controllers, with input from UC’s Chief Human Resource Officers (CHROs) and Academic Personnel Directors (APDs), published a white paper detailing the need to replace PPS. Based on payroll risk and the inadequacy of PPS to support UC’s large and complex workforce, the University began to examine options for replacing or rebuilding the aging system. This white paper followed studies by PricewaterhouseCoopers (PwC) in 2000 and KPMG in 2001, also recommending PPS replacement.

Following publication of the white paper, the PPS Sponsor Group, co-chaired by Sam Morabito and Anne Broome, was formed. The group launched the PPS Replacement Initiative and also created the PPS Management Workgroup. The two groups were the precursors to the current UCPath Executive Leadership Team and Steering Committee. In the summer of 2010, the PPS Sponsor group agreed to establish a baseline for current operational costs and staff size to inform the business case for replacing PPS, quantify resources currently engaged in payroll, HR and academic personnel activities, and quantify future operational benefits.

To that end, in the fall of 2010 UC engaged PwC to survey approximately 9,000 UC employees regarding their payroll, HR, and related activities. Key findings of the 2010 study were:

- UC dedicated more than 5,900 full-time equivalents (FTEs) to specific payroll and HR work.
- Approximately 81 percent of the work was transactional or advisory in nature at a cost of \$391 million, and less than 20 percent was strategic or consultative.
- 20 percent of the work concerned error resolution or rework at a cost of \$98.6 million.
- Many activities were fragmented with a high number of staff touches.
- PwC estimated opportunities for cost avoidance of 6 to 24 percent through:
 - Consolidation of administrative activities into a shared services center
 - Process improvements
 - Proper alignment of job activities and responsibilities
 - Better utilization of technology

PwC also noted that without adequate investment in technology, these cost savings and avoidance opportunities could not be achieved. As part of the study, PwC provided its operational benchmarks for payroll and HR services. When applied to 2010 UC staffing and operational data, the benchmarks demonstrated that UC’s current state was in the bottom ten percent of benchmark organizations:



Taken together, PwC's findings and benchmark comparison made clear that UC's opportunities for improvement extended well beyond replacing its payroll system. Consequently, the PPS replacement initiative became the foundation of a more far-reaching business transformation effort. The major components of this business transformation effort are to:

- Replace aging and inadequate technology
- Revamp and standardize business processes
- Centralize transactional processes

UC formally initiated UCPATH in September 2011, following a Request for Proposal process and engagement with Oracle to provide software, hosting, and implementation services. Over the next two years, the project made progress in a number of areas, such as interface development and creation of the UCPATH Center infrastructure, but overall implementation was delayed due to design delays, data conversion, and ineffective project management. UC assumed responsibility for implementation in September 2013 and initiated more rigorous project management, completed detailed process design, and re-vamped the deployment approach to begin with the UC Office of the President (UCOP).

Validating the Business Case for UCPATH

In response to a 2014 request from President Napolitano following a systemwide effort to standardize 103 business processes across payroll, HR, and benefits, UC engaged The Hackett Group to:

- Benchmark UC future state process designs against comparable research institutions
- Validate the UCPATH Center staffing model based on UC's future state process designs
- Project long-term staff savings based on future state process designs
- Quantify additional benefits of the business transformation effort

Based on a review of 81 of UC's 103 future state processes corresponding to its higher education peer group¹ database, Hackett found UC's future state process designs to be generally aligned with their best practice HR service delivery model. UC's post-UCPATH benefits administration, payroll, workforce administration, and compensation administration processes were graded from 79 to 89 percent compared to Hackett best practice standards, subject to two caveats:

1. UC must strictly adhere to the future state processes as designed.
2. UC must pursue continuous quality improvement to harmonize and optimize processes.

Hackett assessed UCPATH Center projected staffing levels. Based on UC's future state process designs and its own staffing benchmarks, Hackett recommended a staffing level of 440 FTEs at full UCPATH deployment. Hackett further recommended evaluating staffing needs once transactional data volumes were available.

