

**REPORT OF THE WASC SPECIAL TEAM VISIT
to**

**The University of California Office of the President
and Board of Regents**

October 8-9, 2009

Team Roster

**William E. Kirwan (University System of Maryland), Chair;
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In conducting its review, the special visit team operated according to WASC Standards and Core Commitments and submits this report to the Accrediting Commission for Senior Colleges and Universities of the Western Association of Schools and Colleges for action and to the institution for consideration.

Introduction.

On October 8-9, 2009, a special team of the Accrediting Committee for Senior Colleges and Universities of the Western Association of Schools and Colleges (WASC) visited the Office of the President of the University of California (UCOP) and met with officers of the university and members of its Board of Regents (regents). This report provides background information on the visit, the charge to the special team, and the findings and recommendations, which the team presents to WASC, UCOP and the regents.

The special team expresses its gratitude for the candor and responsiveness of all with whom it met while at the UCOP and also those who provided information in individual interviews and conference calls prior to the visit. The team also wishes to thank the able staff of UCOP, who were responsible for accommodations, logistics and travel arrangements.

The team is grateful to President Mark G. Yudof; Interim Provost and Executive Vice President Lawrence Pitts; the other UCOP vice presidents and officers; faculty leaders, Professor Henry Powell and Professor Mary Croughan; and regents' Secretary and Chief of Staff, Diane M. Griffiths for meeting with the team. Their accessibility, responsiveness and candor greatly facilitated the team's work. The team also benefited from a frank and productive meeting with three members of the regents, Russell Gould, Board

Chair; Sherry L. Lansing, Board Vice Chair; and Bruce D. Varner, Compensation Committee Chair.

Finally, the team wants to express its appreciation to Hilary Baxter, Academic Planning Analyst, who scheduled the meetings and graciously insured that all of the team's needs and requirements were met.

Background.

WASC president, Ralph Wolff appointed a special team (STI) to visit UCOP on October 23- 24, 2007. Team members consisted of John T. Casteen (University of Virginia), Chair; William E. Kirwan (University System of Maryland); and Kitty Lagraretta (University of Hawaii System). The team was appointed as a result of audit reports and press accounts regarding compensation and governance issues at the University of California. These reports raised questions about the university's compliance with two WASC Commission Standards: Standard 1, which addresses institutional integrity and accountability; and Standard 3, which addresses financial controls, board governance, fiduciary responsibility, the roles and responsibilities of the board of regents and the president.

After extensive meetings with senior officers of the university, including President Robert C. Dynes, chancellors, faculty leaders, and members of the

regents, including board chair Richard C. Blum, STI issued its report. The report confirmed many of the issues raised in the media and found that the university was not in full compliance with several WASC standards. The report was considered at a WASC meeting on February 20-22, 2008, attended by the university's Chief Operating Officer, Rory Hume and the Vice Chair of the Board (at that time), Russell Gould.

While WASC acknowledged that the university had taken a number of steps to address the issues identified in the report, it found that the university had not fully addressed all of its concerns. In a letter of February 26, 2008 from Ralph Wolff to President Dynes, WASC asked the university to make efforts to strengthen the role of the president, due to the board's assumption of activities normally considered to be the responsibility of the chief executive officer; redefine the role of the board, to insure that the board stays focused on major policy and planning issues and does not engage in operational matters; address the board's operational culture, as a result of the board's tendency to operate as a collection of independent individuals and not as a unified and well structured governing board; and, finally, insure that there is full compliance with the board's compensation policies and practices.

Since this letter, there have been major leadership changes at the University of California. Mark G. Yudof was appointed president and Russell

Gould became board chair. Both assumed their positions with a determination to address the issues raised in the WASC February 26, 2008 letter.

Team Charge.

President Wolff appointed and charged a second special team (STII) to visit the UCOP and meet with the university's administrative and faculty leadership and members of the regents and assess the extent to which the university and the board had addressed the four issues raised in WASC's February 26, 2008 letter to then President Robert C. Dynes.

Team Procedure.

In advance of its visit, STII was provided extensive material documenting the many changes that have taken place within the UCOP and the regents as a result of the WASC letter. The team chair made calls to several chancellors to obtain their assessment of the changes made. The chancellors' comments were fully consistent with information gathered in the interviews during STII onsite visit.

STII arrived in Oakland, CA, on the afternoon of October 8, 2009 and met with Ralph Wolff to review the team's charge and schedule of activities.

That evening the committee had a working dinner meeting with President Yudof.

On October 9, 2009, STII had a long series of meetings with university officers, faculty leaders, and board members, culminating in an exit interview with President Yudof at which time the team had a chance to share its preliminary findings. The schedule of meetings is attached as Appendix 1.

Team Findings.

