AUDIT AND ADVISORY SERVICES

Campus Shared Services
Audit
14-616, 14-617, 14-618

August 28, 2014

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August 28, 2014

John Wilton
Vice Chancellor – Administration and Finance

Vice Chancellor Wilton:

We have completed our audit of Campus Shared Services as per our annual service plan in accordance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* and the University of California Internal Audit Charter.

Our observations with management action plans are expounded upon in the accompanying report. Please destroy all copies of draft reports and related documents. Thank you to the staff of Campus Shared Services for their cooperative efforts throughout the audit process. Please do not hesitate to call on Audit and Advisory Services if we can be of further assistance in this or other matters.

Respectfully reported,

Wanda Lynn Riley
Chief Audit Executive

cc: Chief Operating Officer Thera Kalmijn
        Senior Vice President and Chief Compliance and Audit Officer Sheryl Vacca
        Associate Chancellor Linda Morris Williams
        Assistant Vice Chancellor and Controller Delphine Regalia

University of California, Berkeley
Audit and Advisory Services
Campus Shared Services

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OVERVIEW

Executive Summary

As part of our fiscal year 2014 service plan, Audit and Advisory Services (A&AS) proposed three audits related to Campus Shared Services (CSS) corresponding to three of its four functional service areas: Business and Financial Services (B&FS), Human Resources (HR), and Research Administration (RA). The preliminary objective of these audits was to evaluate the implementation of CSS assuring that guiding principles are employed and controls are designed to assure accountability, effectiveness, efficiency and compliance with UC, federal, and state requirements.

During our preliminary risk assessment and planning procedures, we identified an opportunity to partner with an external co-sourced provider that would bring subject-matter expertise related to shared service implementation in similar organizations and as such reorganized the overall audit approach. The co-sourced provider, McGladrey LLP (McGladrey), was engaged to assist with a current state assessment and gap analysis as to whether the approved Operational Excellence (OE) project plan for CSS implementation (1) is currently being met as of December 31, 2013 or (2) will likely be achieved by December 31, 2014.

A&AS' audit focus was then changed to evaluate the design and implementation of standardized processes and key internal controls that support critical end-to-end business functions in B&FS, HR, and RA.

Although McGladrey and A&AS coordinated on certain elements of fieldwork such as interviews and document requests to minimize duplicative efforts, each worked independently of the other during audit planning, fieldwork, and reporting. As a result, the separate audit reports by McGladrey and A&AS should be reviewed and considered together for a holistic perspective of CSS.

Management has represented that they will prioritize continuing to onboard campus cohorts through the end of 2014 and have begun work steps to design and implement standardized processes in 2015. However, since the current state of processes and controls across the service teams is not yet standardized, our planned audit of standardized processes was not feasible as of the close of our fieldwork in March 2014.

As a result, in lieu of a detailed audit of standardized business processes, we focused on the current status of process standardization within CSS and our observations primarily relate to risks to developing processes to assure accountability, effectiveness, efficiency and compliance with UC, federal, and state requirements as well as meet management's objectives for CSS.

Additionally, given that our observations apply equally to the three CSS functional areas in our original scope (B&FS, HR, and RA), we are issuing one combined report for these areas.

As cohorts continue to transition in, CSS is analyzing legacy practices and developing standardized processes for implementation in earnest beginning January 1, 2015. We observed areas of ambiguity in the handoffs between and assurances provided among key stakeholders as a

transaction moves along the process flow. Units may have to perform additional (shadow) procedures, such as using offline systems or paper-based documentation, to obtain comfort about the appropriateness of a transaction. These shadow procedures create extra work and inefficiencies that are suboptimal to control activities that are potentially built into the standardized process.

Second, we observed that development of standardized end-to-end business processes should not only document manual and system activities, process handoffs, information exchanges, and control procedures, but also denote what administrative records are being created, what the form of the record is (paper or electronic), who the custodian is, and when the record ceases to be active and a document retention schedule can be applied. Given the information handoffs involved between departments, central campus units, and CSS, multiple copies of a business record are created, but only the official administrative record should be retained and managed according to records management policy in order to ensure proper preservation, access, temporary hold in cases of litigation or investigation, and eventual secure disposal.

