

# UNIVERSITY OF CALIFORNIA

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OFFICE OF THE PRESIDENT

*Robert C. Dynes*  
President

1111 Franklin Street  
Oakland, California 94607-5200  
Phone: (510) 987-9074  
Fax: (510) 987-9086  
<http://www.ucop.edu>

September 17, 2007

Executive Director Ralph Wolff  
Western Association of Schools and Colleges  
985 Atlantic Avenue, Suite 100  
Alameda, California 94501

Dear Ralph:

I am pleased to enclose four copies of the report requested by the Commission in preparation for the Special Visit to the University of California, Office of the President on October 23-24.

The report responds to WASC's concerns about compensation issues raised in a series of task force and audit reports issued last year. As you request in your letter of August 8, it contains findings and recommendations from these reports, corrective measures implemented by the University, and the relationship of these actions to relevant accreditation standards and review criteria.

I understand that you are continuing to work with Vice Provost Joyce Justus and Assistant Director Hilary Baxter to finalize visit plans. In that regard, I appreciate your efforts to accommodate Regents' Chairman Blum's schedule, and I am pleased that the team members will be able to speak with him before the visit.

I look forward to meeting with you and the team in October.

Sincerely,

A handwritten signature in black ink, appearing to read "Bob".

Robert C. Dynes

Enclosures

cc: Provost Hume  
Executive Vice President Lapp  
Vice Provost Justus  
Secretary and Chief of Staff Griffiths

# **University of California**

## **Follow-up Action in Response to Task Force Report and Audits on Compensation**

*Report to the Western Association  
of Schools and Colleges*

**September 14, 2007**

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## **I. INTRODUCTION**

This report is presented in preparation for a Special Visit to be conducted at the University of California Office of the President (UCOP) on October 23-24, 2007, by an evaluation team from the Western Association of Schools and Colleges (WASC). WASC requested the visit to review the impact of corrective actions taken by the University in response to a series of audits on UC compensation policy and practice.

These audits as well as findings from a task force convened by the University's Board of Regents identified several issues that bear upon WASC accreditation standards. Specifically, they raised concerns under Standard 1, dealing with institutional integrity and accountability, as well as Standard 3, regarding organizational structures and decision-making processes. In addition, issues cited have implications for University governance and management that pertain to both standards—how the leadership systems respond to challenges and if they do so in an appropriate, timely fashion.

The report provides information on the University's deliberate, comprehensive, on-going efforts to address concerns raised about compensation policy and practice in the audit and task force reviews from 2006. The process of readying for the October site review, including preparation of this document, however, is not simply to recount these actions. Rather, it involves articulating the Regents' and systemwide roles in supporting campus accreditation generally and determining whether steps taken on compensation in particular ensure that UC continues to comport fully with WASC standards.

We believe that, collectively, corrective measures taken by the University—those completed, those underway and those requiring additional attention— yield policies and practices at all levels that are wholly consistent with the standards upon which WASC accreditation is based. Many reforms respond directly to issues of institutional integrity—a core accreditation value that provides the foundation for any effective educational enterprise. Other changes aim to improve accountability both *internally* (between those who govern and those who manage the University at the systemwide level) and *externally* (to state residents and policy-makers—all of whom have a stake in UC and without whose support the University could not exist). Many such measures involve increased transparency of policy-setting conventions as well as decision-making processes. In addition to broad improvements, there are significant initiatives in process to implement concrete operational enhancements such as new information and reporting systems.

### ***Report Overview***

As requested, the report preparation and review processes are outlined first. A brief history of the issue follows, noting compensation concerns that arose more than a decade ago as well as steps taken at that time to address the issues. A synopsis of circumstances surrounding more recent compensation problems initially reported in November 2005 provides additional context for this inquiry. Next are summary findings from the task force and audit reports on compensation that highlight concerns identified with regard to disclosure of information, transparency of operations and decision-making, systemwide governance, and institutional accountability as well as specific policies and practices.

The fourth section notes the implications of report findings for compliance with WASC standards and review criteria. This summary serves as background for the detailed listing of corrective measures that follows. As requested, we provide key actions taken at all levels. These include reforms initiated by the Regents, steps taken by the President and systemwide administration to carry out Board directives, and, to a lesser extent given the nature of work required, the campuses' role in implementing change.

Section VI discusses the University's actions on compensation in relation to the standards and accompanying review criteria. This discussion includes setting the Board, system and campus responses into the larger context of their accreditation roles. The report concludes with a summary of where the University now stands in terms of compensation issues—what work remains to be done as well as more broad considerations with respect to accreditation.

### ***Report Preparation and Review***

This report was prepared by staff of the Vice Provost for Educational Relations, part of the Academic Affairs Division of the University of California Office of the President (UCOP). For this effort, staff consulted with colleagues at UCOP, including those in Human Resources, the University Auditor's Office, and systemwide coordination of public information practices. Others in some manner involved in report and/or visit preparation include the immediate offices of the President and the Provost/Chief Operating Officer, the Secretary and Chief of Staff to the Regents, and campus Accreditation Liaison Officers (ALOs).

When the visit request was received in December 2006, multiple efforts were already well underway to conceive, design, implement and evaluate reforms related to compensation policy and procedures. Staff began by reviewing Standards 1 & 3 and relevant Criteria for Review (CFRs), especially with respect to the role of the President's Office. An inventory of corrective actions was collected. Assembling and summarizing the University's response was not difficult because the fundamental orientation of that response is transparency. Regental and administrative attention to compensation issues has been thorough, consistent and unyielding for almost two years. Extensive cataloging of University actions is easily available as the documents generated are public and posted on a special section of the UC website devoted to this issue. (<http://www.universityofcalifornia.edu/news/compensation/>)

Especially helpful to these efforts was an update from the University Auditor, *Report on Status of Implementation of the Executive Compensation Recommendations*. This update was to be presented to the Board in July but time constraints at the mid-summer meeting intervened. It then was mailed to Regents in early August. The PowerPoint report reviews the sources of recommendations on compensation, highlights the primary vehicles for Regental action on these proposals, references the organizational structures put in place for implementing actions, lists prior progress reports made to the Board, and outlines the audit methodology used to evaluate further progress. Most importantly, it specifies those reforms that are:

- completed,
- in process,
- not yet started or started but without a clear process for completion,
- elements required for successful completion of remaining items, and
- next steps.

Consulting as needed with University personnel experienced in accreditation either as ALOs and/or as members of WASC evaluation teams, staff reviewed actions taken to assess whether they addressed audit and task force findings that had implicated WASC Standards 1 and 3—specifically, those instances where University policy and practice appeared to fall short of these standards and relevant review criteria under each.

The draft was initially circulated for review among the aforementioned UCOP units as well as the campuses. The ALOs served as the point of contact for campus review. Incorporating comments from these groups, a revised draft was then forwarded to the Provost and President who approved the final report.

## II. HISTORY AND CONTEXT

Almost fifteen years before the most recent concerns over compensation, the University dealt with a controversy in this area. President David Gardner and the Board of Regents faced significant criticism in 1990-91 about executive compensation practices and there was a state audit by the Auditor General. Both the total value of various forms of compensation granted to senior administrators as well as the lack of disclosure about perquisites and benefits added to base salaries were identified as problems to be addressed.

As a result, the Regents in 1991 adopted a set of principles for review of executive compensation (Appendix A). The principles stipulate that discussion of and action on compensation *programs* shall occur in open sessions of the Board and relevant committees. Information on such items must be available in advance of Regents meetings and, following Board action, must be released to the public in a timely manner. Likewise, the principles require that *final action on compensation for specified individuals* (President, Vice Presidents, Chancellors, Treasurer, Associate Treasurer, General Counsel, and Secretary) also shall occur in open session. (Discussion of appointment, employment status, performance evaluations and—prior to final action—compensation of individual officers shall occur in closed sessions.) The principles furthermore specify those compensation matters that require Board *notification* and those that require Board *approval*. Prompted by state legislation, the Regents in 1993 revised the principles to include an expanded definition of compensation.

Both the original and revised principles required that UC submit annual reports on executive compensation to the California Postsecondary Education Commission (CPEC), the Joint Legislative Budget Committee, and the relevant policy and fiscal committees of the Legislature and the Governor. As conceived, the reports contained information on base salary, deferred compensation, retirement benefits, housing, auto lease or allowance, and life insurance. The particular perquisites and benefits reported have changed somewhat over time, and there remains a persistent interest in valuation of non-cash forms of compensation. For many years, the CPEC report has included executive salaries from eight comparison institutions (four public and four private) to assess the competitiveness of UC's compensation packages. The University has provided data for the eleven reports issued since 1993.

In fall 2005, numerous press reports throughout the state once again related concerns over compensation policies and practices at UC. Problems cited in various media stories included:

- inappropriate compensation, benefits, and perquisites for some UC executives;
- inadequate attention to University compensation policies by system and campus leaders;
- failure to release public compensation information in a clear and timely fashion; and,
- failure to report certain compensation-related information to the UC Board of Regents as required and failure to comply with Regental policies.

With the news stories—in some cases preceding them—came a series of public information requests, including one from the San Francisco Chronicle for a full accounting of UC payroll data. The state legislature also investigated UC compensation issues. Both the Senate Education and Budget Committees held informational hearings on the matter in February 2006. These

hearings included testimony by President Dynes, Regents, the co-chairs of a Regentally-appointed task force on the issue, and faculty, staff and student representatives.



### **III. TASK FORCE AND AUDIT REPORTS**

Press coverage and various information requests quickly led to a series of studies on compensation policy and practice. The University initiated a number of reviews—one by the Task Force on UC Compensation, Accountability, and Transparency; two by external consultant PricewaterhouseCoopers; and another by the University Auditor. In addition, the state legislature asked the Bureau of State Audits to investigate the matter. Reports from each of these efforts appear below, and findings and recommendations summaries are provided in the referenced appendices. Both the summaries and full reports may be viewed at the links noted.

#### ***Task Force on UC Compensation, Accountability, and Transparency (April 2006)***

“Summary of Findings and Recommendations” (*Appendix B*)

<http://www.universityofcalifornia.edu/news/compensation/taskforce.html>.

#### ***PricewaterhouseCoopers (April & May 2006)***

- “Findings and Observations” (*Appendix C1*)
- “Examination of Compensation and Other Employment Arrangements” – PowerPoint Presentation to UC Regents, April 24, 2006 (*Appendix C2*)
- “Analysis of Travel and Entertainment Expenses and Other Payments” (*Appendix C3*)

#### ***University Auditor (May 2006)***

“Report on the Systemwide Audit of Senior Management Group Compensation” (*Appendix D*)

#### ***Bureau of State Audits (May 2006)***

“University of California: Stricter Oversight and Greater Transparency Are Needed to Improve Its Compensation Practices” (*Appendix E*)

<http://www.universityofcalifornia.edu/news/compensation/audits.html> (for all audits)

The Task Force effort constitutes the centerpiece of the studies conducted on compensation as well as work to date. Findings and recommendations from this group provided the fundamental framework for UC’s response to problems identified by all sources.

Appointed in December 2005 by Board Chair Gerald Parsky, the Task Force included two Regents, former members of the state Assembly and Senate, the Academic Council chair, a corporate sector representative, the former publisher of a major local newspaper, the president of the National Association of College and University Business Officers, and University of Michigan president emeritus James Duderstadt. (*Appendix F*) Its findings and recommendations were grouped around disclosure and transparency, governance and accountability, specific policies and practices, and competitive compensation.

A refined set of these categories has been used in both Regents’ items and public information materials to provide updates on corrective measures taken by the University. The groupings are used in this report as well since they comprise a helpful framework for connecting those problems initially identified by compensation reviews to the actions that have followed.

Moreover, the categories mesh well with the content of WASC standards and criteria for review at issue.

Before listing the collective findings of the inquiries, it should be noted that, in general, the Task Force review was more wide-ranging, comprehensive, and policy/process-focused than the audits. The latter three had narrower lines of inquiry, with each charged to examine certain aspects of compensation in greater detail. Much of the audit work involved extensive data review to tabulate figures, assess particular forms of compensation, and/or evaluate systems.

Specifically, the Regents retained PricewaterhouseCoopers (PwC) for a study to review compensation and employment arrangements of selected UC employees over a 10-year period (1996 to 2005). This audit focused on 32 senior management positions—Chancellors, DOE lab directors, medical center directors, principal officers of the Regents, and UCOP vice presidents. PwC reported on compensation for more than 60 current and former employees who occupied these top posts. A second analysis by PwC covered travel and entertainment expense payments to select individuals, primarily the current incumbents and past holders of management positions highlighted in the first audit.

Much like this work, the University Auditor (UA) conducted reviews to identify all elements of compensation for the Senior Management Group (including benefits and other employment arrangements) and to assess compliance with University policy.

[http://atyourservice.ucop.edu/employees/policies\\_employee\\_labor\\_relations/personnel\\_policies/app2toc.html](http://atyourservice.ucop.edu/employees/policies_employee_labor_relations/personnel_policies/app2toc.html)

The Joint Legislative Audit Committee requested a review by the Bureau of State Audits (BSA). The BSA was asked to identify systemwide compensation totals by type and funding source. This request led to findings and recommendations regarding UC's Corporate Personnel System (CPS), the tool used to provide UCOP management and staff with demographic, personnel, and pay activity data on employees at all campuses and the DOE labs. In addition, the BSA was to identify the compensation of highly paid individuals receiving the most funds from state appropriations and student tuition.

### ***Findings***

Below are findings from all reports. For brevity, clarity, and ease of juxtaposition with WASC standards in subsequent sections, they are listed together under category headings used in the Task Force report. Findings from that report constitute the bulk of items below and are indicated as *numbered* recommendations. Items from the audits are *bulleted* with the source noted in each case—PricewaterhouseCoopers (PwC), Bureau of State Audits (BSA) and University Auditor (UA) respectively.

### **Disclosure and Transparency**

1. UC failed to honor consistently and comprehensively its public accountability obligation.
2. Leaders repeatedly failed to inform the Regents about total compensation of senior managers as required by principles adopted in 1992.
3. Current compensation policies are not well organized or understood, and they are difficult to access for either internal or external use.

4. No consensus exists about what constitutes “total compensation.”
5. There is no mechanism to ensure that reporting on executives’ total compensation comports with policy.
6. Information systems are inadequate and unable to provide full, timely information.
7. No one at UCOP is specifically charged with responding on a *systemwide* basis to public information requests.
  - Certain benefits promised or paid to selected employees (including relocation, temporary housing and automobile allowances; participation in special mortgage or home loan programs) were not approved by the Regents as required by Regental policies. (PwC)
  - Certain benefits were exceptions to policy and were not approved by the Regents. (PwC)
  - Certain compensation items were not disclosed to the public as required by Regental policies. (PwC)
  - A number of elements of compensation—either paid or committed—were not approved by the Regents. The common practice was to bring forward to the Board only base salary and additional cash compensation such as stipends and incentives. (UA)
  - The University did not consistently disclose its officers’ non-salary compensation, such as housing allowances, to the Board of Regents as required by policy. (BSA)

### **Governance and Accountability**

1. UC’s compliance with compensation policy is wholly inadequate and, in a number of cases, has failed or been circumvented.
2. The point of responsibility for compensation decisions is inadequate and poorly documented. The result is inadequate oversight.
3. UC grants so many exceptions to policy as to render the policies ineffective.
4. There appear to be few, if any, consequences for violating policy.
5. Problems are exacerbated by confusing, duplicative, overlapping, and sometimes conflicting compensation policies.
6. The Regents’ ability to provide oversight of compensation decisions has been weakened by the large number of such decisions the Board was expected to review.
7. UC has an established whistleblower policy and should continue education efforts regarding whistleblowers and ethical conduct.

