The Honorable Denise Moreno Ducheny  
Chair, Joint Legislative Budget Committee  
State Capitol, Room 5035  
Sacramento, California 95814

Dear Senator Ducheny:

Pursuant to Item 6440-001-0001, Provision 22, of the 2007 Budget Act, enclosed is the University of California's annual report to the Legislature on Compensation Policy and Practices.

If you have any questions regarding this report, Associate Vice President Debora Obley would be pleased to speak with you. She can be reached by telephone at (510) 987-9112, or by e-mail at Debora.Obley@ucop.edu.

Sincerely,

Robert C. Dynes

Enclosure

cc: The Honorable Jack Scott, Chair  
Senate Budget and Fiscal Review Subcommittee #1  
(Attn: Ms. Amy Supinger)  
(Attn: Ms. Cheryl Black)  
The Honorable Julia Brownley, Chair  
Assembly Budget Subcommittee #2  
(Attn: Ms. Sara Bachez)  
(Attn: Ms. Amy Rutschow)  
Ms. Elizabeth Hill, Legislative Analyst  
Mr. Mike Genest, Director of Finance  
Mr. E. Dotson Wilson, Chief Clerk of the Assembly  
Mr. Gregory Schmidt, Secretary of the Senate  
Ms. Diane Boyer-Vine, Legislative Counsel  
Ms. Sara Swan, Department of Finance  
Mr. Steve Boillard, Legislative Analyst’s Office  
Joint Legislative Budget Committee (17)  
Provost Wyatt R. Hume  
Executive Vice President Katherine N. Lapp  
Vice President Patrick J. Lenz  
Associate Vice President Judith W. Boyette  
Associate Vice President Debora Obley  
Interim Assistant Vice President Karen French
The University of California submits this 2008 legislative report in response to Item 6440-001-0001 (Provision 27) of the Budget Act of 2006, which states in part:

...It is the intent of the Legislature that the University of California submit an annual report on March 1 of each year through the 2010-11 fiscal year to the Joint Legislative Budget Committee, legislative fiscal subcommittees, and the Department of Finance on the university's progress in reforming its compensation policies and practices consistent with the recommendations of the April 2006 report of the Task Force on UC Compensation, Accountability, and Transparency, the Price Waterhouse-Coopers report, and the Bureau of State Audits' May 2, 2006 report.... It is the intent of the Legislature that the report specifically include all of the following:

(a) Consistent with the task force’s recommendations on reporting, annual reports provided to the Board of Regents on total compensation for specified university senior officials...
(b) Plans and actions taken by the University of California to reform compensation policies and practices...
(c) Plans and actions taken by the University of California to update its human resources information system...

This is the University’s second annual legislative report on these matters. Since the publication and distribution of the first report in March 2007, the University has continued to follow the new practices and reforms established and presented in that report. These include:

- Use of a standardized definition of “total compensation” to make explicitly clear all appropriate elements of compensation and which elements require Regental approval.
- Compliance with the presidential policy for public disclosure of compensation information.
- Continuation of the practice of the Regents’ Committee on Compensation voting on all compensation recommendations in open session.
- Establishment of a rigorous process of collecting, validating and certifying individuals' total compensation information reported on the Annual Report on Total Compensation.
- Collection of information from individuals for preparation of the Annual Report on Compensated Outside Professional Activities for calendar year 2007. This information is reported to The Regents at their March meeting and certified as complete and accurate by each individual required to report such activities to The Regents.
- Use of the standard template for reporting of total compensation for senior leaders.
- Public posting of all compensation actions approved by The Regents.
- Provision of the second annual report of salaries of all UC employees in October 2007.
- Compliance with new procedures regarding press releases to disclose compensation information, including a clear statement of all approved elements of compensation.
- Use of the University’s compensation website, which includes compensation actions approved by The Regents and other matters related to compensation, that is easily accessible to the public.
The University has also taken additional significant steps this past year towards reforming its compensation policies and practices in order to address the recommendations from the Task Force report and audits, and for compliance with the requirements under the Budget Act of 2006. These reforms are grouped into the following categories in this report:

- **Annual Reporting of Total Compensation for Named Positions** (consistent with Provision 27(a) of the 2006 Budget Act)
- **Reform of Compensation Policies and Practices** (consistent with Provision 27(b) of the 2006 Budget Act)
- **Human Resources Information System** (consistent with Provision 27(c) of the 2006 Budget Act)
- **Other Reforms and Actions**

The reforms and actions described below demonstrate the University’s ongoing and steadfast commitment as a public institution to make improvements in its compensation policies and practices that will ensure appropriate disclosure and transparency, proper governance and accountability, and compliance. The following is an inventory of actions taken over the last year or currently underway to reform practices and/or policies related to senior leadership compensation.