Third, the day-to-day manager in charge of the campus recharge process was reassigned to CSS. As such, CSS now plays a potentially significant role in the campus recharge process but it does not have a specified role in the existing policy. In addition, we noted that the recharge committee is not active and has not met in several years. We observe that the Controller's Office and CSS should revisit the design and implementation of the campus recharge process to ensure appropriate compliance with federal requirements and University policies related to recharge activity. Absent this review, the campus faces the risk that current practices related to recharge activity are not compliant.

We note, however, that A&AS has a planned FY2014-2015 audit to assess recharge policies, procedures, and practices to ensure that they are relevant, up-to-date, and practices provide sufficient guidance and oversight of campus recharge activities.

Source and Purpose of the Audit

As part of our fiscal year 2014 service plan, A&AS proposed three audits related to CSS corresponding to three of its four functional service areas: B&FS, HR, and RA. The preliminary objective of these audits was to evaluate the implementation of CSS assuring that the guiding principles are employed and controls are designed to assure accountability, effectiveness, efficiency and compliance with UC, federal, and state requirements.

Scope of the Audit

During our preliminary risk assessment and planning procedures, we identified an opportunity to partner with an external co-sourced provider that would bring subject-matter expertise related to shared service implementation in similar organizations and as such reorganized the overall audit approach as follows:

- The co-sourced provider, McGladrey, was engaged to assist with a current state assessment and gap analysis as to whether the approved OE project plan for CSS implementation (1) is currently being met as of December 31, 2013 or (2) will likely be achieved by December 31, 2014. Based on an analysis of the approved OE project plans for CSS design and implementation, A&AS proposed evaluation criteria for McGladrey in the following six areas:
  - Cost Savings
  - Efficiency Gains
  - Customer Service
  - Employee Engagement and Development
  - Mitigation of Compliance Risks
  - Governance
- A&AS' audit focus was then changed to evaluate the design and implementation of standardized processes and key internal controls that support critical end-to-end business functions in B&FS, HR, and RA.
- Although McGladrey and A&AS coordinated on certain elements of fieldwork such as interviews and document requests to minimize duplicative efforts, each worked independently of the other during audit planning, fieldwork, and reporting. As a result, the separate audit reports by McGladrey and A&AS should be reviewed and considered together for a holistic perspective of CSS.

The OE approved implementation plan for CSS stated that it would have "standardized business processes and tools for all 'in-scope' activities." We observed that significant campuswide effort was made during the design phase of CSS by more than 19 work groups to analyze human resource, business and financial services, research administration, and information technology processes as were being conducted in a decentralized manner by units across the campus. The output of these work groups, in conjunction with assistance from an outside consultant, was the creation of "Day One playbooks" and process maps that attempted to document standardized processes flows, risk points, and control activities.

However, beginning with the first cohort of units that joined CSS and for those subsequent, these standardized playbooks and process maps were not applied in practice. Rather, for customer

service considerations, CSS worked with units to understand legacy practices and to support them on a temporary basis while CSS studied the variation of practices across units joining CSS to understand the full range of activities that needed to be supported going forward, identify better practices to be incorporated in the future state standardized processes, as well as immediately correct practices that were not consistent with internal and external policies and requirements.

Management has represented that they will prioritize onboarding of campus cohorts through the end of 2014 and has begun worksteps to design and implement standardized processes in 2015. However, since the current state of processes and controls across the service teams is not yet standardized, our planned audit of standardized processes was not feasible as of the close of our fieldwork in March 2014.

As a result, in lieu of a detailed audit of standardized business processes, we focused on the current status of process standardization within CSS and our observations primarily relate to risks to developing processes to assure accountability, effectiveness, efficiency and compliance with UC, federal, and state requirements as well as meet management's objectives for CSS.

Additionally, given that our observations apply equally to the three CSS functional areas in our original scope (B&FS, HR, and RA), we are issuing one combined report for these areas.

Background Information

The design and implementation of a Campus Shared Services center is a central component to the campus' OE initiative. Management's objectives, as stated on the OE website, was for CSS to build a client-service focused organization that will provide consistent, high-quality campus-wide administrative support. CSS would benefit the campus by:

- Serving as a catalyst for campus-wide improvements in service culture and performance management;
- Providing professional development opportunities;
- Generating significant savings that units can redirect to Berkeley's teaching, research, and public service mission; and
- Creating best practices for service delivery and continuous improvement.

The OE Executive Committee approved the project design in April 2011 and preliminary work commenced in 2011.[1] The project charter for implementation was submitted to the Executive Sponsors in June 2012 for approval.