### **Specific Policies and Practices**

1. UC lacks clear guidelines on participation in externally compensated activities such as consulting or board service.
2. Policies governing senior managers’ outside professional activities vary from those for faculty. This creates confusion for senior managers who hold faculty appointments.
3. UC executives have not followed University policies in granting paid leaves to departing chancellors and others, and the Regents have not been properly informed at the time of appointment about the terms related to these leaves.
  - Locations did not always receive clear, consistent, accurate advice from UCOP. (UA)
  - Throughout the system there is less than adequate clarity on policy interpretation and on the authority required to make policy exceptions. As a result, there is less than desirable consultation and excessive reliance on perceived authority. (UA)

- The decentralized nature of the University results in a lack of visibility of exceptional arrangements. (UA)
- Documentation of decision-making, policy consideration and consultation is frequently deficient which, among other things, makes it difficult to ascertain intent after the fact and to affix responsibility. (UA)
- It appears that as a result of a combination of outdated policies and, reportedly, market pressures, forms of compensation are being utilized for other than their originally intended purpose. (UA)
- The numerous personal income tax issues that have arisen in these audits make it clear that unusual elements of employment arrangements require review by functional experts at the outset. (UA)
- Review of travel, entertainment expenses, and other payments found that most expenditures analyzed were in accord with University policies and were supported by appropriate documentation. (BSA)
- The Corporate Personnel System (CPS) used by UCOP to track campus pay activity contains inconsistencies and overly vague categories that did not allow the Bureau to determine the reliability of various compensation and funding source classifications contained within it and that limit the system's usefulness as an oversight tool. Despite these problems, the CPS is the most detailed, complete, centrally-maintained source of information. (BSA)
- The President's Office appears to regularly grant exceptions to compensation policy. In a sample of 100 highly paid University employees, 17 benefited from an exception to compensation policy. (BSA)
- Some campuses circumvented or violated University policy, resulting in a \$130,000 overpayment to an employee and improper increases to others' retirement-covered compensation. (BSA)

### **Competitive Compensation**

1. UC's compensation must be competitive if UC is to maintain its status as one of the great universities of the world.
2. UC has entered a period of intense competition and it is currently at a competitive disadvantage relative to most of its peers in the top tier of universities.
3. The composition of UC's compensation program needs to be examined to assess its overall competitiveness.
4. Regular benchmarking is the best way to ensure that compensation is competitive.
5. The Regents' Compensation Committee is the linchpin to ensure proper compensation accountability, oversight, and competitiveness.

#### **IV. IMPLICATIONS OF REPORT FINDINGS FOR COMPLIANCE WITH WASC STANDARDS**

These findings highlight policy and practice issues not consistent with WASC Standards 1 and 3. Though most relate to activities at the *system* level and accreditation is *campus-based*, Universitywide governance and leadership must function in accord with Commission standards to effectively support WASC's ongoing recognition of each campus.

##### **STANDARD 1 – Defining Institutional Purposes and Ensuring Educational Objectives:**

The institution defines its purposes and establishes educational objectives aligned with its purposes and character. It has a clear and conscious sense of its essential values and character, its distinctive elements, its place in the higher education community, and its relationship to society at large. Through its purposes and educational objectives, the institution dedicates itself to higher learning, the search for truth, and the dissemination of knowledge. The institution functions with integrity and autonomy.

##### **STANDARD 3 – Organizational Structures and Decision-Making Processes:**

The institution sustains its operations and supports the achievement of its educational objectives through its investment in human, physical, fiscal, and information resources and through an appropriate and effective set of organizational and decision-making structures. These key resources and organizational structures promote the achievement of institutional purposes and educational objectives and create a high quality environment for learning.

There are five Criteria For Review (CFRs)—two under Standard 1 and three under Standard 3—that pertain to the audit findings and serve as the basis for evaluating whether corrective actions taken by the University address identified problems in general and the WASC concerns in particular. The relevant CFRs follow with brief discussion of the compensation findings relevant to each.

***CFR 1.3:*** *The institution's leadership creates and sustains a leadership system at all levels that is marked by high performance, appropriate responsibility, and accountability.*

Accountability between levels of leadership (Regents, President/UCOP, campuses) and to the public is a major theme of the findings. Concerns about disclosure of compensation information by University leaders and a perceived lack of transparency in their actions could fall under this criterion.

***CFR 1.8:*** *The institution exhibits integrity in its operations as demonstrated by the implementation of appropriate policies, sound business practices, timely and fair responses to complaints and grievances, and regular evaluation of its performance in these areas.*

Many of the findings speak to deficiencies in UC policies, policy compliance, or administrative procedures. For example, they point to an outdated information system that could not provide requested data or sufficiently complete answers for media inquiries in as timely and comprehensive a manner as desired. Delays and incomplete information contributed to the perception that UC was reluctant to respond candidly, if at all.

**CFR 3.8:** *The institution's organizational structures and decision-making processes are clear, consistent with its purposes, and sufficient to support effective decision making.*

Flaws in long-standing practices—including exceptions to policy and authority required to approve certain compensation matters—indicate that UC's decision-making processes were not consistent or clearly understood. Absent that clarity, efficacy of decision-making on compensation was compromised, which is cause for concern given this criterion.

**CFR 3.9:** *The institution has an independent governing board or similar authority that, consistent with its legal and fiduciary authority, exercises appropriate oversight over institutional integrity, policies, and ongoing operations, including hiring and evaluating the chief executive officer.*

The findings include instances when the Board's ability to exercise appropriate oversight was hindered by confusing, duplicative, overlapping, and sometimes conflicting compensation policies. Circumvention of policy contributed to this situation as did poor documentation and insufficient disclosure of various compensation arrangements. It is imperative that the Regents both exercise due diligence in their oversight role and be able to rely on the integrity of management structures and operations. The latter enables the Board to address broader issues appropriate to the governance function.

**CFR 3.10:** *The institution has a chief executive whose full-time responsibility is to the institution, together with a cadre of administrators qualified and able to provide effective educational leadership and management at all levels.*

Responsibility for Universitywide management rests with the President and system office (UCOP). Issues identified in several findings reflect concerns about the effectiveness of leadership and management in the area of compensation. They raise concern with regard to this criterion because the chief executive and supporting administration must function well to support the integrity of the campus educational enterprise.

## **V. UNIVERSITY RESPONSE**

Action on the compensation matters began immediately following the November 2006 press reports that highlighted initial concerns. By mid-December, the University had established the Task Force, created a special Regents' Committee on Compensation, ordered both the internal and independent audits, implemented interim policies governing expenses for the President and Chancellors, and instituted improvements in compensation disclosure.

Implementation of additional corrective actions proceeded quickly after the compensation reports were issued. In May 2006, the Regents approved a plan for reforms to respond to recommendations from the Task Force. Two months later, the Board received an update on implementation of these reforms and approved several measures to respond to all three audits. Since then, Regents' meetings have included periodic progress reports on action plans. These items and other significant reports issued appear below in chronological order.\*

### ***Regents' Plan for Reforms in Response to the Report of the Task Force on UC Compensation, Accountability, and Transparency (May 17, 2006) (Appendix G)***

- RE-74 - <http://www.universityofcalifornia.edu/regents/regmeet/may06.html> (9:00 a.m. Special Meeting – Joint Meeting of the Special Committee on Compensation and the Committee on Audit)

### ***Regental Plan for Reforms in Response to Internal and External Audit Reports, and Status Update of Implementation of Recommendations of the Task Force on UC Compensation, Accountability and Transparency (July 20, 2006) (Appendix H)***

- RE-76 - <http://www.universityofcalifornia.edu/regents/regmeet/july06.html> (8:50 a.m. Special Committee on Compensation)

### ***University Actions in Response to Recommendations of the Task Force and Internal and External Audit Reports (September 21, 2006) (Appendix I)***

- 1C - <http://www.universityofcalifornia.edu/regents/regmeet/sept06.html> (9:15 a.m. Committee on Compensation)

### ***Preliminary Report on 2005-2006 Employee Compensation (November 2006) (Appendix J)***

- <http://www.universityofcalifornia.edu/news/compensation/payroll2005-06/welcome.html>

### ***Definition of Total Compensation for the Purpose of Defining the “Annual Report on Compensation” (January 18, 2007) (Appendix K)***

- 7C - <http://www.universityofcalifornia.edu/regents/regmeet/jan07.html> (8:50 a.m. Committee on Compensation)

### ***Development of a New Comprehensive Policy Framework and Timetable for the Review of Individual Policies and Practices (January 18, 2007) (Appendix L)***

- 8C - <http://www.universityofcalifornia.edu/regents/regmeet/jan07.html> (8:50 a.m. Committee on Compensation)

\* Excludes a number of Regents' items dealing with corrective actions at the individual or supervisor level. These can be provided upon request.

**2006 Annual Report on Total Compensation for Senior Managers (March 2007)**  
(fact sheet - Appendix M)

- <http://www.universityofcalifornia.edu/news/compensation/reports.html>

**2006 Annual Report on Compensated Outside Professional Activities for Senior Managers (March 2007)** (fact sheet - Appendix N)

- <http://www.universityofcalifornia.edu/news/compensation/reports.html>

**Legislative Report on Executive Compensation (March 2007)** (Appendix O)

- <http://www.universityofcalifornia.edu/news/compensation/reports.html>

**Actions Taken to Reform UC's Compensation Policies and Practices (May 2007)**  
(fact sheet - Appendix P)

- <http://www.universityofcalifornia.edu/news/compensation/reports.html>

**Update on Policy Review Project for Compensation and Related Policies (May 16, 2007)**  
(Appendix Q)

- C17 - <http://www.universityofcalifornia.edu/regents/regmeet/may07.html> (11:30 a.m. Committee on Compensation)

**Closeout of Audit Findings Related to Executive Compensation (May 17, 2007)**  
(Appendix R)

- C(P) - <http://www.universityofcalifornia.edu/regents/aar/aar.html> (May 2007, Open Session Actions, Committee on Compensation)

**Final Project Report from the National Academy of Public Administration on the University of California's Certified Assessment of HR Systems: A Pathway to Assurance (July 19, 2007)**  
(Appendix S)

- J3 - <http://www.universityofcalifornia.edu/regents/regmeet/july07.html> (12:00 noon Joint Meeting: Committees on Audit and Compensation)

**Report on Implementation of Universitywide and Campus/Laboratory Corrective Action Plans (September 19, 2007)** (Appendix T)

- C12 - <http://www.universityofcalifornia.edu/regents/regmeet/sept07.html> (9:30 a.m. Committee on Compensation)

The two initial action plans and subsequent steps taken by the University regarding executive compensation encompass changes in organizational structure, policy and practice at all levels of the University: the Regents, the President & systemwide administration, and campus. For each of these levels, the sections below describe the broad nature of changes implemented. They also detail actions to date in the areas of disclosure and transparency, accountability and governance, policy reforms, policy compliance/enforcement/monitoring/oversight, and information systems.



## **BOARD OF REGENTS ACTIONS**

As appropriate to the role of a governing body, the Regents led the calls for a thorough examination of compensation policy and practice when significant concerns arose. They actively engaged members of the University community and outside experts to participate in an extensive review of a wide range of issues. The Board, moreover, responded swiftly to recommendations put forth. It set the parameters for organizational reform by identifying specific objectives for change and elements needed to build an effective compensation and benefits governance structure.

Actions taken by the Board include broad policy reform and institution of new reporting, approval and disclosure requirements that in turn the President, systemwide administration and campuses must implement. Certain corrective steps relate to the Board's own structure and practice while others represent more active management of operational affairs.

The following list enumerates major Regental actions according to issue categories used for Task Force and audit findings, revised slightly to reflect the nature of relevant reforms.

### **Disclosure and Transparency**

- Defined "total compensation" to clarify the components referenced by the term and to standardize systemwide approval, public disclosure, and reporting practices.
- Instituted new guidelines for reporting compensation information.
- Adopted new practice that the Regents' Compensation Committee will vote in open session on matters pertaining to UC employees whose compensation requires Board approval.

### **Accountability and Governance**

- Established a Regents' Compensation Committee (first as a special committee, then as a standing committee) to provide greater oversight and policy guidance on compensation. (*Appendix U*)
- Adopted a new structure and approval process for senior management compensation to strengthen Board oversight and to ensure market appropriateness of packages.
- Launched a process to consider corrective actions for UC employees who authorized compensation or benefits that were not in full compliance with University policy.
- Added to the 1993 Regents' *Principles for Review of Executive Compensation* a statement of consequences relating to serious violations of compensation policies.
- Initiated a reorganization of UCOP to ensure better compliance with policies and principles and to strengthen the University's business practices and management.
  - ~ Created a new position and now appointing a Senior Vice President, Chief Compliance and Audit Officer (reporting directly to the Regents). (*Appendix V1*)
  - ~ Created a new position and hired an Executive Vice President, Business Operations. (*Appendix V2*)
  - ~ Created a new position and now recruiting a Chief Financial Officer/Executive Vice President.
  - ~ Contracted with the Monitor Consulting Group for a phased, one-year study. (*Appendix W*) – see also <http://www.universityofcalifornia.edu/restructuring/>

### **Policy Reforms**

- Initiated a comprehensive policy review and reform effort to establish a new framework for compensation & related policies and for authority over compensation decisions.
- Pending the outcome of this review, adopted an interim policy on external board service for University's senior managers.
- Adopted an interim policy on separation agreements and employee claims settlements that require Regents' approval.
- Adopted a new policy requiring that the Regents approve all major capital projects over \$5 million and that the President approve those projects for Chancellors' residences and offices costing between \$25,000 and \$5 million.

### **Compliance, Enforcement, Monitoring, and Oversight (including exceptions to policy)**

- Established interim policy stating that any exceptions to employment-related policies for senior managers require approval by the President and the Regents.
- Instituted a new policy to clarify the approval and documentation requirements for exceptions to policy.
- Strengthened oversight of travel and entertainment expenditures by requiring systemwide and campus action plans for this area (see System Reforms below)
- Directed University Controller to institute appropriate controls on all residence and office expenditures for the Chancellors and the President such that expenditures exceeding the original approval amount receive independent review and require special approval.

### **Information Systems**

- Approved development of a new, modern, comprehensive, integrated human resources information system.

### ***SYSTEM LEVEL REFORMS***

The primary role of the President and systemwide office has been to implement policy reforms approved by the Regents and to comply with new requirements the Board instituted on compensation.

To accomplish this, President Dynes in May of 2006 outlined a five-point action plan. This plan called for establishing a new working relationship with the Regents on compensation matters, ensuring compliance with both the letter and spirit of the Regents' 1993 principles, ensuring proper disclosure of compensation information, investing in a new human resources information system, and changing the University culture with respect to compensation issues. The President established his own implementation task force with five workgroups under a steering committee to guide this process. These workgroups aligned with the Task Force topics.

The reforms noted below include one-time actions, annual obligations and ongoing responsibilities with respect to compensation policy and practice. Several systemwide executives and senior staff have been involved in bringing about this change. Where possible, we have appended reports, new policies, and other documents illustrating progress to date.

### **Disclosure and Transparency**

- Implementing Regents' reforms noted above, including new guidelines for reporting on compensation. UCOP will facilitate:
  - annual electronic salary reports that include information on *all* UC employees as well as a section on *total* compensation for senior managers.
  - routine reports of executive and staff hires, separations, and raises for positions with base salaries requiring Regents' approval.
  - timely release of information on compensation following Regental action (immediately following actions at regularly scheduled board meetings and within one week for interim items).
  - implementation of new systemwide procedures regarding the disclosure of compensation information in press releases.
- Provided the Legislature with the first in a series of annual reports through 2010-11 on total compensation provided to senior executives at UC as well as updates on the University's progress in reforming compensation policies and practices.
- Appointed an interim systemwide Public Information Practices Coordinator charged with coordinating all Public Records Act (PRA) requests and establishing clear protocols and timelines for processing such requests.
- Created dedicated website to post information on compensation, including reports and Regents' actions. <http://www.universityofcalifornia.edu/news/compensation/reforms.html>

### **Accountability and Governance**

- Implementing Regents' reforms noted above, including redistribution of functions in keeping with the new Chief Business Operations Officer/Executive Vice President and further reorganization efforts approved by the Regents based upon external consultant reviews.
- Seeking Regents' approval as required for action on Senior Management Compensation Group and certain other positions where total cash compensation exceeds \$200,000, or when a base salary increase of 7.5% or more is proposed, or for any action recommended for employees in top leadership positions in the University. (*see template - Appendix X*)
- Conducted first in an annual series of reports on senior management compensation.