1. *Role of the Regents.* Without exception, those interviewed by the STII identified a dramatic improvement in the relationship between the regents and the UCOP since the time of the STI visit and report. The board has undergone a renewed commitment to effective governance practices, and significant changes have been introduced by the current board leadership as a result of extensive work done by the board's Committee on Governance. Everyone STII interviewed commended board chair Russell Gould for having the leadership and interpersonal skills necessary to facilitate a demonstrable change in board culture as well as guiding the board and the university through critical economic times.

The board's mode of operation at the time of the STI visit was described by several as dysfunctional, with individual board members feeling free to

launch initiatives, engage campuses, talk to the media without prior discussion among board members. As a result of a significant shift in governance responsibilities and operational discipline, the board is now in a position of providing strong oversight, while empowering the university's president to maintain primary responsibility for university operations. This shift is reflected in practice as well as in the board's Statement of Expectations of the Members of the Board of Regents, which provides: "It is the responsibility of the Board to set policy and the responsibility of the University administration to implement and carry out policy, which includes the responsibility for the day-to-day operations of the University." The Statement also enumerates a list of expectations for the board (and could be enhanced by including an express reference to the Board's Standing Order 100.4 for the parallel list of expectations for the president). Additionally, the 2008 board retreat and orientations for new board members have continued the focus on issues of governance.

One vestige of the prior board relations that may merit review at some point in the future is the role of the Secretary and Chief of Staff to the Regents. The position is currently held by Diane Griffiths, who along with her staff is physically located in the Office of the President, but who is a direct report to the board. The duties of the Regent's Secretary position appear to

have been expanded to add the chief of staff role, as a means of providing separate staffing for the board out of dissatisfaction with the staffing provided by the previous president. Without exception, everyone interviewed by the WASC team acknowledged the tremendous value that they believe Ms. Griffiths provides to the board, the president, and the staff with whom she interacts. She was described in the highest terms for her intelligence, her diplomatic skills, and her communication and facilitation skills. STII recognizes that without a doubt Ms. Griffiths' contribution as an intermediary and liaison has significantly contributed to the success achieved since its last visit, but questions whether having this position report to the board may ultimately represent a flawed model, and whether the more appropriate organizational model would be to maintain the position but have it report to the president.

2. Role of the President. President Yudof is perceived as a very strong leader who is both responsive and engaged. He has open lines of communication with Board members and faculty representatives, and those we interviewed perceive his appointment and his continued leadership as very positive. He has a tremendous capacity for seeking and analyzing input from across the university, meets monthly with chancellors, and has a system-

wide governance perspective. One chancellor said that he had more constructive contact with President Yudof over the past 12 months than he had with the UCOP in all the previous years of his tenure. President Yudof is also seen as having a very strong and collaborative relationship with regents without abdicating his responsibility as president.

University administrators we interviewed agreed with concerns expressed in the previous WASC report and indicated that past problems with the Board had often resulted in confusing or mixed messages being sent regarding university operational directives (from capital to compensation). All indicated that changes in personnel and policies have clarified most of these issues and that regents now maintain an appropriate oversight role, with the president being responsible for operations.

Several people identified the recent furlough program as an example of the success of the improved relationship between the board and the UCOP, as well as the effectiveness of shared governance among the board, the president and the faculty. The furlough program was developed by the president (not the regents), and in the short time frame available for review prior to implementation, the president received substantial input from faculty and revised the final proposal to address faculty concerns.

STII finds that the concerns raised in the previous WASC report regarding the role of the board and the role of the president have been successfully and completely addressed. As recommended in that report, the role of the board has been redefined and clarified, and the role of the president has been strengthened.

The general consensus among those interviewed was that the STI report identified the relationship dysfunctions correctly. There was also universal agreement among those interviewed that personnel changes in the president of the university and the chair of the board greatly facilitated an important change in direction and that this successful change has been essential in managing through extremely challenging budget constraints. The perception is that both the regents and the UCOP are more conscious of maintaining appropriate governance practices. Regent Lansing, Vice Chair of the Board and Chair of the Governance Committee during development of the governance reforms, indicated an ongoing commitment to these changes by reflecting that, although the Board has undergone substantial governance review in the past few years, those issues will remain critical and deserving of continued board oversight.

3. Compensation Practices. The University has worked diligently since 2006 to reform its compensation practices and policies. Before this reform began, the UCOP and the board were plagued by issues of how compensation decisions were made, who knew about these decisions, and the appropriateness of the compensation packages. As a result, a severe lack of public trust emerged. The resulting investigation by the university focused on the failure of decision makers to comply with existing compensation policies, failure to publicly and clearly disclose compensation arrangements and a failure in the oversight responsibility of the regents.

The university's efforts to fix what was wrong in compensation practices have been quite remarkable. A Task Force on University Compensation, Accountability and Transparency was formed and the work of this group has been transformative. In addition, there were three separate audits conducted which resulted in corrective actions. Significant personnel changes were made, which have provided dynamic and skillful leadership on compensation issues.