Located on Fourth Street in Berkeley, CSS is staffed by cross-functional teams that are anticipated to total up to 625 administrative professionals when the project is fully implemented. Staff members who transition to CSS are moving in multiple cohorts; the first "Early Adopter" cohort began with campus administrative units during January to March 2013; subsequent cohorts will transition in by December 2014.

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[1] From http://oe.berkeley.edu/campus-shared-services

Summary Conclusion

We have three reportable observations:

As cohorts continue to transition in, CSS is analyzing legacy practices and developing standardized processes for implementation in earnest beginning January 1, 2015. We observed areas of ambiguity in the handoffs between and assurances provided among key stakeholders as a transaction moves along the process flow. Units may have to perform additional (shadow) procedures, such as using offline systems or paper-based documentation, to obtain comfort about the appropriateness of a transaction. These shadow procedures create extra work and inefficiencies that are suboptimal to control activities potentially built into the standardized process.

We believe there is an opportunity to extend the concept of service-level agreements or memoranda of understanding to include key stakeholders in end-to-end processes to clearly delineate roles and responsibilities, key handoffs, minimum levels of service or engagement, as well as mechanisms to resolve differences or disputes between stakeholders. For example, if there were a disagreement between the Controller's Office, central procurement, and CSS about elements of the procure-to-pay process, there is no formal governance process to escalate and resolve differences expeditiously. Units can negotiate solutions amongst themselves, but it is conceivable that circumstances may necessitate a final executive-level decision, particularly for disputes between stakeholders in different management reporting lines.

Second, we observe that development of standardized end-to-end business processes should not only document manual and system activities, process handoffs, information exchanges, and control procedures, but also denote what administrative records are being created, what the form of the record is (paper or electronic), who the custodian is, and when the record ceases to be active and a document retention schedule can be applied. Given the information handoffs involved between departments, central campus units, and CSS, multiple copies of a business record may be created, but only the official administrative record should be retained and managed according to records management policy in order to ensure proper preservation, access, temporary hold in cases of litigation or investigation, and eventual secure disposal.

The transition of departments and units into a shared services environment may also likely require a transfer in the roles of Record Proprietor and Record Custodian – particularly for personnel files – as well as a procedure in place to ensure that paper records and files are inventoried and tracked during the transition so that the risk of loss or damage is appropriately mitigated.

Third, the day-to-day manager in charge of the campus recharge process was reassigned to CSS. As such, CSS now plays a potentially significant role in the campus recharge process but it does not have a specified role in the policy. In addition, we noted that the recharge committee is not active and has not met in several years. We observe that the Controller's Office and CSS should revisit the design and implementation of the campus recharge process to ensure appropriate compliance with federal requirements and University policies related to recharge activity. Absent this review, the campus faces the risk that current practices related to recharge activity are not compliant with federal requirements and University policy.

We note, however, that A&AS has a planned FY2014-2015 audit to assess recharge policies, procedures, and practices to ensure that they are relevant, up-to-date, and practices provide sufficient guidance and oversight of campus recharge activities.

SUMMARY OF OBSERVATIONS & MANAGEMENT RESPONSE AND ACTION PLAN

Coordination Among Business Process Stakeholders and Ongoing Governance by Senior Leadership

Observation

The Campus Shared Services Implementation (CSSI) team has sought to integrate the campus' ten guiding principles for shared services into the day-to-day operations of CSS. Among the principle of "Increases Efficiencies" is the goal that CSS "utilizes end-to-end automated workflow processes that meet the local, shared services, and central administration business needs."

We observed that several of the business processes that CSS supports such as procure-to-pay (B&FS) and hire-to-retire (HR) involve workflow, handoffs, review, and approvals that span individual departments, CSS, and central campus units such as the Controller's Office, Human Resources, the Sponsored Projects Office, Information Services and Technology, or Procurement Services (now named Supply Chain Management). As a result, ownership and responsibility for end-to-end processes are shared by multiple stakeholders. In such situations, clear roles and responsibilities among the stakeholders, to themselves and each other, is crucial to provide assurance that the separate objectives of each group as well as the end-to-end process objectives are being met.