### **Policy Reforms**

- Implementing new and interim compensation-related policies adopted by the Regents, including those on cost thresholds for Presidential and Regental review of capital projects, and external board service limitations for senior managers.
- Advise/staff as necessary the comprehensive policy review and reform effort initiated by the Regents. Hired Mercer Consulting to assist revising senior management compensation and related policies.

### **Compliance, Enforcement, Monitoring, and Oversight (including exceptions to policy)**

- Implementing compliance and monitoring policies approved by the Regents, including requirements for exceptions to policy. (See Universitywide Corrective Action Plan in September 2007 Regents item – *Appendix T*)

- Preparing UCOP action plans for (1) provision of training for those personnel who approve travel and entertainment expenses, and (2) enforcement of clear and appropriate approval procedures and documentation requirements.
- Developing ongoing monitoring and oversight procedures to ensure adherence to policy. (Once on board, the new Chief Compliance and Audit Officer will direct this effort.)
- Completed pilot program on HR Certification; pilot ran at UCOP, UCSF (campus and medical center), Davis, and the Lawrence Berkeley National Laboratory.
- Prepared 60-day, six-month and one-year responses to the Bureau of State Audits to follow-up on findings and recommendations from May 2006. (*Appendix Y, 1-3*)

#### **Information Systems**

- Continuing work on and support for development of a new integrated Human Resources Information System (HRIS). The first phase focused on capturing senior management compensation data and became operational in December 2006. Work to develop a system for all other employees is ongoing. At this juncture, the Executive Vice President for Business Operations is assessing HRIS funding strategy options and plan for commencing development phase.

#### ***CAMPUS IMPLEMENTATION:***

Though not the focus of Task Force and audit findings, the campuses do figure in institutionalizing change in compensation policy and practice. They have taken steps to address those specific audit findings related to their respective campuses that required corrective measures. For instance, campus staff working on compensation received appropriate briefings and training sessions on changes relevant to their operations and procedures. Some audit citations, however, did not require corrective measures by the campuses. They were either errors rather than policy violations or were problems deriving from policy implementation for which responsibility rests with UCOP (e.g., vacation accrual for Senior Management Group members).

#### **Disclosure and Transparency**

- Ongoing provision of all requisite compensation information for UCOP to seek Regental approval as needed to fill campus senior management positions.
- Implementing new policies and practices on disclosure of compensation information, including systemwide procedure on press releases.

#### **Accountability and Governance**

- Implemented corrective actions associated with audit findings, including issuance of corrected W-2 forms for some senior managers with benefits that were not previously reported properly as compensation. (These errors were identified by internal reviews as well as the PricewaterhouseCoopers audit.)

#### **Policy Reforms**

- Applying at the campus level new and interim compensation-related policies adopted by the Regents and implemented by UCOP.

**Compliance, Enforcement, Monitoring, and Oversight (including exceptions to policy)**

- Applying at the campus level compliance and monitoring policies approved by the Regents and implemented by UCOP, including requirements for exceptions to policy. (See Campus Corrective Action Plans in September 2007 Regents item – *Appendix T*)
- Preparing campus action plans for (1) provision of training for those personnel who approve travel and entertainment expenses, and (2) enforcement of clear and appropriate approval procedures and documentation requirements.
- Developing ongoing monitoring and oversight procedures to ensure adherence to policy.

**Information Systems**

- Advise and support development of a new human resources information system, including plans for integration of campus data in Universitywide system.

## **VI. RELATIONSHIP OF UNIVERSITY ACTIONS TO WASC STANDARDS**

Collectively, the actions at all levels demonstrate the University's commitment to accountability and to addressing issues identified by the Task Force report and the three audits. In doing so, we believe they also address WASC concerns deriving from the various compensation reviews. The policy reforms implemented to date, the structural changes made to strengthen Regental oversight and Presidential/systemwide management functions, the compliance and monitoring mechanisms put in place, and the operational improvements planned respond to Commission concerns.

A chart provided at the end of this section lists University actions by category, noting for each corrective measure the WASC standard and relevant review criteria addressed. The text below summarizes briefly the relationship between UC's actions as a whole and each of the relevant review criteria.

***CFR 1.3:*** *The institution's leadership creates and sustains a leadership system at all levels that is marked by high performance, appropriate responsibility, and accountability.*

The Regents acted to clarify their responsibility over compensation matters and to reinforce the mechanisms for effective management of these issues at all levels. Though the comprehensive policy review is still underway, policies implemented to date delineate areas of accountability for the Board, President and campuses with respect to compensation policy and practice. As a result, extensive new disclosure requirements enhance the transparency of lines of authority for these issues within UC's system of leadership. These changes and a new standardized process for reviewing senior executives who report to the Board set high performance expectations for University leaders.

***CFR 1.8:*** *The institution exhibits integrity in its operations as demonstrated by the implementation of appropriate policies, sound business practices, timely and fair responses to complaints and grievances, and regular evaluation of its performance in these areas.*

Audit recommendations for changes in policy, reporting procedures, ongoing evaluation mechanisms and information systems were numerous. Accordingly, more University actions taken address this criterion than any of the other four. Beginning with reform frameworks approved by the Regents and then implemented at the system and campus levels, UC has created procedures to standardize compensation policies and procedures through well-articulated guidelines.

Moreover, adherence to these guidelines will be routinely monitored via reports to both internal and external audiences. The appointment of the Senior Vice President, Chief Compliance and Audit Officer—expected at the September Regents meeting—will reinforce these efforts. In sum, the time, care, and resources devoted to overhauling unsatisfactory practices demonstrate our commitment to the integrity of operations in the compensation area, as in all others.

**CFR 3.8:** *The institution's organizational structures and decision-making processes are clear, consistent with its purposes, and sufficient to support effective decision making.*

A desire to enhance transparency of University decision-making processes was a singular guiding principle in the Regents' and President's approach to compensation problems. Accordingly, clarification of those processes already is improving understanding of the rules by which compensation matters proceed at UC and should continue to support better decision-making in the future. At the Regental level, change included modifications to the Board's operating structure (creating a permanent Compensation Committee) and approval processes (open session votes on compensation matters). Actions that respond to this criterion represent basic building blocks to restore confidence in the University's handling of compensation issues.

**CFR 3.9:** *The institution has an independent governing board or similar authority that, consistent with its legal and fiduciary authority, exercises appropriate oversight over institutional integrity, policies, and ongoing operations, including hiring and evaluating the chief executive officer.*

The Board of Regents did act independently and decisively from the start. Concerns over compensation went to the heart of the University's integrity, and Board initiation of extensive, open review of problems demonstrated responsible oversight. In keeping with this CFR, it is evident that the Regents were willing to make the changes required to protect UC's long term interests and welfare. The Board also has been quite diligent in following-up on implementation of its various directives—an indication of the seriousness with which the Board took this matter.

In general, the Regents actions on compensation issues reflect the Board's broad governance role that is embedded in the accreditation of individual University campuses. The Board of Regents is the body vested by the state Constitution with "full powers of organization and governance" subject only to very specific areas of legislative control (<http://www.universityofcalifornia.edu/regents/about.html>.) As is common to such boards, much work is done via committee. The Regents have ten standing committees: Audit, Education Policy, Finance, Governance, Grounds & Buildings, Health Services, Investments, Long-range Planning, Oversight of Department of Energy Laboratories, and, most recently added, Compensation. The committees represent the range of Regental responsibilities—from final approval of admissions policies to oversight of University hospitals to strategic planning for the next 25 years and beyond.

The Board has the ultimate authority over all facets of the educational enterprise outlined in the WASC standards. Through exercise of that authority, the Regents provide the broad policy and operational framework for these endeavors. For example, the Board supports accreditation of UC campuses by setting many of the policies stipulated as part of the Institutional Capacity reviews (academic freedom, faculty, research, undergraduate admissions, fees, facilities, planning, nondiscrimination, personnel, benefits, finance & investment, and legal matters, etc.) In the case of the current WASC inquiry, the policy

framework at issue pertains to compensation. The Board also establishes overarching priorities for the collective educational enterprise, approves state budget requests, and provides for the allocation of state resources that fund core activities.

In practice, primary responsibility for accreditation and compliance with the WASC standards resides with the Chancellors of each campus. Through shared governance, the Regents delegate authority to the President and Academic Senate. Regental delegations vest the Senate with responsibility over academic matters and vest the President with responsibility over “the administration of all affairs and operations of the University.” The Chancellors and campus divisions of the Academic Senate, in turn, are given direct responsibility over their respective institutions.

**CFR 3.10:** *The institution has a chief executive whose full-time responsibility is to the institution, together with a cadre of administrators qualified and able to provide effective educational leadership and management at all levels.*

A significant portion of responsibility for changes in policy and practice coming from the Task Force and audit reports on compensation has fallen to the President and UCOP. There has been considerable progress made on most report recommendations requiring Presidential action and/or implementation by senior systemwide officers in conjunction with their campus counterparts.

In general, the system level actions on compensation issues reflect the President’s management role that, like the Regents’ role, is embedded in the accreditation of individual University campuses. The systemwide administration supports the campuses (and thereby, indirectly, accreditation) in several ways, including:

- providing centralized activities and services that do not have to be replicated by each campus, including negotiation on the state budget and human resources & benefits;
- coordinating policy and program implementation in a variety of areas;
- providing Universitywide liaison to external constituencies, including other educational segments, state and federal policy-makers and the WASC Commission;
- operating/staffing programs and initiatives that enrich the academic enterprise (e.g., UC Washington and Sacramento Centers) or better serve the University’s public service mission (e.g., the California Subject Matter Projects) by leveraging the collective strengths of multiple campuses.

Systemwide activity on compensation and many other issues requires facilitation of both Regental and campus imperatives. The President and his or her supporting administrative structure must manage and coordinate as a system ten unique, complex, independent research university campuses. This is a challenging task; it involves a balance between the collective interests of ten campuses operating as a higher education system and the distinct needs, desires, and aspirations of each institution.

Regardless of the issue, what is critical to the vitality of UC campuses—and germane to the accreditation of each—is the successful functioning of the Regents’, President’s, and Academic Senate’s complementary roles. Whether focused on compensation or some



other set of issues, the governance, systemwide management structures and University faculty must work in complementary fashion to best create the conditions under which UC campuses can function, grow, and thrive according to all standards of accreditation. For issues such as compensation that are not primarily academic matters, the relationship between the Board and administration is especially important.

## UC Compensation Reforms Relevant to WASC Standards and Criteria for Review

WASC Standards and Criteria for Review (CFR)					Compensation Policy and Practice Reforms
Standard 1		Standard 3			Disclosure and Transparency
CFR 1.3	CFR 1.8	CFR 3.8	CFR 3.9	CFR 3.10	
		✓	✓		Defined "total compensation" to clarify the components referenced by the term and to standardize systemwide approval, public disclosure, and reporting practices.
✓	✓	✓	✓	✓	Created and implemented new guidelines for reporting compensation information.
	✓				<ul style="list-style-type: none"> <li>○ annual electronic salary reports for all UC employees as well as a section on <u>total compensation</u> for senior managers.</li> </ul>
	✓	✓			<ul style="list-style-type: none"> <li>○ routine reports of executive and staff hires at salaries that require Regents' approval, raises for these executives and staff, and separations for these individuals.</li> </ul>
	✓	✓			<ul style="list-style-type: none"> <li>○ timely release of information on compensation following Regental action -- immediately following actions at regularly scheduled Board meetings and within one week for interim items. Reporting shall be through the standardized template that has been developed to report total compensation, including all perquisites.</li> </ul>
	✓	✓			<ul style="list-style-type: none"> <li>○ implementation of a new systemwide procedure regarding the disclosure of compensation information in press releases. <u>For Regent-approved appointments</u>: "total compensation," including base salary, list of the other approved compensation elements offered, and link to template with general descriptions of these other elements. <u>For all other appointments</u>: base salary with information on other elements of compensation available upon request.</li> </ul>
		✓	✓		Adopted new practice that Regents' Compensation Committee votes in open session on compensation for University officials whose compensation requires Board approval.
	✓			✓	Established a new presidential policy for the public disclosure of compensation information.
✓	✓				Created dedicated website to post compensation information, including Task Force report, audits, Regents' actions, etc.
✓	✓				Provided California legislature with first in a series of annual reports (through 2010-2011) on total compensation for senior executives; includes update of UC progress in reforming compensation policies and practices.
✓	✓			✓	Appointed an interim systemwide Public Information Practices Coordinator charged with coordinating all Public Records Act (PRA) requests and establishing clear protocols and timelines for processing such requests.

CFR 1.3	CFR 1.8	CFR 3.8	CFR 3.9	CFR 3.10	Accountability and Governance
	✓		✓		Formed independent Task Force, co-chaired by former California Assembly Speaker Robert Hertzberg and UC Regent Joanne Kozberg, to examine UC compensation, accountability, and transparency issues.
	✓		✓		Launched independent external audit by PricewaterhouseCoopers of senior manager compensation and departure agreements for top University officials over the past ten years.
	✓		✓		Adopted all recommendations of the Hertzberg-Kozberg Task Force and external and internal audits and management reviews. Implementation began immediately following the Regents' adoption and is ongoing.
			✓		Established Regents' Compensation Committee to provide greater oversight and policy guidance on compensation.
✓			✓		Adopted new structure and approval process for senior management compensation to strengthen Regents' oversight and market appropriateness for senior management compensation.
✓			✓		<ul style="list-style-type: none"> <li>○ Regents' approval required for all non-faculty employees in the Senior Leadership Compensation Group and certain other specified employees whose total cash compensation exceeds \$200,000, or for whom a base salary increase of 7.5% or more is proposed, or for any action recommended for an employee who is among the top leadership positions in the University. At time of request, must disclose to Regents (and public) all elements of total compensation, including explicitly noting any exceptions to policy.</li> </ul>
	✓				Launched process for consideration of corrective actions to address those University employees who authorized compensation or benefits that were not in full compliance with University policy, as identified in the various external and internal audits.
	✓		✓		Added to the 1993 Regents' <i>Principles for Review of Executive Compensation</i> a statement of consequences relating to serious violations of compensation policies.
✓			✓	✓	<p>Initiated and implementing reorganization of the UC Office of the President to ensure better compliance with policies and principles, and to strengthen University business practices and management. Actions include contracting with the Monitor Consulting Group for a one-year, phased study of UCOP and the establishment of new leadership positions:</p> <ul style="list-style-type: none"> <li>○ Chief Business Operations Office/Executive Vice President (hired)</li> <li>○ Chief Compliance and Audit Officer/Senior Vice President (09/07 appt.)</li> <li>○ Chief Financial Officer/Executive Vice President (under recruitment)</li> </ul>
	✓			✓	Conducted first in a series of reports on senior management compensation.
	✓				Implemented corrective actions associated with audit findings, including issuance of corrected W-2 forms (Form W-2c) to some senior managers for benefits that the University did not properly report previously as compensation. These administrative errors by the University were identified by the external PricewaterhouseCoopers audit of executive compensation.