¹ The peer group included University of Michigan, Yale University, University of Missouri, Ohio State University, Purdue University, Miami University, Indiana University, University of Washington, University of Virginia, and University of Chicago.

UC also asked Hackett to collect campus-level data regarding efficiency gains and staffing reductions/changes since 2008, along with potential savings as part of the UCPATH implementation. Hackett determined:

- \$43 million in savings had been achieved in preparation for UCPATH (50 percent of campuses reporting)
- \$4.2 million in additional annual savings or cost avoidance could be expected once UCPATH implementation was complete and 100 FTEs were reduced or reassigned. Eighty percent of these savings are expected in payroll administration, which will be shifted to the UCPATH Center.

Upon completion of UCPATH implementation, Hackett forecasted an immediate increase of UC's benchmark to the upper quartile of comparable research institutions. Hackett also identified several cost avoidance or savings opportunities that could reach \$215 million - \$325 million based on savings in preparation for UCPATH (2008-2014); future savings as a result of the completion and stabilization of UCPATH implementation; and cost avoidance as a result of UCPATH. For example, Hackett noted that a systemwide UCPATH implementation avoids the costs of separate campus system implementations. In addition, UCPATH implementation avoids potential cost of a failed payroll with PPS. Although Hackett models the future state after standardization, it does not identify potential efficiencies made possible by centralization and automation. That work would fall to campus Controllers, Chief HR Officers, and Chief Information Officers (CIOs) to identify and propose as discussed in the next section.

UCPATH BUSINESS MODEL

UC Campuses

With UCOP and the UCPATH Center operational since 2015, teams have had an opportunity to stabilize and refine operations under UCPATH. As campuses prepare for UCPATH deployment, local teams are evaluating organizational structures and business processes to align future operating models with UC-wide standard business processes and centralized transactional processing at the UCPATH Center. To date, UC campuses have standardized 103 UC-wide business processes that shift high-volume, low-complexity transactions to the UCPATH Center. As a result, campuses concentrate on more high-value, strategic functions, and focus resources on activities that support UC's core mission of teaching, research, and public service. In addition, UCPATH automates many manual calculations and processes, thereby addressing errors and rework associated with PPS, estimated by PwC at \$98.6 million per year.

Based on the findings of PwC and The Hackett Group, UC's Controllers, CHROs and APDs committed to pursue additional efficiencies once UCPATH is deployed at all campuses and focus their efforts toward optimization. These stakeholders recognize that UCPATH implementation provides the foundation that will enable campus and systemwide efforts to further streamline processes supported by the UCPATH Center. Furthermore, the role of campuses in achieving UCPATH efficiencies is essential. The UCPATH system, standardized business processes, and UCPATH Center are means to efficiencies that are ultimately campus-driven.

UCPath Center

The UCPath business model establishes a catalog of core transactional services, with defined response times and procedures that are defined in a service partnership agreement (SPA) with each campus. The UCPath Center will rely on UCOP’s policy expertise to assure compliance and appropriate interpretation. In addition, UCPath Center will leverage the existing systemwide UCPath governance model to prioritize work, refine operations, ensure continuous quality improvement, and develop a service cost model for budgeting purposes.

The UCPath Center provides a catalog of ten core services that enable standardization, centralization, and automation:

Core Service	Description
HR Administration	Support system transactions impacting employee status, including hires, transfers, pay changes, and terminations
Payroll	Perform pre- and post-payroll activities, such as W-2 calculations and deductions
Benefits	Administer employee enrollment in benefit coverage, changes to benefits, and new employee orientation administration
Absence Management	Maintain job data records for employee leave accruals and actions
Business Continuity	Create and execute plans that ensure availability of vital services in an emergency
Mass Records Update	Execute automated, high-volume position control, job data, and compensation transactions
Customer Service	Manage employee inquiries, track cases, and send automated email notifications to employees
Finance and Accounting	Manage bank and balance sheet reconciliations, composite benefit rate, budgeting and internal controls
Reporting and Analytics	Develop and maintain database queries, create system design documents, and assist campuses with funding entry, configuration, and general ledger processes
Records and Fulfillment	Maintain employee records and satisfy records requests