**ANNUAL REPORTING OF TOTAL COMPENSATION FOR NAMED POSITIONS**

Consistent with the Task Force’s recommendation on reporting, the University has continued to use the new expanded format for the Annual Report on Total Compensation, with the next report being presented at the Board of Regents at their meeting scheduled for March 18-20, 2008. The University will forward the portion of this report, as described in the Budget Act language, to the Legislature following review by The Regents at the March meeting.

The population represented in this report includes University senior leaders who were specified in the Budget Act language, including the President, Provost, Executive Vice Presidents, Vice Presidents, Associate/Assistant Vice Presidents, the University Auditor, Principal Officers of The Regents, Chancellors, Vice Chancellors, Deans, National Laboratory Directors/Deputy Directors, and Medical Center Chief Executive Officers, as well as many others in top management positions whose total potential cash compensation exceeds $205,000. This report includes compensation details on 519 incumbents and former incumbents in these positions including those in acting capacities.
Information on each employee includes the following:

1. Cash compensation, which includes annualized base salary, annualized stipends, actual payments received under incentive or bonus programs, total actual Health Sciences Compensation Plan (HSCP) payments, and other cash compensation or cash payments which include payments while on sabbatical leave. A subtotal of these elements is also provided. Compensation information is a combination of actual payments and, for base salary and stipends, annualized figures. The annualized figures for base salary and stipends were chosen over actual payments because of administrative reporting constraints, and consequently overstate actual payments for individuals with partial year assignments and those who received compensation increases during the year.

2. One-time payments and reimbursements made to the employee or on behalf of the employee to a third party vendor, including relocation allowance, temporary housing reimbursements or allowances, or moving expense reimbursements.

3. Benefits and perquisites, including automobile allowances (annualized rate reported), leased automobiles, senior management benefits (including any life insurance, business travel insurance, and salary continuation for disability), University provided housing, severance benefits, senior management supplemental benefit program contributions, additional post-retirement benefits (including medical coverage, enhanced retirement income benefits, enhanced vesting schedules, etc.), and home mortgage loans provided under University programs (the original loan amount is shown).

REFORM OF COMPENSATION POLICIES AND PRACTICES

With the assistance of an outside consulting firm, the University of California has made considerable progress in reviewing and revising its compensation policies and practices. The continuing goal of this work is to develop policies that are clear, consistent, transparent, easily understood, and provide guidance on when and how exceptions may occur. This process is also addressing conflicts between policies for senior managers and policies for academics, including bringing clarity to those policies for senior managers that also hold academic appointments. This effort will also include a process by which compensation and related policies are reviewed and updated on a regular basis.

The policy review project is focused in the following four areas:

1. Governance – Development of a governance model to clarify roles, responsibilities and processes related to the revision and approval of senior management compensation policies and to clarify the respective authority and accountability of The Regents, the President and the Chancellors in approving individual compensation actions.
2. Compliance – As part of the governance model, development of a process for reporting and monitoring compensation activity to assure compliance with these policies.

3. Policy Infrastructure – Development of a standardized format for compensation and related policies, a process for reviewing and updating policies, and an accessible database to all such policies to ensure consistent implementation across the University system.

4. Policy Content – Comprehensive review of compensation and related policies and development of recommendations for new or revised policies based on market competitive practices for UC comparators. In revising and developing content, the University has worked to ensure that going forward, the compensation policies – as well as approval authority and documentation requirements – are clear, transparent, understandable and enforceable, and also support the need to recruit and retain quality faculty and staff.

During 2007, the University, with assistance from the consultant, reviewed and prioritized all compensation and related policies, and developed a set of new and revised policies for senior managers, including policies on Salary, Outside Professional Activities, Relocation Allowance and Moving Reimbursement, among others. These draft policies were developed in consultation with subject matter experts at the University, and based on the consultants’ analyses of market practice. The draft policies have undergone University-wide consultation, including informal review by representatives of the Academic Senate. The draft policies have been developed within a new template, which is intended to present policy parameters, approval authorities and compliance and monitoring requirements in a clear and consistent format.

As of March 2008, it is anticipated that the new and revised draft policies and a proposed governance model for senior management compensation will be discussed and acted upon by The Regents this spring. Following Regental action, it is intended that a comprehensive communication and training effort will be undertaken to ensure that the new and revised policies, as well as the expanded monitoring and reporting processes, are implemented across the University. This process will be followed to complete the review of all remaining compensation policies.

In addition to the policy review project, the University has taken the additional following compensation reform actions:

Audits/compliance monitoring
The University’s internal auditors conducted three compensation related activities during 2007.