CFR 1.3	CFR 1.8	CFR 3.8	CFR 3.9	CFR 3.10	<b>Policy Reforms, Including Specific Policies</b>
	✓	✓	✓		Initiated a comprehensive policy review and reform, with the help of an external consultant, that will establish a new framework for compensation and related policies and authority over compensation decisions.
	✓		✓		Adopted an interim policy limiting the number of outside paid corporate boards to three for all senior managers, unless the Regents have given advance approval in writing.
	✓		✓		Adopted interim policy on separation agreements and settlements of employee claims requiring Regents' approval on all such agreements and claims for those employees whose compensation requires Regents' approval and for all employees in cases where the settlement amount is \$100,000 or more.
✓		✓	✓		Adopted new policy requiring minor and major capital projects for the Chancellors' residences or offices costing \$25,000 to \$5,000,000, inclusive, be approved by the President; and all major capital projects costing over \$5,000,000 be approved by the Regents.
CFR 1.3	CFR 1.8	CFR 3.8	CFR 3.9	CFR 3.10	<b>Policy Compliance, Enforcement, Monitoring, and Oversight, Including Exceptions to Policy</b>
		✓	✓		Established interim policy stating that any exceptions to employment-related policies for senior managers require approval by the President and the Regents.
	✓	✓			Instituted a new policy to clarify the approval and documentation requirements for exceptions to policy.
	✓				Strengthened oversight of travel and entertainment expenditures by requiring action plans from campuses, laboratories, and UCOP for (1) provision of training for personnel who approve travel and entertainment expense, and (2) enforcement of clear and appropriate approval procedures and documentation requirements.
	✓			✓	Directed University Controller to institute appropriate controls on all Chancellors' and the President's residence and office expenditures so that expenditures that exceed original approval amount occur less frequently.
	✓	✓			Developing ongoing monitoring and oversight procedures to ensure adherence to policy.
	✓	✓			Completed pilot program on HR Certification; pilot ran at UCOP, UCSF (campus and medical center), Davis, and the Lawrence Berkeley National Laboratory.
	✓	✓			Prepared 60-day, six-month and one-year responses to the Bureau of State Audits to follow-up on findings and recommendations from May 2006.
CFR 1.3	CFR 1.8	CFR 3.8	CFR 3.9	CFR 3.10	<b>Human Resources Information System</b>
	✓				Approved development of new, modern, comprehensive integrated Human Resources information System (HRIS) to better track, manage, and report compensation data. First phase of development designed to capture senior management compensation data. This phase became operational in December 2006. Work to develop capability to track compensation data for all other employees is ongoing.

## **VII. SUCCESS TO DATE, FUTURE WORK, AND ACCREDITATION**

The University actions thus far constitute a comprehensive set of reforms that address the issues identified as problems by the audit and Task Force reports. They encompass strategies seeking to ensure lasting change and to reinforce the integrity of an important area of University endeavors. Implemented with relative speed, policy reforms serve as the foundation for improved practice, communication and disclosure at all levels. Structural changes made in Regental oversight and systemwide management of compensation can provide a model for handling other issues. Evaluation mechanisms established for compliance and routine monitoring aim to prevent problems from recurring. The cycle of reports has already begun, and the content will be refined over time as needs dictate.

The Special Visit request did not initiate or predate these actions. Rather, the visit serves to focus attention on the extent to which changes prompted by the compensation inquiry support the integrity of University operations and decision-making, the accountability necessary for UC to function effectively as a public educational institution, the transparency and resolve to successfully address internal difficulties, and the appropriate balance of independence and oversight between governance and management functions.

However, there is work that remains to be done. According to an August 2007 report by UC's Internal Auditor (*Appendix Z*), follow-up actions in process or requiring additional attention are:

- the Compensation Policy Review,
- the Monitor Project on reorganizing UCOP,
- development of the Human Resources Information System (HRIS),
- enhancements to the Senior Leadership Information System and annual reporting process,
- the project to improve payroll data quality, and
- monitoring and exceptional reporting matters.

In addition, certain actions planned but not yet started or started but without a clear process for completion include establishing analytical capabilities for use with the Corporate Personnel System, making certain decisions about the scope and workings of the compliance function, aligning the Regents' standing orders and the delegations of authority with respect to compensation reforms, and designing a competitive compensation strategy. There has been recent work to begin adjustment of faculty salary scales. The Board and systemwide administration will continue their efforts to ensure UC compensation—for faculty and executives—regains competitive ground in comparison to peer institutions.

The University's response to compensation concerns seeks not only to continue work on these specific projects but also to establish ongoing review to ensure that good practice is maintained. This objective is consistent with the expectation under the standards that institutions engage in continuing reflection about their effectiveness. The Board and President have established new patterns that will be subject to routine re-examination. Rather than isolated evaluations unconnected to institutional objectives, reforms brought about by the Task Force and audit reports demonstrate a commitment to self-study. Accreditation of UC campuses is well-served if systemwide governance and management systems can maintain this trajectory.

In that vein, the Board of Regents and systemwide administration continue to reassess and adapt to new circumstances. The recent announcement by University President Bob Dynes that he intends to step down from his post in June 2008 led to the naming of Provost Rory Hume as Chief Operating Officer in addition to his other academic and health affairs duties. The Provost will handle day-to-day administrative responsibilities allowing President Dynes to focus on a number of strategic University priorities during his remaining tenure. These projects include continuing to advance UC's research, development, and delivery portfolio in partnership with industry, and expanding its international presence through partnerships with institutions in China, India, Mexico and Canada.

Furthermore, Board Chair Richard Blum recently outlined a set of priorities in a paper sent to the Board in late August (<http://www.universityofcalifornia.edu/restructuring/>). Provost Hume, framing current work on a variety of significant initiatives relevant to the University's future, articulated a plan linking imperatives referenced by the Board Chair to specific actions now underway. This reciprocity is indicative of the type of governing board and management cooperation that should provide a strong foundation for continued growth and excellence of each of the UC campuses WASC accredits.

## APPENDICES

- A** – *Principles for Review of Executive Compensation*, UC Regents policy (revised 1993)
- B** – *Summary of Findings and Recommendations*, Task Force on UC Compensation, Accountability, and Transparency Report (April 2006)
- C** – PricewaterhouseCoopers audits (April & May 2006)
  - (1) *Findings and Observations*
  - (2) *Examination of Compensation and Other Employment Arrangements*
  - (3) *Analysis of Travel and Entertainment Expenses and Other Payments*
- D** – *Report on the Systemwide Audit of Senior Management Group Compensation*, University Auditor (May 2006)
- E** – *University of California: Stricter Oversight and Greater Transparency Are Needed to Improve Its Compensation Practices*, Bureau of State Audits (May 2006)
- F** – Task Force on UC Compensation, Accountability, and Transparency – membership roster
- G** – “Regents’ Plan for Reforms in Response to the Report of the Task Force on UC Compensation, Accountability, and Transparency” (Regents’ item – May 17, 2006)
- H** – “Regental Plan for Reforms in Response to Internal and External Audit Reports, and Status Update of Implementation of Recommendations of the task Force on UC Compensation, Accountability, and Transparency” (Regents’ item – July 20, 2006)
- I** – “University Actions in Response to Recommendations of the Task Force and Internal And External Audit Reports” (Regents’ item – September 21, 2006)
- J** – *Preliminary Report on 2005-2006 Employee Compensation*, University of California (November 2006)
- K** – “Definition of Total Compensation for the Purpose of Defining the “Annual Report on Compensation” (Regents’ item – January 18, 2007)
- L** – “Development of a New Comprehensive Policy Framework and Timetable for the Review of Individual Policies and Practices” (Regents’ item – January 18, 2007)
- M** – Fact Sheet, *2006 Annual Report on Total Compensation for Senior Managers*, University of California (March 2007)
- N** – Fact Sheet, *2006 Annual Report on Compensated Outside Professional Activities for Senior Managers*, University of California (March 2007)

- O** – *Legislative Report on Executive Compensation*, University of California (March 2007)
- P** – Fact Sheet: *Actions Taken to Reform UC's Compensation Policies and Practices*, University of California (May 2007)
- Q** – “Update on Policy Review Project for Compensation and Related Policies” (Regents’ item – May 16, 2007)
- R** – “Closeout of Audit Findings Related to Executive Compensation” (Regents’ item – May 17, 2007)
- S** – “Final Project Report from the national Academy of Public Administration on the University of California’s Certified Assessment of HR Systems: A Pathway to Assurance” (Regents’ item – July 19, 2007)
- T** – “Report on the Implementation of Universitywide and Campus/Laboratory Corrective Action Plans” (Regents’ item – September 19, 2007)
- U** – “Establishment of the Special Committee on Compensation and Suspension of Relevant Bylaws Pertaining to Compensation Matters” (Regents’ item – January 2006)
- V** – new systemwide leadership positions
  - (1) Senior Vice President – Chief Compliance Officer
  - (2) Executive Vice President – Business Operations
- W** – *University of California Organizational Restructuring Effort – Phase 1: Organizational Assessment Findings*, Monitor Group Report to the Regents (September 12, 2007)
- X** – information template for compensation actions considered by UC Board of Regents
- Y** – UC responses to May 2006 report from the Bureau of State Audits
  - (1) 60-day response
  - (2) six-month response
  - (3) one year response
- Z** – *Report on the Status of Implementation of the Executive Compensation Recommendations*, University Auditor (July 2007)



**PRINCIPLES FOR REVIEW OF EXECUTIVE COMPENSATION**

<http://universityofcalifornia.edu/regents/policies/6154.html>

Approved November 19, 1993

WHEREAS, the Regents recognize that the people of California have entrusted them with the responsibility for careful stewardship of the resources of the University of California; and

WHEREAS, the Regents are committed to public access, awareness, knowledge, and understanding of The Regents' decision-making processes; and

WHEREAS, public concerns about the openness of Regents' deliberations with regard to executive compensation require a response;

NOW, THEREFORE, BE IT RESOLVED that the following principles shall obtain with regard to activities involving executive compensation:

1. Executive compensation shall be defined as including base salary, retirement and other benefits, perquisites, severance payments (except those made in connection with a dismissal or a litigation settlement), all forms of deferred compensation, supplemental retirement, all components of housing allowances or any other form of compensation applicable to the Officers of the University and the Principal Officers of The Regents, as currently and as may subsequently be described in the Bylaws and Standing Orders of The Regents. Pursuant to Standing Order 100.1, the Officers of the University are the President, Senior Vice Presidents, Vice Presidents, Associate Vice Presidents, Assistant Vice Presidents, University Auditor, University Controller, Chancellors, Vice Chancellors, Directors and Deputy Directors of Lawrence Berkeley Laboratory, the Lawrence Livermore National Laboratory, and the Los Alamos National Scientific Laboratory, and Directors of University hospitals. The Principal Officers of The Regents, as consistent with Bylaw 20, are the Secretary, Treasurer and General Counsel; and
2. Discussions of and actions on executive compensation programs shall occur in open session of the Subcommittee on Officers' Salaries and Administrative Funds and/or the Committee on Finance. All members of the Board shall be invited to attend such meetings. Final action regarding such programs shall occur in open session of the Board at a meeting held no sooner than twenty days following the meeting at which a recommendation requiring Board approval shall have been approved by the Committee on Finance. Information and background materials shall fully and clearly disclose all relevant and material facts related to executive compensation programs, such as annual reviews of market data and comparison studies that form the analytical bases for the establishment of executive compensation levels. These materials shall be provided in advance of the meeting in such a manner as to afford sufficient opportunity for review and understanding of the contents; and
3. Discussions concerning appointment, status of employment, performance evaluations and compensation of individual officers specifically discussed in conjunction with such evaluations, and actions with respect to recommendations concerning such matters, shall occur in closed

sessions of the Subcommittee on Officers' Salaries and Administrative Funds and/or the Committee on Finance, consistent with the Education Code and the Bagley-Keene Open Meeting Act. All members of the Board shall be invited to attend. Final action regarding such matters shall occur in closed session of the Board, except that final action regarding compensation for the President, Vice Presidents, Chancellors, Treasurer, Associate Treasurer, General Counsel, and Secretary shall occur in open session of the Board as the last action item on the agenda. The specific proposal will be made available to members of the public in attendance, prior to the commencement of the open session at which it will be voted upon.

Agendas for such meetings shall be provided to all Regents in advance of the meeting and shall contain information and background materials sufficient to lead to a full understanding of the matters under discussion, including all compensation elements relevant to each individual officer under consideration.

The meeting notice for any meeting at which compensation for the Principal Officers of The Regents, President, Vice Presidents, Chancellors, and Associate Treasurer shall be voted upon shall so state; and

4. Any paid leave of absence for Officers of the University, as defined above, granted by the President pursuant to Standing Order 100.4(e), shall be reported to the Board by the President. Any paid leave of absence for the President, or for Principal Officers of The Regents, as defined above, shall be approved by The Regents; and

5. All actions affecting executive compensation and paid leaves of absence for Officers of the University and Principal Officers of The Regents shall be released to the public in a timely manner consistent with Bylaw 14.7. It is the intention of The Regents that administrative mechanisms to implement this provision shall be coordinated, strengthened and refined; and

6. Effective July 1, 1992, and thereafter, annual reports on the level of compensation and funding sources for Officers of the University and Principal Officers of The Regents shall be approved by The Regents and submitted by the President to the California Postsecondary Education Commission, the Joint Legislative Budget Committee, and the relevant policy and fiscal committees of the Legislature and the Governor.

## Summary of Findings and Recommendations

### Disclosure and Transparency

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- 1. The Task Force finds that the University of California has failed to honor, consistently and comprehensively, its obligation of public accountability.** (p. 10)

RECOMMENDATION (p. 10)

The University should develop and broadly communicate a systemwide policy governing the disclosure of compensation information to the public. Such a disclosure policy must balance public access, personal privacy, and institutional competitiveness by defining what UC considers public versus private/protected information. UC must also provide ongoing training for its leaders and managers about its compensation disclosure policies and practices.

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- 2. The Task Force finds that, over the years, UC and its leaders have failed repeatedly to inform the Regents about the total compensation of senior managers as required by the Regents' 1992 Principles for Review of Executive Compensation.<sup>1</sup> This failure has hindered the ability of the Regents to perform their responsibilities of governance and oversight in this key area and made it impossible to disclose such information to the public and the Legislature.** (p. 11)

RECOMMENDATION (p. 11)

UC must ensure that all relevant information about compensation packages is provided to the Regents in advance of approval. Following Regents' approval, compensation information should be disclosed to the public in a timely manner.

---

- 3. The Task Force finds that UC's information systems are inadequate and unable to provide full and timely compensation information.** (p. 12)

RECOMMENDATION (p. 12)

The University should invest in a modern, comprehensive, integrated human-resources information system that enables compensation data to be quickly examined and analyzed—at the campuses, medical centers, national laboratories, and systemwide—so that UC can meet its obligation of public accountability.

Because the new systems will require a major investment of time, money, and staffing, the University should phase in implementation, beginning first with systems that track senior management compensation.

---

**4. The Task Force finds that UC lacks a system to ensure reporting of total compensation for executives in accordance with policy. (p. 13)**

**RECOMMENDATION (p. 14)**

The University should establish clear protocols, procedures, and forms that allow for full and timely compensation reporting. These reports should include:

- Annual reports on base salaries for all UC employees.
- Annual reports on total compensation for UC executives.
- Annual reports on outside compensated professional activities.
- Compliance with annual reporting requirements to the Regents and the Legislature.
- Regular reviews of compensation policies and practices.
- Regular reports on compensation actions taken by the Regents at Board meetings as well as compensation actions taken between Board meetings.

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**5. The Task Force finds that current UC compensation policies are not well organized, not well understood, and difficult to access, either for internal or external use. (p. 14)**

**RECOMMENDATION (p. 14)**

The University should improve public information and ensure that this information is readily available, including creating a new, easily accessible Web site for posting UC compensation information consistent with the other recommendations in this report.

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**6. The Task Force finds that the lack of consensus about what constitutes total compensation at the University of California exacerbates confusion about disclosure policies. (p. 15)**

**RECOMMENDATION (p. 15)**

The Regents should reaffirm the definition of "total compensation" in the Regents' 1992 Principles for Review of Executive Compensation and further clarify some missing elements to ensure consistency with accepted standards and practices.

---

**7. The Task Force finds that no one in the UC Office of the President is responsible for responding, on a systemwide basis, to public requests for information. (p. 15)**

**RECOMMENDATION (p. 15)**

The UC Office of the President should immediately assign to one person the Public Information Practices Coordinator role. This staff member should coordinate all Public Records Act (PRA) requests and develop clear protocols and timelines for processing these requests.