The UCPath organizational structure consists of the following departments, which ensure that UC campuses receive high-quality services support:

- Employee Services provides call center services and is the first point of contact for all inquiries to the UCPath Center.
- Production Services includes five teams that perform payroll, benefits, leave administration, records and fulfillment, general ledger batch processes, and provide support for escalated customer inquiries.
- Finance Services is responsible for balance sheet account reconciliations, budgeting, internal controls, composite benefit rate account reconciliations, and fiscal year-end coordination with UC Office of the President and campuses.

- Quality and Performance Management maintains the knowledge database, supports continuous process improvement, and develops quality and performance metrics.
- Information Technology (IT) Shared Services supports UCPATH applications, including PeopleSoft, case/ticket management systems, automated forms, data warehouse, and other UCPATH technology platforms.
- Human Resources, Training and Communications team ensures that the UCPATH Center has the necessary resources to attract and retain a knowledgeable and diverse workforce, provides employee training, and creates timely and relevant communications.

Currently, UCPATH Center planning targets assume a staffing plan of 440 by mid-2019. Once Pilot campuses are deployed, the UCPATH Center will track production metrics to inform realistic post-deployment staffing needs. Consequently, the UCPATH Center will hire temporary staff for the last ten percent of the planning target to ensure flexibility to make potential adjustments. As of June 5, the UCPATH Center has onboarded and trained 189 staff to support UCOP operations and meet Pilot deployment staffing targets for December 2017 Pilot campus deployment, which includes UCLA, UC Merced, UC Riverside, and the Associated Students of UCLA (ASUCLA).

The UCPATH Center assesses service quality and overall success through regular “voice of the customer” surveys, call center and transaction metrics, portal analytics, and system availability and data usage. In addition, the UCPATH Center works with each campus to create an annual SPA in which both entities agree on mutual responsibilities, service levels, and expectations.

UCPATH Governance

The UCPATH governance framework provides robust project implementation oversight. In addition to the UCPATH executive sponsors, Executive Vice President and Chief Operating Officer Nava and Executive Vice President and Chief Financial Officer Brostrom, the framework incorporates:

- UCPATH Executive Leadership Team: Includes Vice Chancellor members from each UC campus, plus UCOP executive leadership for HR, finance, IT and academic personnel
- UCPATH Steering Committee: Includes CIO, CHRO, Controller and APD members from UC locations, plus UCOP policy experts for each business area
- UCPATH Deployment Subcommittees: The UCPATH Steering Committee charters subcommittees for each deployment cohort, Pilot, Deployment 1 and Deployment 2, to oversee the implementation progress for each deployment

UCPATH governance has developed thresholds for decision materiality and escalation, and recently updated these decision rights and roles (Attachment 1) to reflect engagement by the UC Board of Regents. Once UCPATH is fully deployed at all locations, the governance model will be modified to meet the requirements of ongoing operational governance.

UCPATH PROJECT IMPLEMENTATION AND OPERATIONAL COSTS

UCPath Capital Project Implementation Costs

Most UCPath project implementation costs are capitalized. Capital costs include software costs, UCPath Project Management Office (PMO) labor costs, travel, financing, UCPath Center technology, reimbursed campus costs, and contingency.

UCPath Capital Costs (\$ millions)

UCPath Capital Costs	Project to Date	FY17 Actual/Fcst	FY18 Forecast	FY19 Forecast	FY20 Forecast	Total
<u>Implementation - Project Office</u>						
Labor	239.8	71.0	59.4	21.1	0.1	341.1
External Products & Services	59.8	10.5	7.0	2.5	0.0	72.3
Other (Campus Reimb, Interest Exp, Contingency)	49.2	21.2	5.9	26.2	0.0	90.3
Total - Project Office	348.7	102.7	72.3	49.9	0.1	503.8
<u>Implementation - Campus</u>						
Direct (net of reimbursements)	64.1	20.4	53.3	25.4	0.0	149.3
Other	5.7	2.1	5.0	3.3	0.0	15.1
Total - Campus	69.8	22.5	58.3	28.7	0.0	164.3

Note: Differences in column totals are due to rounding.