A key deficiency identified by STI in 2007 was the apparent lack of, or ignorance of, key policies that would provide clear guidance for compensation decision-making. As of the date of the STII visit, the regents had adopted ten

new policies, and six more are to be presented to the regents for passage later this year.

Perhaps the most obvious positive changes have been made in the areas of accountability and transparency. Clearly, leaders with decision-making authority in compensation areas have adopted the philosophy that transparency and accountability are desirable goals. This attitude starts with the president and regents and is clearly embraced by the Vice President – Human Resources, the Executive Director of Executive Compensation and Performance Management and the Senior Vice President and Chief Compliance Officer. During our interviews, HR personnel observed that accountability had increased “ten-fold,” and based on its interviews and analysis, STII concurs with the thrust of this assessment.

Two new reports generated by the UCOP for the public are illustrative of this change. The Annual Report on Executive Compensation makes public all aspects of total compensation and covers all Senior Management Group members, as well as any employee whose annual cash compensation exceeds \$214,000. The second report is an annual disclosure of compensation received by each Senior Management Group member from outside sources. Combined, these reports appear to give a clear and complete compensation picture of those reported upon.

Under the leadership of Regent Varner, the board has fully executed its responsibilities in the compensation area, and provided direct oversight for compensation related actions for about 350 executive management team members. In addition, compensation actions for any employee who makes more than \$214,000 are reported to the board at their meetings, and are made available to the public on a website. To give some insight into the level of oversight being provided by the regents, STII learned that Regent Varner, Chair of the Compensation Committee, reviews compensation actions in a scheduled meeting every Monday.

Now that key policies are in place, it should be possible for UCOP to focus on leadership in HR matters for the campuses in the system beyond executive compensation, to leverage the best ideas and to standardize practices in order to improve performance and avoid duplications of effort. STII also believes that now may be the time to revisit the level of delegation of compensation responsibilities, which, at current levels, could be straining the ability of the regents to remain diligent and the university to make timely appointments in key positions. STII believes it would be wise for the Regents and UCOP to shift their focus and place greater emphasis on strategic leadership on human resource issues for the system, and less on their role as watchdog. We note that the Task Force to Review the Recommendations of

the 2006 Task Force on UC Compensation, Accountability and Transparency has made a recommendation in this regard. STII heartily endorses that recommendation and commends their October 1, 2009 report.

One other recommendation from this October 1, 2009 report warrants additional comment. STI recommended in its report following their investigation that a “modern, comprehensive, integrated human resources information system” be deployed at the university. STII reaffirms this view. It believes that the university’s compensation and human resources professionals need such a tool to ensure that timely, complete and reliable data is available to enable well-informed decision making. The 2009 Task Force has endorsed this project, and has noted, as STII did in its interviews with her, that the Chief Compliance Officer believes that the lack of such a system is a key weakness of the university’s HR system. Making new investments in these difficult economic times is very challenging, but it appears that a new integrated HR information system should be a priority.

Vice President - Human Resources Duckett and Executive Director of Executive Compensation and Performance Management Larsen described the evolving orientation of compensation issues as moving from transactional, to process, and now to strategic. Indeed, it has been a difficult transition, but one that now places the university in a good position to make very positive

change. The silver lining in the past compensation turmoil is that the university has arrived at a place where it has sorted through past compensation decisions and built a new framework for current and future compensation decision-making, which should enable the university to now focus its energy on strategic HR issues. The university will be challenged to maintain its current level of excellence, as a result of diminished state resources and fierce competition for talent. It appears that the regents and university's senior leadership are determined to deal with these challenges and are now in a position to create an HR system to support their efforts.

4. The Operational Culture of the Board. STI identified important deficiencies in the operational culture of the Board of Regents during its October 2007 visit. These deficiencies can best be described as patterns of behavior which had developed over time, and which violated appropriate boundaries for the authority of the regents. At times, behavior reached the level of being disruptive and even uncivil. Such behavior was tolerated and perhaps exacerbated by a failure to recognize the need to educate regents about their roles and responsibilities, direct their conduct and assess their performance.

One specific complaint was that there was no adopted and published set of protocols and operating procedures for regent conduct. This void allowed a chaotic atmosphere to exist, an atmosphere in which public communications from individual regents about university issues were frequent and often inappropriate. At times, these public communications purported to be statements of either board or institutional position, when, in fact, they were not.

During the STII visit with university officials, it became clear that the disruptive nature of these regent communications was well known and, for a time, highly problematic. STII was pleased to discover that the members of the university community that we interviewed all now agree that these disruptions are a part of the past, not the present, and that the regents are respectful of their appropriate roles and of the work of the university administration and staff. Current board leadership is described as collaborative, respectful of the role of the president, and mindful of the need to educate and coach new regents about appropriate roles and behavior.