## Governance and Accountability

---

- 1. The Task Force finds that UC's compliance with compensation policy is wholly inadequate and, in a number of cases, has failed or been circumvented.** (p. 16)

### RECOMMENDATION (p. 17)

The Regents should examine specific aspects of the University's compliance mechanisms, and if necessary, make changes or introduce new oversight mechanisms to ensure compliance. Specifically, the Regents' Compensation Committee should have primary responsibility for setting compensation policies and providing necessary oversight to ensure compliance. In order for the Committee to exercise proper oversight, the President should designate a senior official from the Office of the President to serve as the administration's liaison to the Regents' Compensation Committee to implement the Committee's mandate. The University should also establish a compensation oversight committee to work with the administrative liaison to the Regents to ensure that recommendations reflect the needs of the campuses and the accountability requirements of the UC system.

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- 2. The Task Force finds that the point of responsibility for compensation decision-making is inadequate, confusing, and poorly documented. The result is inadequate oversight.** (p. 17)

### RECOMMENDATION (p. 17)

The Regents should clearly delineate the respective authority of the Regents, the President, and the chancellors in approving compensation decisions. They should also specify which decisions can be delegated, the conditions under which decisions can be delegated, and the review and approval process for delegated decisions. Compensation decisions should be regularly audited to ensure that they are being made and approved at the appropriate levels.

---

- 3. The Task Force finds that UC grants so many exceptions to policy as to render the policies ineffective. Furthermore, these "exceptions" have become a convenient way to circumvent policies.** (p. 18)

### RECOMMENDATION (p. 18)

Compensation policies should include specific guidance about when exceptions to policy are appropriate, who may grant them, and through which mechanisms. Exceptions should be subject to rigorous review and advance approval by the appropriate higher authority. To monitor compliance, all exceptions should be reported to a central office or individual.

---

**4. The Task Force finds few, if any, consequences for violating policy. (p. 18)**

**RECOMMENDATION (p. 18)**

Policies must include specific consequences for violations of compensation policy. Violations should be reported annually to the Regents' Compensation Committee and, where appropriate, sanctions should be issued.

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**5. The Task Force finds that UC's executive compensation problems are exacerbated by confusing, duplicative, overlapping, and sometimes conflicting compensation policies. (p. 19)**

**RECOMMENDATION (p. 19)**

UC should immediately eliminate any conflicts in its compensation and related governance policies and clarify precisely which policies apply to different groups of employees.

---

**6. The Task Force finds that the Regents' ability to provide oversight of compensation decisions has been weakened by the large number of compensation decisions they were expected to review. (p. 19)**

**RECOMMENDATION (p. 19)**

The Task Force recommends that the Regents retain direct authority to approve compensation for the President, senior vice presidents, vice presidents, associate/assistant vice presidents, the university auditor, the university controller, principal officers of the Regents, chancellors and vice chancellors, national laboratory directors and deputy directors, medical center CEOs, professional school deans, and the top five most highly compensated positions at each UC location. This currently yields 264 individuals.

---

**7. The Task Force finds that the University has an established whistleblower policy and should continue its education efforts regarding whistleblowers and ethical conduct. (p. 20)**

**RECOMMENDATION (p. 20)**

UC leaders should vigorously promote standards of ethical conduct and UC should continue to broadly communicate its whistleblower and anti-retaliation policies.

## Specific Policies and Practices

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1. **The Task Force finds that UC lacks clear guidelines on participation in externally compensated activities such as consulting or board service, which makes it impossible to ensure that outside activities do not interfere with the performance of UC duties.** (p. 21)

**RECOMMENDATION** (p. 21)

The University should adopt specific limits on externally compensated activities to preclude conflicts of commitment on the part of senior executives. Based on leading best practices in governance from the public and private sectors, UC senior executives should be limited to serving on no more than three externally compensated boards.

---

2. **The Task Force finds that existing UC policies governing senior managers' outside professional activities vary from those for faculty. This creates confusion for senior managers who also hold faculty appointments.** (p. 22)

**RECOMMENDATION** (p. 22)

Policies governing outside professional activities and board service for senior managers who also hold faculty appointments should be revised so that the senior manager policy prevails.

---

3. **The Task Force finds that 1) UC executives have not followed University policies in granting paid leaves to departing chancellors and others; and 2) the Regents have not been properly informed at the time of appointment about the terms related to these leaves.** (p. 22)

**RECOMMENDATION** (p. 23)

The University should carefully review its policies on "administrative leaves in lieu of sabbaticals" for senior managers who also hold academic appointments, especially chancellors, and revisit the provision that these leaves be paid at the higher administrative salary rate rather than the faculty salary rate.

The University must also revisit the questionable practice of honoring sabbatical credits earned at other institutions to ensure it is in accordance with both the letter and the spirit of sabbatical policies. Furthermore, the Regents should eliminate the practice of making payments, at the commencement of employment, to compensate for forfeited sabbatical credits accrued at other institutions.

## Competitive Compensation

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1. **The Task Force finds that UC's compensation must be competitive if UC is to maintain its status as one of the great universities of the world.** (p. 24)
2. **The Task Force finds that UC has entered a period of intense competition and that it is currently at a competitive disadvantage relative to most of its peers in the top tier of universities.** (p. 25)

**RECOMMENDATION** (p. 25)

The Regents should implement, in a vigorous and sustained manner, their compensation philosophy emphasizing the importance of competitive compensation as a means to maintain the quality of academic, management, and staff personnel.

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3. **The Task Force finds that the composition of UC's compensation program needs to be examined to assess its overall competitiveness.** (p. 26)

**RECOMMENDATION** (p. 26)

The Regents should examine the composition of UC compensation to determine if the balance between cash compensation versus health and retirement benefits is optimal for recruitment and retention purposes. The Regents should approach this examination with the understanding that the underlying issues may differ among employee groups and that some issues are subject to the collective bargaining process.

---

4. **The Task Force finds that regular benchmarking is the best way to ensure that compensation is competitive.** (p. 26)

**RECOMMENDATION** (p. 27)

The Regents should regularly benchmark the University's compensation against peer institutions to ensure that UC compensation remains competitive.

---

5. **The Task Force finds that the Regents' Compensation Committee is the lynchpin to ensure proper compensation accountability, oversight, and competitiveness.** (p. 27)

**RECOMMENDATION** (p. 27)

The Regents' Compensation Committee should identify and address as quickly as possible the key compensation challenges facing the University today, including the difficulties of competing for employees with better-funded institutions and the sometimes competing demands of market, merit, and equity.





PricewaterhouseCoopers LLP  
3 Embarcadero Center  
San Francisco, CA 94111  
Telephone: (415) 498-5000  
Facsimile: (415) 498-7100  
www.pwc.com

April 21, 2006

To The Regents of the University of California:

We have recently completed the examination of compensation and other employment arrangements of selected University of California (the "University") employees ("Selected Employees") as presented in the Schedule of Employee Compensation and Schedule of Other Employment Arrangements (collectively the "Schedules") for the period January 1, 1996 through December 31, 2005 and reported on them. Our examination was not designed to provide assurance on the internal control structure and its operation. However, we noted certain matters that we are submitting for your consideration to assist the University make improvements in processes regarding compensation and other employment arrangements.

This document is intended for use by The Regents of the University of California and management of the University and has been completed in the context of our examination of compensation and other employment arrangements of selected University of California employees taken as a whole. The matters raised in this report are only those that have come to our attention that we believe need to be brought to you. They are not a complete listing of every potential matter arising from our procedures and we cannot be responsible for reporting all risks in your business nor internal control weaknesses. This report should not be quoted in whole or in part without PricewaterhouseCoopers' prior written consent. No responsibility for any third party is accepted as the report has not been prepared for, nor is intended for, any other purpose.

We look forward to discussing these matters with you.

*PricewaterhouseCoopers LLP*

**University of California  
Findings and Observations  
Examination of Compensation and Other Employment Arrangements**

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**I. Observations**

**1. Certain benefits promised or paid to Selected Employees were not approved by The Regents as required by Regental policies**

Standing Order 100.3 and the 1993 Principles for Review of Executive Compensation require all compensation to selected top officers of the University be determined by the Board of Regents ("The Regents").<sup>1</sup> Based upon a reading of minutes for open and closed sessions of The Regents, we noted instances where certain elements of compensation were not brought to the Regents for approval.

Specifically, we noted that management generally sought Regental approval for base salary, additional salary and bonuses (including incentives, awards and by agreement payments). However, management generally did not seek approval for compensation paid to individual employees under programs specifically approved by The Regents (e.g. Senior Management Severance Payment Plan and Mortgage Origination Plan) nor for benefits afforded to individual employees as a direct consequence of the employee's position (e.g. automobile allowance, executive insurance or university-provided housing). Management generally did not seek approval for the following compensation items:

- Automobile allowance or leased automobile;
- Relocation allowance;
- Temporary housing allowance;
- Senior Management Severance Pay Plan (SMSPP) distributions or participation;
- Terminal vacation pay;
- Honoraria;
- Executive insurance (including life and travel insurance);

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<sup>1</sup> Standing Order 100.3 requires "compensation of the Provost and Senior Vice President, Senior Vice Presidents, other Vice Presidents, University Auditor, Chancellors, and Laboratory Directors, including compensation upon appointment and subsequent changes in compensation, shall be determined by the Board upon recommendation of the President of the University through the Committee on Finance". Standing Order 100.3 does not define compensation, however, the Principles for Review of Executive Compensation and Bylaw 14.6 provide the following definition:

*Executive compensation shall be defined as including base salary, retirement and other benefits, perquisites, severance payments (except those made in connection with a dismissal or a litigation settlement), all forms of deferred compensation, supplemental retirement, all components of housing allowances or any other form of compensation applicable to the Officers of the University and the Principal Officers of The Regents, as currently and as may subsequently be described in the Bylaws and Standing Orders of The Regents.*

**University of California  
Findings and Observations  
Examination of Compensation and Other Employment Arrangements**

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- Other non-cash fringe benefits;
- Participation in the Mortgage Origination Program (MOP) or the Supplemental Home Loan Program (SHLP);
- University-provided housing;
- Non-taxable moving expenses;
- Post-separation employment;
- Specialized health benefits, and
- Sabbatical benefits.

See Attachments 1 and 2 to this letter for a summary of compensation and other employment arrangements of Selected Employees that came to our attention as lacking documentation of approval by The Regents.

**2. Certain benefits promised or paid to Selected Employees were exceptions to University policies or standard practices and were not approved by The Regents**

We noted that certain benefits promised or paid to Selected Employees were exceptions to University policies or standard practices and although generally approved by the President or his designee, were not approved by the Regents.

The 1993 Principles for Review of Executive Compensation require "information and background materials shall fully and clearly disclose all relevant and material facts related to executive compensation programs." Nonetheless, in general, Regents were not notified when a benefit was an exception to University policies or standard practices even though this information may be relevant and necessary to allow The Regents to make more informed decisions regarding compensation.<sup>2</sup>

See Attachment 3 to this letter for a summary of compensation items not approved by the Regents that were exceptions to University policies or standard practices.

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<sup>2</sup> The University began identifying exceptions to policy as part of the compensation approval process at the March 2006 Regents Meeting.

**University of California  
Findings and Observations  
Examination of Compensation and Other Employment Arrangements**

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**3. Certain of the compensation items described above were not disclosed to the public as required by Regental policies**

The 1993 Principles for Review of Executive Compensation and Bylaw 14.6 require that "final action regarding compensation for the President, Vice Presidents, Chancellors, Treasurer, Associate Treasurer, General Counsel and Secretary shall occur in open session". The 1993 Principles for Review of Executive Compensation further require the University to produce "annual reports on the level of compensation and funding sources for Officers of the University and Principal Officers of The Regents".

There are a variety of methods by which executive compensation information is disclosed to the public. The following table summarizes common methods used by the University for disclosing compensation:

<b>Method</b>	<b>Compensation Types Typically Reported</b>	<b>Distribution</b>
Open Action Items	Base and additional salary	Available on the UCOP website and distributed at Regents' meetings
Annual Report on Compensation <sup>3</sup>	Base salary, mortgage program, automobile leased/allowance, credit card, administrative fund, life insurance and SMSPP	Distributed at Regents' meetings, provided to legislative bodies and available upon request
Press Release	Various	Available on the UCOP website and released to the press

As noted above, the open action items did not include all compensation items. We found that if a benefit was not presented as an action item for approval by The Regents, it was generally not disclosed to the public unless subsequently included in the Annual Report on Compensation for Officers of the University and Principal Officers of the Regents ("Annual Report on Compensation")

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<sup>3</sup> The Annual Reports on Compensation for fiscal years 2003/2004 and 2004/2005 were presented to The Regents at the March 2006 meeting.

**University of California**  
**Findings and Observations**  
**Examination of Compensation and Other Employment Arrangements**

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The Annual Report on Compensation is listed on the Schedule of Reports approved by the Regents and was prepared by the University for fiscal years 1993 through 2002. The report disclosed base salary and selected senior manager benefits including MOP Loan participation, automobile benefit, UC provided housing, credit card, administrative fund, life insurance, SMSPP eligibility, relocation and in some instances, bonuses and stipends. We reviewed these reports and noted the following omissions:

- Participation in MOP (Robert Berdahl, Winston Doby and Joseph Martin);
- Temporary housing allowance (David Callender, Mark Laret, Richard Liekweg, David Russ, Winston Doby, Wyatt Hume and Celeste Rose);
- Relocation allowance (Michael Drake, George Nanos, David Russ and M.R.C. Greenwood);
- Life insurance (not disclosed until 2001);
- Additional salary (Martin Chemers and Manuel Gomez);
- Bonuses (David Callender, Ralph Cygan, Denice Denton, Marye Anne Fox, Richard Liekweg, Frank Loge, George Nanos, Patricia Small, Joseph Mullinix, and Celeste Rose);
- Senior Management Severance Pay Plan (Martin Chemers);
- Supplemental retirement (Martin Chemers, Frank Loge and Karl Pister), and
- Automobile allowance or leased automobile (Manuel Gomez).

## **II. Recommendations**

We understand The Regents' Task Force on Compensation, Accountability and Transparency provided recommendations regarding changes to the University's policies and procedures governing compensation. We also understand The Regents are considering forming a Compliance Office. Our recommendations relate to improvements in processes regarding compliance with compensation policies. Specifically, we recommend the following:

- Consider implementing a "checklist" format for documenting elements of compensation. This standard format could be used to capture all agreements during the hiring process and subsequently be used for approval and disclosure purposes;<sup>4</sup>

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<sup>4</sup> The University utilized a compensation checklist as part of the compensation action items presented at the March 2006 Regents' Meeting.

**University of California**  
**Findings and Observations**  
**Examination of Compensation and Other Employment Arrangements**

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**II. Recommendations (continued)**

- Review the format of the Annual Report on Compensation to ensure that all elements of compensation requiring disclosure under Regental policies are included;
- Utilize payroll data to generate or validate the accuracy and completeness of the Annual Report on Compensation;
- Review mechanisms for disclosing compensation information to the public to ensure that data is provided in accordance with internal and external requirements, and
- Perform on-going monitoring and oversight to ensure adherence to policies and procedures for Regental approval and public disclosure.