- The report on compensation for officials in the “named positions,” which was submitted to The Regents in March, was audited at each location before being certified and submitted by local officials to the Office of the President.
- Similarly, the May report on compensation for all members of the Senior Leadership Compensation Group was audited at each location before the data was certified and submitted to the Office of the President.
- Both of these audits determined that substantial new effort had been invested in establishing mechanisms and procedures to support robust, timely and accurate reporting.
In July, 2007 the University Auditor submitted a report to The Regents on a comprehensive review of all of the corrective actions taken in response to the various 2006 recommendations emanating from the Task Force on UC Compensation, Accountability and Transparency, the Bureau of State Audit’s report, the PricewaterhouseCoopers audit reports, and the internal audits on compensation. That report reflected the status of actions completed and in progress and highlighted select areas where additional effort was needed and has since been devoted.

On an ongoing basis, compensation and related policies will be a routine part of the internal audit and compliance monitoring activities. Any findings in these activities will be shared with senior leadership and the appropriate committees of The Regents.

Competitive compensation
The University has utilized the same consulting firm to provide data on prevalent practices among our comparator institutions. This information is used to help shape and guide the policy reviews that are currently underway, as noted above.

HUMAN RESOURCES INFORMATION SYSTEM (HRIS)

As shown in last year’s report, the HRIS project consists of three major phases:

- Improve the Quality of and Access to Employee Data
- Develop UC Enterprise HR/Payroll Service Architecture
- Provide new Human Resource Applications to Address UC-wide needs

1. Improve the Quality of and Access to Employee Data

Improvement of data quality through enhanced edits and management reports is an ongoing goal that will be addressed as the mapping, programming, and implementation is completed following review and revision of the UC campus payroll codes (referred to as Description of Service, or DOS, codes – see below for further description of the project to review and revise these payroll codes). Existing edit reports covering pay transactions will be reviewed to ensure consistency with the new campus payroll codes and how they map into Office of the President systems and reports. In addition, the severity levels associated with the edits (e.g., warning, fatal, etc.) will be reviewed, including assessment of the authority currently given to campuses to set such severity levels. The Office of the President will begin working with the campus payroll managers to identify such priorities for change this year after the initial payroll code changes for honorarium, bonus, stipend, perquisites, etc., have been implemented.

These payroll code changes are being made for greater consistency and improved accuracy of reporting. Since early 2007, Office of the President staff have been working with UC locations to revise the campus payroll codes and the corresponding mapping to systemwide pay categories. Initial work has focused on codes related to the Health Sciences Compensation Plan, housing, honoraria, stipends, perquisites, bonus and incentive awards.
Changes to date include re-mapping of campus payroll codes to more accurately match the appropriate systemwide pay codes, elimination of unnecessary campus payroll codes, and creation of uniform and consistent campus payroll codes where needed. Current work is ongoing on the “by agreement” and “additional pay” categories. The Office of the President continues to keep all UC locations fully informed about the project and, in order to accomplish the project most effectively, a mission statement, core goals, and standardized procedures were created last year and shared with all locations.

To improve access to employee data, the Enterprise Data Warehouse was fully designed and implemented in 2007 and is in the process of being loaded with historical payroll and pension data. Human Resources and Benefits department analysts have written numerous data warehouse queries to assist with management information requests. Expansion of the Enterprise Data Warehouse is proposed as part of the overall HRIS strategy.

2. Develop UC Enterprise Human Resources/Payroll Service Architecture

The Information Resources and Communications department (the Office of the President information technology group) has installed and tested the necessary infrastructure to support the “Service Oriented Architecture” required for the overall HRIS project and has also designed and tested the way this architecture will work with the UC payroll system.

A web-based interface to facilitate updates to UC’s employee payroll database will begin, as originally scheduled, in 2008. This interface will provide for simpler and more accurate data entry into UC’s payroll system.

3. Provide new Human Resource Applications to Address UC-wide needs

The general HRIS project infrastructure and direction have been agreed upon by leadership at the campuses and the Lawrence Berkeley National Laboratory, and an initial project plan has been developed. An HRIS review team, commissioned by the Executive Vice President – Business Operations, has recommended an incremental approach which requires additional analysis and decisions by Financial Management and Human Resources leadership. In addition, leadership at the campuses and the Lawrence Berkeley National Laboratory are beginning to establish the priority of human resource applications to be implemented in the infrastructure created in #2 above.

The Senior Leadership Information System (SLIS) was used to capture compensation and related information for senior leadership and to produce the 2007 Annual Report on Total Compensation and the Compensated and Non-Compensated Outside Professional Activities reports. Work continued in 2007 to enhance the SLIS annual compensation and outside activities reporting processes to provide increased reporting capabilities and expanded functionality for campuses, medical centers and the Lawrence Berkeley National Laboratory. Requirements were begun in 2007 to provide monitoring and compliance reports to The Regents of compensation actions for senior leadership approved by the President or the locations.
Legislative Report on Compensation Policies and Practices
University of California
March 2008

OTHER REFORMS AND ACTIONS

Office of the President reorganization in 2007
As part of an overall reorganization of the UC Office of the President that was initiated last year and reported on in the 2007 Legislative Report on Executive Compensation, three key positions have been filled to address improved compliance with policies and procedures and to strengthen the University's business practices and management.