The University is forecasting UCOP-managed UCPath capital costs at approximately \$503.8 million through final deployment, currently targeted for December 2018, plus an additional six months of post go-live support and project closeout, planned through June 2019. This figure includes approximately \$54.9 million in reimbursed campus costs, but campuses expect to spend an additional \$164.3 million on UCPath implementation. This forecast also includes \$25.8 million in contingency, carried in fiscal year (FY) 2019. Following approval by the Regents in July 2014, \$220.5 million of UCPath project costs are bond-financed with repayments over a 20-year period.

This forecast is unchanged from the April 2017 report to UC Regents. It is a change from the July 2015 Regents update with a forecast of \$375 million, as follows:

- December 2015: 12-month extension of Pilot timeline and increased support for UC Riverside, which replaced UC Santa Cruz in Pilot deployment. Revised forecast: \$434 million
- September 2016: Increased each campus deployment period from 12 to 18 months. Revised forecast: \$454 million
- October 2016: Added contingency of \$25.8 million. Revised forecast: \$480 million
- March 2017: Extended Pilot schedule by four months. Current forecast: \$504 million

Once UCPATH is fully operational following Pilot campus deployment later this year, some implementation expenses will shift from the capital budget to the UCPATH operational budget. They include software license, maintenance and hosting; UCOP IT production support; UCPATH Center operations and debt service. This shift is the primary reason for the reduction in capital implementation costs from FY2017 to FY2018.

As of May 31, 2017, actual UCOP-managed UCPATH capital expenses total \$348.7 million. Campus implementation expenses total \$69.8 million. UCOP-managed implementation costs in excess of the \$220.5 million financed are funded by campuses and UCOP via a UCPATH assessment process initiated in FY 2016 that is similar to the process used for the UCOP general assessment. In March and April of each year, UCPATH leadership presents proposed funding for the upcoming year to campus Vice Chancellors for Planning and Budget. Variances are applied as an adjustment to the funding request in the following year.

UCPATH Operating Costs – Five-Year Forecast

UCPATH operational costs through FY 2022 are shown in the table below and include UCPATH Center operational costs as well as UCPATH debt service expenses. Growth from FY 2018 to FY 2019 results from the final build out of UCPATH Center staffing and from the transition of project capital expenses to operating expenses. In subsequent fiscal years a three percent growth factor is applied to forecast expenses.

UCPATH Operational Costs (\$ millions)

	FY18	FY19	FY20	FY21	FY22
UCPATH Operational Costs					
UCPATH Center Services	37.1	44.8	46.1	47.5	48.9
UCPATH System Tech Support	15.3	27.3	28.2	28.8	29.7
Total UCPATH Operational Costs	52.4	72.1	74.3	76.3	78.6
UCPATH Debt Service	1.8	3.5	3.5	3.5	21.6
UCPATH Total	54.2	75.6	77.9	79.9	100.1

Note: Differences in column totals are due to rounding.

Debt service for the \$220.5 million bond began in FY 2016 and continues through FY 2036 with five years of interest-only payments. Starting in FY 2022, repayment includes principal and interest of \$21.6 million per year.

UCPATH operational costs are funded by all UCPATH locations, including UC campuses, Agriculture and Natural Resources, ASUCLA, UCOP and UC Hastings. Costs are allocated based on the number of W-2s issued in the prior year. Similar to the process for funding implementation costs, the UCPATH leadership discusses proposed funding for the upcoming year

in March and April with campus Vice Chancellors of Planning and Budget. Once approved, variances are applied as an adjustment to the following year's funding request. Of note: the Legislature proposed a direct allocation of \$52.4 million for the UCPATH Center in FY 2018 in lieu of the UCPATH assessment that had been proposed.