University of California

Examination of Compensation  
and Other Employment  
Arrangements

April 24, 2006

PRICEWATERHOUSECOOPERS 





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1. Scope
2. Procedures Performed
3. Report of Independent Accountants
4. Findings and Observations

***This document is intended for use by The Regents of the University of California and management of the University and has been completed in the context of our examination of compensation and other employment arrangements of selected University of California employees taken as a whole. This report should not be quoted in whole or in part without PricewaterhouseCoopers' prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, nor is intended for, any other purpose.***

## Scope

- 10 year period beginning 1/1/96 and ending 12/31/05
- Definition of compensation is consistent with 1993 “Principles for Review of Executive Compensation”
- Selected individuals generally include current incumbents and past holders of the top 32 senior manager positions plus one Vice Chancellor (Celeste Rose)
  - 64 individuals included in the report
  - One employee with less than six months service in an acting capacity was excluded (David Warren)
  - Personnel files were not available for three employees (Chang-Lin Tien, Marjorie Caserio and DeWitt Bowman)

## Procedures Performed

- Reviewed source data from campus payroll systems
- Reviewed source documentation, including:
  - Records contained in personnel files
  - Campus payroll records
  - W-2's
  - Other records
  - Minutes of open and closed sessions of The Regents
- Reviewed employee certifications
- Conducted interviews
- Reviewed Annual Reports on Compensation
- Evaluated adherence to University policies and standard practices

# Report of Independent Accountants

- Examination of schedules prepared by management of the University
- Components
  - Schedule of Employee Compensation
  - Schedule of Other Employment Arrangements
  - Notes to the Schedules

## Findings and Observations

- Certain benefits promised or paid to Selected Employees were not approved by The Regents as required by Regental policies
- Certain benefits promised or paid to Selected Employees were exceptions to University policies or standard practices and were not approved by The Regents
- Certain of the compensation items described above were not disclosed to the public as required by Regental policies

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University of California

Analysis of Travel and  
Entertainment Expenses and  
Other Payments

May 17, 2006





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1. Scope
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## Scope

- 3 year period beginning 1/1/03 and ending 12/31/05
- Analysis of travel and entertainments expense payments and non-payroll related direct payments to selected individuals and payments made to third parties on behalf of selected individuals
- Selected individuals generally include current incumbents and past holders of the top 32 senior manager positions
  - 39 individuals included for analysis

## Procedures Performed

- Requested electronic data from the University for:
  - Travel and entertainment expense payments
  - Any other non-payroll payments made directly to the individual
  - Any payments made on behalf of the individual to third parties
- Selected samples per defined criteria and requested supporting documentation from the University
- Reviewed supporting documentation to assess
  - Agreement to sample selection
  - Compliance with applicable University policies
  - Approval

## Findings and Recommendations

- Most of the expenditures analyzed were in accordance with University policies and were supported by appropriate documentation
- In order to ensure that expenditures comply with University policies and are appropriately approved, we noted the following opportunities for improvement:
  - Provide training to all approvers of travel and entertainment expenses. Training should include guidance on permitted expenses and documentation requirements;
  - Require all approvers to clearly document their review and approval; and
  - Perform on-going monitoring and oversight to ensure adherence to policies and procedures.

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**UNIVERSITY OF CALIFORNIA  
OFFICE OF THE UNIVERSITY AUDITOR  
OFFICE OF THE PRESIDENT**

**REPORT ON SYSTEMWIDE AUDIT OF  
SENIOR MANAGEMENT GROUP COMPENSATION**

**May 2006**

**Submitted by:  
Patrick V. Reed  
University Auditor**

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## **I. BACKGROUND**

In conjunction with a series of efforts launched in late 2005 to address executive compensation concerns, the Internal Audit Program of the University undertook a systemwide audit of Senior Management Group (SMG) compensation and other employment arrangements.

The University's *Personnel Policies for Staff Members* provides the following description of Senior Managers: "Positions designated as senior management provide leadership requiring the exercise of a high degree of independent judgment in the development of Universitywide or campuswide policy and program direction and accountability for long-term results."<sup>1</sup> The Policies provide the following additional description of criteria for SMG appointment: "A position shall be designated as Senior Management on the basis of criteria such as the management nature of the work, the reporting relationship, the degree of independent decision making required, the responsibility for decisions, the accountability of the position, and the depth and breadth of specialized knowledge and skills required to perform the functions. In the case of academic Deans and Provosts, positions are established in conjunction with approval of appropriate programs. In the case of Officers of The Regents, positions are established by the Board of Regents."<sup>2</sup> Authority to appoint employees to SMG positions rests with The Regents for the President, Provost, Senior Vice Presidents, Vice Presidents, University Auditor, Chancellors, Laboratory Directors and Officers of The Regents; authority to designate other positions as SMG rests with the President for other Officers of the University, and the Chancellors for Non-Officers of the University.<sup>3</sup>

## **II. AUDIT OBJECTIVE AND SCOPE**

The objective of the audit was to identify all elements of SMG compensation, benefits and other employment arrangements and assess their compliance with University policies. Procedures with respect to SMG Travel and Entertainment were also performed at each location, principally for the purpose of determining if any such reimbursements constituted a taxable benefit to the recipient. No significant additional forms of compensation were identified as a result of these procedures. Non-compensation related results of the Travel and Entertainment aspects of the Internal Audit will be separately reported upon by each location.

The scope of the audit was designed to be complementary to the audit conducted by PricewaterhouseCoopers, LLP (PwC) at the request of The Regents' Chairman. That audit addressed compensation and other employment arrangements for the top 32 SMG positions (President, Senior Vice Presidents, Vice Presidents, Chancellors, Laboratory Directors, Medical Center Directors and Principal Officers of The Regents) substantially

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<sup>1</sup> Personnel Policies for Staff Members, Appendix II, Senior Management Personnel Policies, Introduction

<sup>2</sup> Personnel Policies for Staff Members, Appendix II, Senior Management Personnel Policies, II-37

<sup>3</sup> Personnel Policies for Staff Members, Appendix II, Senior Management Personnel Policies, II-21



correlating with Regents Standing Order 100.3. The remaining SMG positions were subject to this Internal Audit.<sup>4</sup>

The PwC audit encompassed all holders of the top 32 positions for a ten-year period ended December 31, 2005 in order to understand past compensation practices with respect to the most senior executives. The internal audit was limited to the three calendar years 2003, 2004 and 2005 and only for holders of those positions as of December 31, 2005. The rationale for this scope determination was that a broader assessment of past practices for other SMG members would not further add to the understanding of UC compensation practices as that understanding was evolving from both the PwC audit and the efforts of the *Task Force on UC Compensation, Accountability and Transparency*. Rather, the focus on current SMG positions was intended to identify existing circumstances that may be in need of corrective action, while also identifying campus and laboratory personnel practices for SMG members. At December 31, 2005 there were 299 Senior Managers subject to the Internal Audit.

While all members of the Senior Management Group are covered by the Senior Management Personnel Policies, they are not all subject to the same requirements for approval of compensation. In 1993, The Regents approved the Principles for Review of Executive Compensation (the 1993 Principles), which established an inclusive definition of total compensation and has been interpreted to require Regental approval for all compensation for Officers of the University. The 1993 Principles state that “pursuant to Standing Order 100.1, the Officers of the University are the President, Senior Vice Presidents, Vice Presidents, Associate Vice Presidents, Assistant Vice Presidents, University Auditor, University Controller, Chancellors, Vice Chancellors, Directors and Deputy Directors of Lawrence Berkeley Laboratory, the Lawrence Livermore National Laboratory, and the Los Alamos National Scientific Laboratory, and Directors of University hospitals.” As noted above, SMG members who are Non-Officers may be appointed by the President, Chancellors and Laboratory Directors. The 1993 Principles therefore cover a substantially larger group of SMG members than the top 32 positions, however, there are a number of SMG members (220 covered by the Internal Audit) who are not covered by the 1993 Principles. These positions include most Deans, managers with titles such as program executive directors, and senior associates of the Officers of the University. Regental approval of their compensation would have been required only when it exceeded the threshold established by Regents Standing Order 101.2, which for the entire period of the Internal Audit was \$168,000.

Following is a table showing the composition of the SMG members that were the subject of the Internal Audit:

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<sup>4</sup> With one exception for an SMG member at UC Davis who was included in the PwC report as an “Other Selected Employee”. In addition, two individuals subject to the audit were not SMG Members as of 12/31/05; UCOP – Justus and UCR – Banker.

Location	SMGs		Total
	Officers	Non-Officers	
Berkeley	5	30	35
Davis	6	21	27
Irvine	6	19	25
Los Angeles	11	26	37
Merced	4	5	9
Riverside	6	6	12
San Diego	6	30	36
San Francisco	4	16	20
Santa Barbara	4	8	12
Santa Cruz	5	5	10
Office of the President	19	22	41
Lawrence Berkeley National Laboratory	1	6	7
Lawrence Livermore National Laboratory	2	18	20
Los Alamos National Laboratory	0	8	8
Total	<u>79</u>	<u>220</u>	<u>299</u>

### III. AUDIT METHODOLOGY

Following is a description of the principal procedures carried out at each location in the performance of this audit:

- Evaluated the organizational structure and various reporting processes related to the administration of compensation;
- Reviewed the processes relied upon to identify circumstances requiring special approval as an exception to policy;
- Reviewed the Principles for Review of Executive Compensation approved by The Regents, November 19, 1993 (1993 Principles);
- Determined the processes for identifying compensation elements that require Regental approval;
- Determined whether monitoring procedures were in place to assess compliance with University policy and regulations;
- Identified all forms of total SMG negotiated compensation, including base salary, incentives, stipends, and other by-agreement payments, and evaluated processes for the establishment of these elements;
- Identified processes for requesting Regental approval for all elements of compensation for Officers covered by the 1993 Principles and for compensation above the Regental approval threshold for other SMG members;
- Evaluated processes for reporting and approval of joint or split SMG and Academic title codes (considering any transfers to/from SMG and academic title codes);
- Identified local business processes related to SMG compensation packages and separation agreements;

- Obtained a data extract of all payroll compensation for SMG personnel, and validated this data against extracts provided by University of California Office of the President (UCOP) and Distribution of Payroll Expense reports;
- Reconciled the payroll data to taxable income reported on W-2's for each SMG member during calendar years 2003-2005;
- Obtained campus-wide disbursements data for direct payments to SMG personnel, and reviewed for possible elements of compensation;
- Obtained Compensation Certification and Questionnaire from all individuals who were SMG's as of December 31, 2005<sup>5</sup>;
- Reviewed information from Disbursements related to approved Social Memberships for SMG personnel;
- Identified account codes that may include other support to UC personnel, such as gifts, clubs, dues (other than professional associations) memberships, and unallowable costs, and associated these transactions with SMG personnel based on indices used for payroll or expense reimbursement;
- Reviewed negotiated compensation packages for SMG personnel hired in the last three calendar years, and determined whether hiring documents included negotiated compensation for significant others and/or family members;
- Conducted transaction testing on the following elements to determine compliance with University policy:
  - Appointments and compensation packages,
  - Approval of compensation for officers and for other SMG members with salaries above \$168,000 by the Regents,
  - Salary increases,
  - Administrative stipends,
  - Incentive Awards,
  - Executive Auto Allowances,
  - Housing and relocation allowances,
  - Special retirement, health benefits or severance arrangements
  - Other compensation elements identified from review of offer letters, certifications, and other available data,
  - Separation Agreements;
- Reviewed any other support transactions (such as payments for dues, gifts, etc.) associated with an SMG member for reasonableness and public sensitivity concerns;
- Reviewed Annual Compensation Reports provided to The Regents and the public for disclosure purposes.

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<sup>5</sup> For the limited number of certifications not received, alternative procedures included expanded search of personnel and disbursements records for possible other forms of compensation.

#### **IV. AUDIT RESULTS**

The results of the Internal Audit are presented in detail in the attached Schedules:

##### ***Schedule 1--Schedule of SMG Compensation for Calendar Years 2003, 2004 and 2005***

Schedule 1A contains information for Officers of the University whose compensation is thus subject to Regental approval pursuant to the 1993 Principles. Elements of compensation that are contained in shaded areas were properly approved by The Regents and unshaded elements were not approved by The Regents.

Schedule 1B contains information for Non-Officers of the University whose compensation was not required to be approved by The Regents unless it exceeded \$168,000. For substantially all of these individuals, their base salary was approved by The Regents because it exceeded \$168,000. Additionally, in most cases, stipends were approved by The Regents where base salary plus the stipend amount exceeded \$168,000. Other elements of compensation were not submitted to The Regents for approval; however, if the element of compensation is shaded it was locally approved by an appropriate authority.

##### ***Schedule 2—Schedule of Other Employment Arrangements***

Schedule 2A contains information for Officers of the University whose compensation arrangements were subject to Regental approval pursuant to the 1993 Principles. Elements of compensation arrangements that are contained in shaded areas were properly approved by The Regents and unshaded elements were not approved by The Regents.

Schedule 2B contains information for Non-Officers of the University whose compensation arrangements generally did not require Regental approval other than salary above \$168,000. For these Senior Managers, employment arrangements that are provided for by virtue of their position as an SMG, or that were approved by an appropriate authority in compliance with an existing University policy, were considered appropriately approved and are shaded. Unshaded elements represent employment arrangements not properly approved or not offered in accordance with University policy.

***General Finding***--Consistent with the findings of the PwC audit and management's acknowledged practices, the Internal Audit identified a number of elements of compensation paid or committed that have not been approved by The Regents. The practice of bringing forward to The Regents only base salary and additional compensation (including stipends and incentives) resulted in many routine elements of compensation not being approved. There are markedly fewer failures to obtain appropriate approval disclosed in Schedule 1B, because Regental approval was not required. However, there were still certain failures to obtain the appropriate local approval or Office of the President approval. In addition to this recurrent finding, a number of individual circumstances were identified, as discussed below.

*Schedule 3—Exceptions to University Policy Not Properly Approved -- Compensation Elements Approved by The Regents Without Being Informed that the Matter Represented an Exception to Policy, and Errors in Payment, Coding or Reporting of Compensation*

A variety of exceptions were identified in the Internal Audit, most commonly the failure to seek Regental approval for all elements of compensation paid or offered to Officers covered by the 1993 Principles as noted above. Elements of compensation paid or committed to such Officers are not reported in Schedule 3 when the element of compensation was otherwise compliant with University policy. For example, the failure to seek Regental approval for SMG travel or life insurance is not reported in Schedule 3 because as a Senior Management Group member the individual is entitled to the benefit.

However, there were a number of elements of compensation that represented exceptions to policy, or failures to seek Regental approval for elements of compensation that did not represent entitlements by virtue of the SMG position. All of these matters are reported in Schedule 3 but the more frequent and/or significant are summarized below.

***Vacation Accrual Rate***—In 1996, the beginning vacation accrual rate for SMG members was reduced from 24 days to 18 days. In 2001 the Senior Management Advisory Committee communicated to the locations that it intended to reinstate the initial rate of 24 days vacation but did not obtain Regental approval. As a result, the Internal Audit identified 39 individuals who are accruing vacation at a higher rate than permitted by policy.

***Honoraria***—Fourteen (14) SMG members received honoraria from the University despite a policy that precludes Senior Managers from receiving additional forms of compensation from the University, other than for teaching University Extension courses. The amounts ranged from \$200 to \$13,000. In most cases, the recipients hold dual academic appointments and believed they were operating under provisions of the Academic Personnel Manual. This is an example of the lack of clarity as to which policies govern where they are in conflict.

***Incentive Payments***—Fourteen (14) SMG members benefited from individual incentive payments that were not provided for in policy or were not approved by The Regents. Some of these were one-time payments, including hiring bonuses of \$55,000 and \$75,000 to two Lab Senior Managers. The payments were approved by the DOE but not by The Regents. In other cases, the benefits are ongoing by virtue of promised personalized incentive awards of up to 15% of base pay.

***Housing/Relocation Assistance***—Exceptions were identified with respect to 13 housing allowance or relocation payments/arrangements. The exceptions included temporary housing assistance of a taxable nature and in excess of the duration provided by University policy and relocation allowances not approved by The Regents. One relocation allowance was given to a Senior Manager relocating within the State of California, and another relocation allowance was in excess of 25% of base pay. The largest housing allowance identified was \$187,500 and was offered together with a relocation allowance to bridge the gap in requested and authorized base salary.

***Stipends***—Eleven circumstances were identified in which stipends for additional responsibilities were either not initially approved by The Regents or were extended without obtaining approval for the continuation. In addition, it was not always clear that the additional duties were temporary and demonstrably incremental to the basic job responsibilities.