For example, for a typical procure-to-pay transaction at the time of our fieldwork, central procurement is responsible for setting up the vendor. The department is responsible for initiating a purchase request. CSS is responsible for creating the purchase requisition. The department is responsible for approving the requisition (depending on the dollar amount and the type of transaction). The department or CSS (currently) is responsible for receiving the goods. Any discrepancies between the requisition, purchase order, goods received, or invoice are researched by the unit in the match exception process. The vendor invoice is recorded by Accounts Payable in the Controller's Office. Last, the department approves the invoice and Accounts Payable schedules and releases payment.[2]

As cohorts continue to transition in, CSS is analyzing legacy practices and developing standardized processes for implementation in earnest beginning January 1, 2015. We observed areas of ambiguity in the handoffs between and assurances provided among key stakeholders as a transaction moves along the process flow. Units may have to perform additional (shadow) procedures, such as using offline systems or paper-based documentation, to obtain comfort about the appropriateness of a transaction. These shadow procedures create extra work and inefficiencies that are suboptimal to control activities potentially built into the standardized process.

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[2] Subsequent to the close of our fieldwork in March 2014 and prior to the issuance of our final report, we noted that Accounts Payable in the Controller's Office, central procurement (since renamed "Supply Chain Management"), and CSS have been in discussions to re-evaluate the assignment of these procure-to-pay roles with the goal to improve internal controls and process efficiency.

We believe there is an opportunity to extend the concept of service-level agreements or memoranda of understanding to include key stakeholders in end-to-end processes to clearly delineate roles and responsibilities, key handoffs, minimum levels of service or engagement, as well as mechanisms to resolve differences or disputes between stakeholders. For example, if there was a disagreement between the Controller's Office, central procurement, and CSS about elements of the procure-to-pay process, there is no formal governance process to escalate and resolve differences expeditiously. Units can negotiate solutions amongst themselves, but it is conceivable that circumstances may necessitate a final executive-level decision, particularly for disputes between stakeholders in different management reporting lines.

Management Response and Action Plan

CSS management agrees that "Day One" process standards and playbooks were developed prior to implementation. During the implementation, the processes have undergone revisions ranging from minor changes to more substantive changes that look at the end-to-end process.

The CSS Process Transformation and Innovation (PTI) team works closely with each functional area in creating, documenting, and improving processes within CSS and upstream and downstream in the process where appropriate or feasible at this time. The PTI team has completed 20+ projects of various scope in the last year. The PTI team is currently focusing not only on process improvement, but in supporting all the functions in diagramming and posting their standardized processes in a user-friendly and detailed form on the CSS website (see each functional page to find these maps). As some processes are in process of revision or documentation, not all processes are posted yet, but the PTI team is making good progress in this area and has catalogued all processes that need to be mapped and posted.

In CSS, we refer to the work on processes as "Evolution to Revolution", meaning that processes are currently evolving (making more incremental changes) to a place where they are stabilized and effectively serve the campus. Once they are stabilized, the concept of "Revolution" is applied. Processes are prioritized and selected according to parameters of the CSS Strategic Project Selection tool. The processes that have potential for the greatest impact and "revolutionary" improvement will be a high priority in the coming year and will require additional technology enablement.

While CSS processes are actually currently standardized to a great degree, the staff doing the work each day have come from many different departments with many different practices. Additional staff training and monitoring is required to be sure that staff follow the CSS process and don't lapse back into "the way we've always done it" or are simply not informed of current standard processes and practice. This will also be a significant area of focus in FY2015-2016 as variation in application of processes causes service issues and significant costly organizational friction (e.g., items that remain unresolved too long, lack of clarity regarding policy, etc.)

CSS management is confident that we know what needs to be done and that we have the right resources in the PTI group and the functions to deliver standardized, improved processes, which are practiced by staff in a more uniform way in the coming 12 to 18 months.

Records Management

Observation

Administrative records of the University are those that document or contain valuable information related to the organization, functions, policies, decisions, procedures, operations, or other business activities of the University.[3] Managers of operational units are named as "Record Proprietors" for the records associated with the unit's administrative function. Consistent with sound business practices, University policy, and applicable law, this role of Record Proprietor determines which records will be created, gathered, and maintained to attain the goals and meet the fiscal and legal obligations of the operational unit and the University.

In a shared services environment, the individual department, CSS, or central campus units may all produce documentation related to a business transaction. The question then becomes what documentation, if any, constitutes the administrative record and who is the appropriate custodian for the information. Unofficial ("informational" or "courtesy") copies of administrative records are considered non-records and are not managed under the University's records management program; they should be disposed of once their period of immediate usefulness has passed.[4]

We observe that development of standardized end-to-end business processes related to transactions supported by CSS B&FS, HR, or RA should not only document manual and system activities, process handoffs, information exchanges, and control procedures but also denote what administrative records are being created, what the form of the record is (paper or electronic), who the custodian is, and when the record ceases to be active and a document retention schedule can be applied. Given the information handoffs involved between departments, central campus units, and CSS, multiple copies of a business record may be created, but only the official administrative record should be retained and managed according to records management policy in order to ensure proper preservation, access, temporary hold in cases of litigation or investigations, and eventual secure disposal.