PROJECT MILESTONES

UCOP and UCPATH Center Deployment

The initial UCPATH deployment successfully launched in November 2015, supporting a small, relatively non-complex payroll population of 1,800 UCOP employees.

As part of the UCOP deployment, the UCPATH Center proved its service designs and support structures, and resolved issues with a discrete service population. The UCOP deployment achieved:

- Configuration of 100 percent of UC system benefits and systemwide vendor interfaces
- Integration of 60 percent of corporate interfaces
- Design, development, testing, and deployment of 70 percent of UC's customizations
- Configuration of 50 percent of labor contracts in UCPATH
- Development of the UCPATH portal, including employee self-service capabilities
- Solutions for employment verification, unemployment claims processing, and secure case management
- New post-deployment functionality, including a new pension tier and open enrollment capabilities
- "Lessons learned" to aid future deployments

The last 20 months of production have proven that UCPATH is calculating pay correctly, and the UC-wide shared services center is effectively providing payroll and HR services to UCOP employees. In addition, based on lessons learned from UCOP deployment, the UCPATH Center is preparing to update the UCPATH portal and tools for case management, voice response, and document management in advance of Pilot campus deployment.

Pilot Campus Deployment

Implementation is currently underway at UCPATH Pilot campus locations with a target deployment of December 2017. The Pilot locations include: UCLA, UC Merced, UC Riverside, and the ASUCLA. To meet the complex academic and research payroll requirements for these employee populations, the Pilot deployment will feature newly expanded functionality to support the broad range of academic, research, and health system employees throughout UC's campuses and medical centers.

Pilot development is complete. The UCPATH PMO and Pilot location teams are currently performing data conversions, end-to-end integration tests, and payroll parallel tests. Cutover rehearsals are scheduled to begin in October, and Pilot deployment is on track for the December 2017 go-live date.

Deployment 1

Deployment 1 locations will follow Pilot deployment and include UC Davis, UC Irvine, UC Santa Barbara, UC Santa Cruz, and Agriculture and Natural Resources with a target deployment date of July 2018. This deployment will introduce additional functionality to support recruitment and performance management. Deployment 1 campuses have begun interface development, process design, organizational change management, and data conversion activities in support of their transition to UCPATH.

Deployment 2

The final UCPATH group, Deployment 2, includes UC Berkeley, UC San Diego, UC San Francisco, UC Hastings, and Lawrence Berkeley National Laboratory with a target deployment date of December 2018.

With the successful go-live of Deployment 2, the University of California will have completed the largest business transformation initiative in its history with an unprecedented level of systemwide collaboration, establishing a comprehensive solution to support its large and diverse workforce with:

- A single, comprehensive system to support payroll, HR, benefits, compensation, and leave management;
- UC-wide alignment and standardization on related business processes, providing consistency for all UC employees and improving regulatory compliance;
- A state-of-the-art contact center to support UC employee questions and resolve workforce issues with pay, benefits, leaves, etc.;
- A services center that consolidates and processes HR, payroll, and benefits transactions UC-wide.

In addition, completion of UCPATH implementation establishes the tools and baseline for further optimization and continuous operational improvement. UCPATH implementation leads the way for future common administrative system and operational initiatives.

Key to Acronyms:

ASUCLA	Associated Students of UCLA
APD	Academic Personnel Director
CFO	Chief Financial Officer
CHRO	Chief Human Resources Officer
CIO	Chief Information Officer
FTE	Full-time Equivalent
FY	Fiscal Year
HR	Human Resources
IT	Information Technology
PMO	Project Management Office
PPS	Payroll Personnel System
PwC	PricewaterhouseCoopers
SPA	Service Partnership Agreement
UCOP	University of California Office of the President

Attachments:

Attachment 1: UCPATH Governance Materiality and Escalation

Attachment 2: UCPATH Deployment Roles