***SMSPP Eligibility***—Four SMG members with dual appointments are or were accruing both sabbatical credits and Senior Management Severance Pay Plan (SMSPP) accruals. Some are the result of erroneously informing the individual that they were entitled to the benefit. In addition several SMG members who have returned to non-SMG positions continued to accrue SMSPP benefits beyond the termination of their SMG appointment.

***Sabbatical Issues***—Six exceptions were identified in relation to sabbaticals ranging from a rate of pay higher than called for by application of the policy to specialized arrangements to earn sabbatical credits at higher than the standard rate. One individual was promised a six-month sabbatical but is in a position that is not entitled to accrue sabbatical credits.

***Auto Allowance***—Four individuals were identified as receiving auto allowances who are not authorized by the Executive Auto Allowance Program to receive an allowance.

***Vacation Forfeiture***—Six individuals were not required to forfeit a proportionate amount of vacation when granted an exception to receive summer research payments. In some cases, the exception to allow for a summer research payment up to 1/12 salary was not approved by the Chancellor as required by policy. In several cases, it appears that the exception to policy is routinely granted without assurance that the exceptional nature required by policy is met.

***Personalized and Enhanced Severance***—Eleven situations were identified in which SMG members had negotiated early separation or other forms of incremental severance arrangements as part of their employment. A dean who has a dual faculty appointment and was not permitted to receive SMSPP accruals was granted equivalent benefits by a chancellor. In another case, an individual in an acting capacity was given severance accruals in a manner as if they were entitled to participate in SMSPP. There are several instances in the health sciences senior administrative ranks in which SMG members have been promised six months to one-year severance in the event of involuntary termination without cause.

***Regents Action Not Identified as an Exception***—In three instances The Regents approved salary adjustments of greater than 25% without being informed that this represented an exception to policy. The increases were 26%, 28% and 30%. Also, in two instances The Regents approved stipends for additional duties without being informed of the 15% policy limit.

***Errors in W-2 Reporting***—Six circumstances were noted in which errors were made in reporting W-2 earnings. The most common error stemmed from the failure to include imputed income from life insurance.

***Errors in Coding***—In 4 cases there were errors in the coding of an element of compensation which overstated University of California Retirement Plan (UCRP) covered compensation.

***Errors in Payment***—Several minor errors were noted in which the individual was paid an amount (in base salary or stipend) that differed from the amount actually approved by The Regents. In the minor cases the amounts were in the range of several hundred dollars.

In one significant case, a Dean was overpaid by approximately \$146,000 (through March 2006) as a result of a complex mechanism put in place to avoid making an exception to the Health Sciences Compensation Plan (HSCP). The mechanism involved advancing funds to the Dean via increased HSCP payments of \$5,000 per month and deducting a similar amount on a one-year lag basis to constitute payment into the HSCP of an amount substantially equivalent to outside earnings he was allowed to retain. Instead of ceasing the additional compensation paid to the Dean monthly when the repayment portion of the mechanism was no longer necessary because of a change in the HSCP provisions for retention of outside earnings, the payments of \$5,000 have continued for over two years. The University is in discussion with the Dean about the resolution of this matter, which is complicated by the campus belief that were it not for the mistaken overpayment there would have been a recognized need for an equity adjustment for this Dean.

***Violation of Regents Standing Order 100.4 (dd)***—After consultation with UCOP, a Chancellor entered into a retention agreement with a Vice Chancellor, one of the elements of which was the extension of a loan in 1998 for the purchase of housing while the Vice Chancellor was already the recipient of a MOP loan. The terms of the loan are unusual and favorable to the Vice Chancellor and are under review by outside tax counsel. The retention agreement and intention to make the housing loan were discussed with senior UCOP officials. The loan was extinguished in 2004 upon the University's purchase of the property from the Vice Chancellor as provided in the terms of the promissory note. The University subsequently sold the property and full recovery was accomplished.

## **V. AUDIT FINDINGS, OBSERVATIONS AND RECOMMENDATIONS**

As stated at the beginning of this report, this Internal Audit was part of a series of efforts undertaken to address concerns in the area of executive compensation. As a result, the Internal Audit process was informed by the evolving findings of the PwC audit, the findings of the Task Force on UC Compensation, Accountability and Transparency and the results of the audit performed by the Bureau of State Audits. In general, the Internal Audit findings are consistent with the conclusions that have gone before it, and the Internal Audit's specific findings contained in Schedule 3 represent further manifestations of the conditions identified in those efforts.

***Additional Observations***--The Internal Audit was conducted on a systemwide basis and on a group of managers at a different level than those covered by PwC. As a result, we have a somewhat different perspective underlying some of the following additional observations:

- Locations have not always received clear, consistent and accurate advice from the Office of the President, as principally evidenced by the vacation accrual matter and the 2001 guidance on stipends for senior managers;
- Throughout the System there is less than adequate clarity on policy interpretation and on the authority required to make exceptions to policy. As a result, there is less than desirable consultation and excessive reliance on perceived authority.
- The decentralized nature of the University results in a lack of visibility for exceptional arrangements.
- Documentation of decision-making, policy consideration and consultation is frequently deficient which, among other things, makes it difficult to ascertain intent after the fact and to affix responsibility.
- It appears that as a result of a combination of outdated policies, and reportedly, market pressures, forms of compensation are being utilized for other than their originally intended purpose. For example, relocation allowances when paid in a lump sum appear to be used as signing bonuses rather than being provided to defray the higher cost of living over time.
- The numerous personal income tax issues that have arisen in these audits make it clear that unusual elements of employment arrangements require review by functional experts at the outset. In addition, the presence of personal income tax issues may be a “red flag” regarding the propriety of the contemplated arrangement.

***Additional Recommendations***—In addition to endorsing the recommendations that have come from the efforts referred to above we have the following recommendations.

- Even with its current shortcomings, Corporate Personnel System (CPS) can be utilized for continuous monitoring purposes as a diagnostic and analytical tool. Its usefulness will depend on the enforcement of more discipline in the assignment of transaction codes, but efforts in this regard should not await the development of new systems.
- The SMG coordinators’ roles at the campuses need to be reassessed and their interaction with UCOP should be enhanced. Similarly, the SMG coordinator at UCOP should take on an expanded role beyond assistance in the hiring phase of SMG employees.
- Policy review is especially needed in certain areas including:
  - Stipends—their appropriate use and duration, processes for approval and distinction from job descriptions that need to be rewritten and submitted for reclassification,
  - Vacation accrual—to align policy and practice,



- SMSPP eligibility for SMG members with dual appointments.
  - Applicability of SMG policies to people with an academic appointment in areas where the provisions of the Academic Personnel Manual are different (e.g. honoraria)
  - Sabbatical rate of pay, especially for SMG administrators.
  - Relocation Allowance and Faculty Housing Assistance—to address the intersection of the two programs, the availability of both forms in the same recruitment and the approval of the total transaction,
  - Relocation Allowance—repayment provisions if lump sum payments are made, and
  - Spousal hires when they are integral to the recruitment or retention process
- The locations can provide an additional check on the accuracy and completeness of Regental approval. We found it hard at many locations to find documentation of Regents' actions and so they were unaware of what was approved or disclosed to The Regents and public.

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## **University of California: Stricter Oversight and Greater Transparency Are Needed to Improve Its Compensation Practices**

### **AUDIT HIGHLIGHTS**

*Our review of the compensation practices of the University of California (university) revealed the following:*

- *The Corporate Personnel System (CPS) used by the university's Office of the President (president's office) to track the pay activity of university campuses contains inconsistencies and overly vague categories that did not allow us to determine the reliability of various compensation and funding source classifications contained within it and that limit its usefulness as an oversight tool.*
- *Despite these problems, the CPS is the most detailed and complete centrally maintained source of information, and in fiscal year 2004-05 it reflects that university employees earned approximately \$9.3 billion—comprised of \$8.9 billion in regular pay and \$334 million in additional compensation.*
- *The president's office appears to regularly grant exceptions to university compensation policy. In a sample of 100 highly paid university employees, 17 benefited from an exception to compensation policy.*
- *Appendix A presents the compensation, exceptions to policy, and additional employment inducements received by a sample of 100 highly compensated university employees.*
- *Some university campuses circumvented or violated university policy, resulting in a \$130,000 overpayment to an employee and improper increases to others' retirement-covered compensation.*
- *The university did not consistently disclose its officers' nonsalary compensation, such as housing allowances, to the Board of Regents as required by policy.*

### **RESULTS IN BRIEF**

The University of California (university) is a public, state-supported land grant institution with a mission to teach and conduct research in a wide range of disciplines and to provide public services. The university is administered by a 28-member Board of Regents (regents)<sup>1</sup>, which has delegated overall policy development, planning, and resource allocations to the Office of the President (president's office). Beginning in November 2005, numerous articles published in various media criticized the university for providing undisclosed additional compensation in the form of bonuses, administrative stipends, and relocation packages to faculty and administrators while at the same time increasing student fees. The university responded to the controversy created by the issues and allegations raised by the media by providing additional information and explanations to the public, by implementing fact-finding efforts, and by establishing new compensation-related policies.

We were asked to identify systemwide compensation totals for the university by type and funding source to the extent that data are centrally maintained and consistent among campuses. To accomplish this we used the university's Corporate Personnel System (CPS), which is a reporting system that provides management and staff in the president's office with demographic, personnel, and pay activity data on employees paid at the university's campuses and laboratories. Our review found that inconsistencies in how campuses classify compensation and funding sources limit the system's usefulness as an oversight tool for the president's office. Because of the data inconsistencies we found, we were unable to

determine the reliability of various compensation and funding source classifications contained within it. Although we found inconsistencies, we provide data from the CPS in the Audit Results of this report because it is the most detailed and complete centrally maintained source of this information. According to the CPS, university employees received \$9.3 billion in total compensation during fiscal year 2004-05. Regular compensation totaled over \$8.9 billion, with the remaining \$334 million going toward additional types of compensation. CPS data indicate that in fiscal year 2004-05 the 4,071 university employees earning \$168,000 or more received 10 percent of the regular compensation total but about 26 percent of the additional compensation total.

We were also asked to identify the compensation of highly paid individuals receiving the most funds from state appropriations and student tuition. The compensation for 662 individuals receiving at least \$168,000 in fiscal year 2004-05 from these sources totaled \$158 million. Appendix A presents the compensation received by the top 100 of these employees. While reviewing the compensation of these 100 employees, we found that the president's office regularly granted these individuals exceptions to university compensation policy. University policy authorizes the president's office to approve policy exceptions that provide employees with benefits for which they otherwise would not be eligible. Seventeen of the 100 individuals in our sample benefited from an exception to policy.

For example, the president's office granted a dean at the University of California at Riverside (Riverside) a housing allowance of \$187,500 at a time when policy limited such allowances to no more than \$53,300. In addition, the president's office granted six executives in our sample who held academic appointments, including four chancellors and a campus provost, exceptions permitting them to participate in the university's senior management severance pay plan. By doing so, the university agreed to contribute the equivalent of 5 percent of the employee's salary into an interest bearing account that they receive when they leave the university.

We also found that some campuses circumvented and in some cases violated university policies, resulting in an overpayment to a university employee and inappropriate increases to other employees' retirement-covered compensation. In an instance involving an employee at the University of California at San Diego (San Diego), a president's office official proposed a pay arrangement that circumvented policy and, because of San Diego's faulty monitoring of the arrangement, resulted in an overpayment to the employee of \$130,000 between November 2001 and January 2006. In a second case, the University of California at Los Angeles advanced a law professor \$75,000 in future summer compensation and classified this payment as a housing allowance in the campus's payroll system. In a third instance, despite being on sabbatical for much of fiscal year 2004-05, a San Diego vice chancellor continued to receive a \$68,100 administrative stipend for a position she had vacated and also an \$8,900 auto allowance. University policy states that senior managers' sabbatical compensation shall be based solely on their administrative salary, which would not include a stipend or auto allowance.

Our review also revealed that some campuses violated the university's retirement plan policy by including inappropriate forms of compensation, such as housing and auto allowances, in individuals' retirement-covered compensation, a percentage of which they may receive when they retire. For instance, Riverside included housing allowances, each totaling \$53,300, in two officials' retirement-covered compensation, and the University of California at Irvine included \$4,800 in auto allowance payments and \$42,373 in profit associated with basketball camps in a coach's retirement-covered compensation. The president's office indicated that it is looking into these and the other apparent violations of policy that we found.

The regents' policies require them to approve all forms of compensation for officers of the university. However, although the university consistently obtained regents' approval for the salaries of officers, it did not consistently disclose to the regents officers' nonsalary compensation, such as housing and auto allowances, as required by university policy. In a sample of 10 officers, the university violated its executive compensation policy by not disclosing to the regents eight auto allowances, four housing allowances (two related to one officer), two transfers of sabbatical credits, and an acceleration of health insurance contributions at the time the regents considered the individuals' appointment. For example, although the university agreed to provide an incoming provost with a \$125,000 housing allowance, it did not disclose this allowance to the regents when they were deciding on the provost's salary.

Consequently, the regents increased the new provost's salary to \$380,000 without knowing she was receiving a \$125,000 housing allowance.

Information about salary and nonsalary compensation to university officers was disclosed in the university's annual report on compensation for fiscal year 2004-05. However, the usefulness of this report is limited because it contained inaccuracies and because the president's office did not submit this report to the regents until eight months after the close of the fiscal year, March 2006, at which time it also submitted the report for fiscal year 2003-04. Finally, although university policy does not mandate disclosure of the compensation of employees who are not officers, five of the 10 employees in our sample who were not officers were provided significant housing and/or relocation allowances ranging from \$100,000 to \$270,000. Except for one relocation allowance, these allowances were not disclosed to the regents when they approved the five employees' salaries. Consequently, we question whether the regents' and university's policies provide the transparency necessary to ensure effective oversight of compensation by the regents.

Appendix B presents the results of our survey of compensation programs and disclosure policies of comparable universities. In this appendix we present the responses we received from the University of California and seven other universities in California and other states. Although the seven responding universities did not fully complete our survey, their responses show that they generally do not disclose more about the details of employee compensation to the public than the University of California.

## RECOMMENDATIONS

To improve its ability to monitor campus compliance, the president's office needs to issue clear directives prescribing consistent use of the CPS. These directives should include a requirement that campuses consistently classify compensation into standard categories that best describe the compensation provided to employees. Also, the president's office should standardize the categories that can be included in retirement-covered compensation and restrict the use of classifications that are too vague to allow the president's office to ensure that the compensation complies with university policy.

To preserve the integrity of the compensation policies it issues, the president's office needs to limit the number of exceptions to policy it allows. This objective could be accomplished by the regents requiring the university to track and annually report exceptions to compensation policy that the president, provost, vice chancellor of academic affairs, campus chancellors, and other university officials grant during a fiscal year and provide justification for each exception.

To preserve the integrity of the compensation policies it issues, the president's office needs to improve its oversight of campuses' compliance with those policies. One mechanism it should use to improve oversight is to annually use CPS data to identify unauthorized exceptions to policy, such as housing and relocation allowances paid above allowable limits and auto allowances being granted to individuals who do not qualify.

The president's office should determine if it is appropriate to require repayment of university funds for the instances we identified in which a university employee received compensation in violation of university policy, and if so, develop a repayment plan with each employee.

To eliminate inappropriate compensation included in employees' retirement earnings, the president's office should remove the amounts we identified from the employees' retirement earnings and establish a mechanism to detect, on at least an annual basis, compensation that campuses have incorrectly classified as retirement covered.

To increase transparency as it relates to the compensation of highly paid university employees, the regents should require the president's office to disclose all forms of compensation for university officers and for all employees whose compensation exceeds an established threshold. This disclosure should occur when the regents approve the employees' salaries and at least annually in a report to the regents. If the president's office continues to submit its annual report on compensation to the regents, it should

ensure that it is accurate and timely.

## **AGENCY COMMENTS**

The university accepts the findings in our report and indicates that it will combine our recommendations with those of other efforts currently underway to make improvements to the university's compensation programs and disclosure practices.