- The Executive Vice President – Business Operations, in this restructured and expanded role, is responsible for leading key improvements in the effectiveness, efficiency and accountability of the University's administrative support operations, as well as contributing to the administrative oversight for the University's compliance and audit activities.

- The Senior Vice President – Chief Compliance and Audit Officer reports directly to The Regents and is responsible for developing and overseeing the University's corporate compliance and audit programs. This new position and expanded office was created to ensure comprehensive oversight of compliance with University policies, procedures and applicable laws. In addition, ethics will be integrated into the UC-wide Ethics and Compliance Program.

- The Secretary and Chief of Staff to The Regents serves as the primary liaison between The Regents and the University administration. In this restructured position, the role of the Secretary of The Regents has been expanded to include a "Chief of Staff" function to provide increased coordination to enhance The Regents’ fiduciary and oversight responsibilities.

Mandatory ethics briefing
During 2007 the University completed the roll-out of the web-based Ethics Briefing to all University employees. In excess of 100,000 employees have been reached through the web-based module and in-person sessions were held for those without access to computers as part of their regular duties. This training will continue as part of the UC-wide Ethics and Compliance Program.

Corrective action plans
In 2006, the University initiated corrective actions to address the compensation and related issues raised in the various external and internal audits and management reviews. This process consisted of several key elements:

1. Guidelines for Resolution of Compensation and Personnel Issues Resulting from the Findings of Audits and Management Reviews were approved by The Regents in May 2006 to address those employees who received compensation, benefits and/or perquisites that were not according to policy or were not duly approved.
2. Following these guidelines, The Regents completed actions for all such recipients on all the identified issues at their meetings from May 2006 through March 2007.


4. These criteria, the *Guidelines for Corrective Actions Related to Compensation Practices*, were used to evaluate all issues identified for responsible administrators and to close out the necessary corrective actions at The Regents’ May 2007 meeting.

5. Also at their March 2007 meeting, The Regents approved a *Universitywide Corrective Action Plan* to address broad systemic issues identified in the audits and management reviews that were not limited to single actions or University locations. In addition, they approved a *Regents Corrective Action Plan* that identified a series of actions taken by The Regents to ensure proper oversight and compliance with Regents and University policy. Also at the same meeting, The Regents directed that each Chancellor and the Laboratory Director prepare a *Campus/Laboratory Corrective Action Plan* to present to the Board, and to report on the progress of plan implementation in the fall of 2007.

6. All locations worked closely with the Office of the President to prepare and present their *Campus/Laboratory Corrective Action Plans* to The Regents. Each Chancellor designated a local coordinator to oversee the implementation and compliance with their plan. (Note that there were no issues identified specific to the Lawrence Berkeley National Laboratory, other than those covered in the *Universitywide Corrective Action Plan*.) The Regents approved these plans at their July 2007 meeting.

7. In September 2007, The Regents received and reviewed a report on actions taken under both the *Universitywide Corrective Action Plan* and the *Campus/Laboratory Corrective Action Plans*. It is expected that a similar progress report will be provided to The Regents during 2008.

**SUMMARY**

While significant progress has been made this past year, the University continues to make a concerted effort to address the recommendations of the Task Force on UC Compensation, Accountability and Transparency and related audits. As part of the current work of the policy review project, a key priority is the development of a comprehensive policy framework, which will include new and revised compensation and related policies and procedures that are consistent, transparent and clearly understood.

As noted above, these new and revised draft policies and the proposed governance model for senior management compensation are currently intended for discussion and action by The Regents this spring. Following Regental action, a comprehensive communication and training
effort will be launched in 2008 to ensure that the new and revised policies, as well as the related monitoring and reporting processes, are adhered to throughout the University. The newly created Compliance and Audit Office will monitor and audit compliance with compensation policies periodically and report findings to senior leadership and the appropriate committees of The Regents.

UC continues to make progress in the area of information technology and its employee database. The University has made substantial upgrades over the past year to its infrastructure in order to support more advanced technologies. This includes upgrades to operating systems, middleware, and application technologies which will be used to support the HRIS program. Pending additional funding for required resources to proceed, the larger HRIS project has remained in the planning stage to date.

Collectively, these developments and reforms demonstrate the University’s strengthened commitment to public accountability and to correcting the administrative deficiencies identified by the aforementioned reviews. Given the current situation with the State budget, UC remains committed to proceeding with these administrative reforms and will pursue the technology solutions as quickly as possible under existing and projected economic constraints.