In its letter of February 26, 2008, WASC suggested that "clear principles" on regent's public statements on behalf of the board and the university needed to be established. It appears that this has occurred. STII was provided with the "Statement of Expectations of the Members of the

Board of Regents," approved originally in 2004 and updated in 2006 and 2008. This policy is an excellent, concise statement that is provided to each regent and is discussed during new regent orientation. The issue of what constitutes appropriate communications from individual regents appears to have been addressed clearly and explicitly.

Today's board appears to have adopted both an attitude and a policy of transparency and accountability in the conduct of its business. To that end, the board passed a policy in March 2008 entitled "Policy on Board Education and Assessment" (PBEA). This document is an excellent guide for the professional development of regents, both new and veteran. STII was pleased to see that there is a focus both on better understanding the complexity, mission and operations of the university, and on the appropriate governance role of the board and the qualities that make for an effective regent.

One clear improvement is the establishment of a comprehensive orientation program for new regents. The board may want to consider involving more veteran regents in this opportunity, both to enhance their own understanding of the issues presented, and to share observations based upon experience with new members of the board.

For the past two years, consistent with the PBEA, the regents have participated in an annual retreat. The challenge for the future will be to

maximize participation, refresh the content, and retain a focus on board performance, behavior and good governance practices. STII notes that due to the need to discuss overwhelming budget issues, the agenda for the second retreat, in September of 2009, did not include discussion of governance roles and practices. We hope that these topics will return to the agenda in the future. In our experience, retreats can yield big dividends, not only through information sharing, but also by building an atmosphere of collegiality and trust.

The value of engaging with the regents and trustees from other institutions should not be overlooked. In fact, WASC suggested, in its February 26, 2008 letter, that this would be a good way to increase understanding of good governance practices in other higher education systems. Again, STII encourages the regents to find opportunities to network with board colleagues from other institutions through attendance of the Association of Governing Boards (AGB) meetings and other such conferences.

Assessment is a critical ingredient for the successful governance of an institution. We urge the Regents to put into practice the fourth paragraph of the PBEA: "The Board (shall) evaluate Board performance through an appropriate process determined by the Committee on Governance. The evaluation may be conducted in conjunction with a board retreat or

separately." STII understands that this process has been delayed in order for the changes inherent in the transition to a new president to settle in. Now would be an excellent time to proceed with this initiative. STII urges the regents to consult with the AGB or other experts in designing an assessment process that will suit its particular needs.

In summary, a series of well-conceived actions, the good work of the leaders of the board and the strong leadership of the president have resulted in the creation of a new ethos and culture for board operations. One observer described the old atmosphere as a "war lord system", where regents, on their own whim, exercised authority over operational decisions in areas of their choosing. Today, there is a respect for the delineation of responsibilities as between regent and UCOP and regent focus has become appropriately strategic. It will require diligence and a constant review of the respective governance roles to sustain the current very effective governance model.

Summary of Recommendations.

In the section on findings, STII identified several recommendations for the regents and the president to consider. These recommendations are summarized below:

1. The board's excellent statement on the responsibilities of board members should be expanded to include a parallel list of expectations of the president (Board Standing Order 100.4).
2. At some point in the future, the board should consider reassigning the reporting line of the Secretary and Chief of Staff to the Regents from the regents to the president.
3. The board should include a discussion of its governance philosophy and the defined roles and responsibilities of the regents, president and chancellors at each retreat.
4. The board should initiate a board assessment process. Several excellent instruments for such a practice are available from the AGB and from other universities.
5. The board should expand its new board orientation process to include veteran board members, perhaps as presenters, to refresh the board's operating philosophy with all members.
6. Now that the board and UCOP have completely addressed the deficiencies in the university's compensation practices, the board needs to consider new policies that would streamline compensation actions, without compromising transparency and accountability, and reduce the excessive bureaucracy in making appointments. Several

reports are before the regents that make cogent recommendations in this direction.

7. As soon as resources can be freed up, the university needs to invest in a modern HR information system. The administrative burden and overhead with the present outmoded and largely "paper" system are taking a toll on the university and complicate its ability to develop timely reports for planning on compensation and benefits.

Concluding comments.

Under the leadership of the regents and President Yudof, the university has done a remarkable and admirable job of addressing the deficiencies found in its governance structure and in its compensation practices during the visit of STI. Today, there is clarity on the role of the regents and the president and the governance structure and operational philosophy are fully consistent with "best practices" in higher education. Moreover, the compensation issues that led to the visit of STI have been completely addressed. The university operates with a level of precision and transparency on compensation that is matched by few if any universities.

STII encourages the UCOP and the regents to consider the recommendations listed above as a means of institutionalizing the very

positive and effective governance changes that have been made and for developing an HR system that will support the university's drive to remain one the world's great higher education institutions.