The transition of departments and units into a shared services environment may also likely require a transfer in the roles of Record Proprietor and Record Custodian – particularly for personnel files – as well as a procedure in place to ensure that paper records and files are inventoried and tracked during the transition so that the risk of loss or damage is appropriately mitigated.

Management Response and Action Plan

CSS management agrees that record management is an opportunity for CSS to provide a much needed centralized service to reduce risk and appropriately manage the University's official records. The CSS team had identified this as a need in the planning phases, but realized that the resources and time given the significant work involved in implementing cohorts and running operations simultaneously would make it difficult to take on developing a Records Management program until after implementation for all units was complete.

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[3] University of California, Business and Finance Bulletins RMP-1 (University Records Management Program) and RMP-2 (Records Retention and Disposition: Principles, Processes and Guidelines).

[4] University of California, Business and Finance Bulletin RMP-2, p. 6

CSS management plans to address this need in FY2015-2016, by working to identify the requirements and creating a plan and timeline for implementation.

Campus Recharge Process

Observation

The campus policy for establishing a mechanism for defining, establishing and decommissioning recharge centers along with developing, requesting, reviewing and approving new recharge rates was established by the Controller's Office prior to the implementation of the CSS. Functional responsibilities for campus recharge activities are assigned in the policy to the department, control unit, recharge committee, Controller's Office, and Office of the Vice Chancellor for Administration and Finance.

The day-to-day manager in charge of the campus recharge process was reassigned from the Controller's Office to CSS. As such, CSS now plays a potentially significant role in the campus recharge process but it does not have a specified role in the policy. In addition, we noted that the recharge committee is not active and has not met in several years. Lastly, OMB Circular A-21 which outlines federal requirements related to recharge activity has been superseded by a new circular which was issued in December 2013 to become effective by December 26, 2014.

We observe that the Controller's Office and CSS should revisit the design and implementation of the campus recharge process to ensure appropriate compliance with federal requirements and University policies related to recharge activity. Absent this review, the campus faces the risk that current practices related to recharge activity are not compliant.

Furthermore, A&AS has a planned FY2014-2015 audit to assess recharge policies, procedures, and practices to ensure that they are relevant, up-to-date, and practices provide sufficient guidance and oversight of campus recharge activities. Subject to our normal preliminary planning and risk assessment procedures, the audit may include some or all of the following consideration points:

- Recharge services are in line with the University's mission, are unique, do not inappropriately compete with local commercial sources, and are in sufficient demand.
- Centers are operating on a break-even basis and recovering all operational costs, including depreciation for any non-federally funded inventorial equipment.
- Rate proposals detail how the center's goods/services are provided and operational costs funded.
- Rate proposals utilize an acceptable rate calculation methodology, are mathematically accurate, and include distinct rates for each level of service provided.
- Center costs and income included in the proposal rate calculations and financial reports are consistent with the general ledger.
- The proposal includes a recharge center operational budget, and the budget is appropriately monitored by the department against actual financial results.
- The proposal is appropriately approved and the rates are published, or otherwise sufficiently communicated, to all customers.
- Customers receive adequately supported and mathematically accurate recharge center billings on an appropriate, timely basis.

- Center billings are sufficiently detailed to enable customer verification against their ordering and receiving records.
- Rates billed agree to the rates approved by the Recharge Committee.
- Rates are applied so that all campus customers are charged the same rate for the same services, and any external customers are charged rates that include a sufficient mark-up for overhead (indirect costs).
- Units of goods/services billed agree to supporting customer orders.
- Rates billed to federally sponsored projects are compliant with federal cost principles.

Management Response and Action Plan

CSS management welcomes the support of the Audit group in reviewing the existing process and requirements. Given that CSS doesn't currently formally own the recharge process (it is owned by the Controller's Office), CSS has somewhat limited ability to affect significant change. That said, CSS is eager to participate in the audit and planning of the future state of the recharge operation with the Audit group and the Controller's Office in 2015-2016.