<sup>1</sup> This includes two nonvoting members from the university faculty.

ABOUT THE UNIVERSITY OF CALIFORNIA

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Office Of Strategic Communications

**TASK FORCE ON UC COMPENSATION,  
ACCOUNTABILITY AND TRANSPARENCY**

Seven distinguished state and national figures have been named to serve on the task force to review UC compensation policies and practices, including disclosures, and provide recommendations to the Board of Regents.

The task force will be chaired by former California state Assembly Speaker Robert Hertzberg and Regent Joanne C. Kozberg and will report to the Regents.

“Former Speaker Hertzberg and Regent Kozberg have recruited a number of distinguished individuals from outside the university to bring their perspectives to the task force,” said Board of Regents chairman Gerald Parsky. “I am requesting them to give us a candid, forthright and uncensored set of recommendations, all of which will be made public.”

The members include:

- **Dede Alpert**, a former California State Senate and Assembly member who chaired the Senate Appropriations Committee, the Joint Committee on the Master Plan for Education, and the Education Committees of both houses. She currently serves as special adviser for public policy and strategic planning for the Sacramento-based law firm Nielsen Merksamer.
  - **Clifford Brunk**, chair of UC’s Academic Council. He is a professor of cell and molecular biology at UCLA, where he has been on the faculty since 1967. He has served on numerous Academic Senate committees and has chaired the biology department at UCLA and was divisional chair of the UCLA Academic Senate.
  - **James J. Duderstadt**, president emeritus of the University of Michigan, university professor of science and engineering, and director of the Millennium Project. Duderstadt currently serves on or chairs several major national study commissions, including the Secretary of Education’s Commission on the Future of Higher Education.
  - **B. Kipling (Kip) Hagopian**, managing partner of Apple Oaks Partners, LLC, a private investment company. Hagopian co-founded Brentwood Associates, a high-technology venture capital and private equities firm in 1972. He currently serves on a number of corporate and non-profit boards, and has been a witness at several government hearings on tax policy, venture capital and securities law.
  - **Jay T. Harris**, former publisher of the *San Jose Mercury News* who now holds the Wallis Annenberg Chair in Journalism and Communication at the Annenberg School for Communication at the University of Southern California. Harris, who joined the USC faculty in 2002, also serves as the founding director of The Center for the Study of Journalism and Democracy.
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- **Monica C. Lozano**, a member of the UC Board of Regents who is the president and chief operating officer of La Opinión, the largest Spanish-language daily newspaper in the U.S., which was founded by her family. She serves on numerous corporate and non-profit boards, and is a former member of the California State Board of Education from 1999 to 2001.
- **James E. Morley, Jr.**, president and CEO of the National Association of College and University Business Officers, a Washington, D.C.-based organization dedicated to higher education administrative and financial issues. Morley is a former senior vice president at Cornell University.

The task force's charge will include the following:

- Review the current regents' compensation policies and practices for faculty and senior managers, and recommend appropriate changes, if needed;
- Review current disclosure policies and practices, and recommend appropriate changes to achieve the university's responsibilities as a public institution while also protecting the personal privacy rights of university employees as required by law.

In doing so, the group will review the compensation policies and practices, as well as the disclosure policies and practices, for faculty and senior managers at other universities.

The task force will report back by March 1, 2006, with its recommendations.

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# RE-74

Office of the Secretary -

TO THE MEMBERS OF THE SPECIAL COMMITTEE ON COMPENSATION:

## ACTION ITEM

*For Meeting of May 17, 2006*

### **REGENTS' PLAN FOR REFORMS IN RESPONSE TO THE REPORT OF THE TASK FORCE ON UC COMPENSATION, ACCOUNTABILITY, AND TRANSPARENCY**

Regents Hopkinson and Kozberg recommend that the Special Committee on Compensation recommend to The Regents that they adopt the actions shown in the ~~attachment~~ in response to the recommendations of the Task Force on UC Compensation, Accountability, and Transparency.

## **BACKGROUND**

The Task Force on UC Compensation, Accountability, and Transparency was appointed in December 2005 by Chairman Parsky to conduct an independent review of UC's policies and practices on executive compensation and on the release of public information about compensation and related matters. The Task Force was co-chaired by Regent Kozberg and former Assembly Speaker Robert Hertzberg and included Dede Alpert, former State Senator; James Duderstadt, President Emeritus, University of Michigan; Kip Hagopian, Managing Partner, Apple Oaks Partners, LLC; Jay Harris, former Publisher of the *San Jose Mercury News* and Wallis Annenberg Chair in Journalism and Communication, Annenberg School for Communication, University of Southern California; Regent Monica Lozano, Publisher and Chief Executive Officer of *La Opinión*; James Morley, Jr., President and CEO, National Association of College and University Business Officers; and John Oakley, Chair, UC Academic Senate.

At the April 13, 2006 meeting of The Regents, the Task Force presented its report of findings and recommendations. The report focused on four areas: disclosure and transparency; governance and accountability; specific policies and practices; and competitive compensation.

In order to address many of the issues identified by the Task Force, a complete rethinking of University compensation policies, practices, and procedures is required. The success of these reforms—as well as assurance that University policies and practices survive leadership changes systemwide—will depend on a new, comprehensive policy framework. It must be guided by the principles of public accountability and disclosure.



**SPECIAL COMMITTEE  
ON COMPENSATION  
May 17, 2006**

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effective governance and oversight, individual and institutional accountability, and institutional competitiveness. It is anticipated that the conceptual basis for this new policy framework will be brought to The Regents for discussion at the July meeting, along with an implementation timeline .

In the longer term, in developing a new comprehensive policy framework, the University will also undertake an evaluation of all faculty and staff compensation policies and procedures, in consultation with the affected employee groups.

President Dynes has appointed an Implementation Committee and workgroups composed of campus, medical center, and Office of the President personnel. The committee and workgroups have begun meeting and are poised to implement those Task Force recommendations ultimately adopted by The Regents.

The attached table displays 23 recommended actions and estimated timelines for each of the Task Force recommendations.

(Attachment)

**Compensation Policies and Practices:  
Actions in Response to Task Force Recommendations**

Action Item #	Task Force Recommendation #	Report Page #	Task Force Recommendation	Recommended Action and Comments	Timing
RE-74a	All recommendations relating to policies and procedures		<p align="center">GENERAL</p> <p>The recommended actions pertain to all Task Force recommendations relating to policies and procedures.</p>	<p><u>RECOMMENDED ACTION: CONCUR</u></p> <p><u>FUTURE ACTIONS:</u></p> <p>1. <u>CREATE POLICY FRAMEWORK &amp; TIMETABLE.</u> All compensation policies and procedures will be examined, a new comprehensive framework created, and new policies and procedures developed. A timetable for these will be established as part of the framework, and individual items will come forward for approval in accordance with this framework and timetable. (Note: The framework would include an outline, or "table of contents," of the subject matter of all policies.)</p> <p>2. <u>CREATE ADVISORY COMMITTEE.</u> The development of these items will be accomplished with an Advisory Committee that is composed of representatives from the administration, faculty, and staff at the campuses and the Office of the President.</p> <p>3. <u>RETAIN CONSULTANT.</u> An external consultant will be required to assist in preparing the overall framework and individual policies and procedures.</p> <p>4. <u>ONGOING TRAINING.</u> An evaluation will be made to determine if an external consultant is required to provide ongoing training for leaders and managers once a new comprehensive policy compendium is in place.</p> <p><u>ACTIONS UNDERWAY:</u></p> <p>1. <u>IMPLEMENTATION COMMITTEE.</u> To assist The Regents in implementing the Task Force recommendations, the President has appointed an Implementation Committee and workgroups focused on the major areas of the recommendations. The committee</p>	<p>Policy framework &amp; timetable: Sept 2006</p> <p>Advisory Committee: Create immediately</p> <p>Consultant recommendation: July 2006</p> <p>Consultant recommendation: July 2006</p> <p>Implementation Committee and workgroups appointed: May 2006. Work is</p>

RE-74 Attachment

Action Item #	Task Force Recommendation #	Report Page #	Task Force Recommendation	Recommended Action and Comments	Timing
RE-74b	#1 Disclosure and Transparency	10	The University should develop and broadly communicate a systemwide policy governing the disclosure of compensation information to the public. Such a disclosure policy must balance public access, personal privacy, and institutional competitiveness by defining what UC considers public versus private/protected information. UC must also provide ongoing training for its leaders and managers about its compensation disclosure policies and practices.	and workgroups have begun organizing their work and are poised to effect any changes in policy and practice adopted by The Regents.  <b><u>RECOMMENDED ACTION: CONCUR</u></b>  <b><u>FUTURE ACTIONS:</u></b>  1. <b><u>ESTABLISH NEW DISCLOSURE POLICY.</u></b>  2. <b><u>TRAINING ON POLICY.</u></b> Provide on-going training for leaders and managers. An evaluation will be made to determine if an external consultant is required to provide ongoing training once a new disclosure policy is in place.	underway.  Disclosure policy: July 2006  Training recommendations: July 2006
RE-74c	#2 Disclosure and Transparency	11	UC must ensure that all relevant information about compensation packages is provided to The Regents in advance of approval. Following Regents' approval, compensation information should be disclosed to the public in a timely manner.	<b><u>RECOMMENDED ACTION: CONCUR</u></b>  <b><u>ACTIONS UNDERWAY:</u></b>  1. <b><u>NEW COMPENSATION DISCLOSURE TEMPLATE.</u></b> A new template consistent with the sample template developed by the Task Force that includes all elements of total compensation for those employees whose compensation requires Regental approval will be used to present compensation information to The Regents prior to approval, as well as to disclose this information to the public following Regents' action.	New template: Completed and in use since March 2006
RE-74d	#3 Disclosure and Transparency	12	The University should invest in a modern, comprehensive, integrated human resources information system that enables compensation data to be quickly examined and analyzed—at the campuses, medical centers, national laboratories, and systemwide—so that UC can meet its obligation of public accountability.	<b><u>RECOMMENDED ACTION: CONCUR</u></b>  <b><u>FUTURE ACTIONS:</u></b>  1. <b><u>CONDUCT NEEDS ASSESSMENT AND PLAN.</u></b> Undertake a needs assessment and develop a plan and timeline for implementing a systemwide, comprehensive, integrated human resources information system. Significant additional resources will be required to develop a new comprehensive system.	Needs assessment, implementation plan and timeline: Sept 2006

Action Item #	Task Force Recommendation #	Report Page #	Task Force Recommendation	Recommended Action and Comments	Timing
			<p>Because the new systems will require a major investment of time, money, and staffing, the University should phase in implementation, beginning first with systems that track senior management compensation.</p>	<p><u>2. PHASE IN IMPLEMENTATION OF NEW INFORMATION SYSTEM</u></p> <p><b>ACTIONS UNDERWAY:</b></p> <p>1. PHASE ONE. President Dynes has committed funding for the first phase of the new system (capturing and tracking senior management compensation data).</p>	<p>Phase One: Operational by Dec 2006</p>
RE-74c	#4 Disclosure and Transparency	13-14	<p>The University should establish clear protocols, procedures, and forms that allow for full and timely compensation reporting. These reports should include:</p> <ul style="list-style-type: none"> <li>• Annual reports on total compensation for UC executives.</li> <li>• Annual reports on outside compensated professional activities.</li> <li>• Annual reports on base salaries for all UC employees.</li> <li>• Compliance with annual compensation reporting requirements to The Regents and the Legislature.</li> <li>• Regular reviews of compensation policies and practices.</li> <li>• Regular reports on compensation actions taken by The Regents at Board meetings as well as compensation actions taken between Board meetings.</li> </ul>	<p><b><u>RECOMMENDED ACTION: CONCUR</u></b></p> <p>The Regents unequivocally support full disclosure and public accountability. Nonetheless, in balancing disclosure with institutional competitiveness, additional analysis may be warranted on the proposed annual report on base salaries for all UC employees.</p> <p><b><u>FUTURE ACTIONS:</u></b></p> <p>1. REVISE ANNUAL REPORTS. The annual report on total compensation for UC executives will be revised to capture all elements of total compensation, once The Regents define "total compensation" (see RE-74g, #6 <i>Disclosure and Transparency</i>).</p> <p>2. DETERMINE GROUP UNDER REGENTS' DIRECT OVERSIGHT. For both this report and the annual report on outside compensated professional activities, The Regents also need to define the group of University employees (see RE-74n, #6 <i>Governance and Accountability</i>) and the time period (i.e., fiscal, calendar, or academic year) that the report will cover.</p> <p>3. COMPLIANCE. Compliance with annual compensation reporting requirements to The Regents, the Legislature, and the California Postsecondary Education Commission and annual reviews of compensation policies and practices will be the responsibility of the newly proposed Regents' Compliance Office.</p>	<p>Timeline for new, clear protocols, procedures, and forms for reporting: July 2006</p> <p>Defined as part of overall policy review. Framework and timetable: July 2006 (See RE-74d, <i>General</i>).</p> <p>Approval of Compliance Office: May 2006</p>

RE-74 Attachment

Action #	Task Force Recommendation #	Report Page #	Task Force Recommendation	Recommended Action and Comments	Timing
RE-74f	#5 Disclosure and Transparency	14	The University should improve public information and ensure that this information is readily available, including creating a new, easily accessible Web site for posting UC compensation information consistent with the other recommendations in this report.	<p><b>RECOMMENDED ACTION: CONCUR</b></p> <p><b>ACTIONS UNDERWAY:</b></p> <p>I. <b>COMPENSATION WEBSITE.</b> The President's Office is designing a new website dedicated to providing compensation information, reports, and studies. Once the overall policy review and reform is completed, the website will also make available all University compensation policies, in an easily accessible and searchable format.</p>	<p>Preliminary website design: May 2006</p> <p>Further website development is underway.</p>
RE-74g	#6 Disclosure and Transparency	15	The Regents should reaffirm the definition of "total compensation" in the Regents' 1992 Principles for Review of Executive Compensation and further clarify some missing elements to ensure consistency with accepted standards and practices.	<p><b>RECOMMENDED ACTION: CONCUR, and continue discussion in July</b></p> <p><b>FUTURE ACTIONS:</b></p> <p>I. <b>REAFFIRM PRINCIPLES.</b></p> <p>2. <b>DEFINE "TOTAL COMPENSATION."</b> Further analysis and discussion of the definition of "total compensation" is required. Issues to consider include: What elements are missing? How to value in dollar terms "retirement and other benefits"? What elements are included in "any forms of compensation"?</p> <p>3. <b>REVISE REPORTS, FORMS, POLICIES, AND PROCEDURES.</b> Once The Regents have defined the elements of "total compensation," all annual reports, disclosure forms and templates, and policies and practices will be made consistent with this definition and the Principles.</p>	<p>Reaffirm Principles: July 2006</p> <p>Define "Total Compensation": July 2006</p> <p>Revised as part of overall policy review. Framework and timetable: July 2006 (See RE-74a, General)</p>
RE-74h	#7 Disclosure and Transparency	15	The UC Office of the President should immediately assign to one person the Public Information Practices Coordinator role. This staff member should coordinate all Public Records Act (PRA) requests and develop clear protocols and timelines for processing these	<p><b>RECOMMENDED ACTION: CONCUR</b></p> <p><b>ACTIONS UNDERWAY:</b></p> <p>I. <b>PUBLIC INFORMATION PRACTICES COORDINATION.</b> President Dynes has appointed Gail Riley as the Public Information Practices Coordinator, on</p>	<p>Interim appointment made: April 2006</p>

RE-74 Attachment

Action Item #	Task Force Recommendation #	Report Page #	Task Force Recommendation	Recommended Action and Comments	Timing
RE-74i	#1 Governance and Accountability	16-17	<p>The Regents should examine specific aspects of the University's compliance mechanisms, and if necessary, make changes or introduce new oversight mechanisms to ensure compliance. Specifically, the Regents' Compensation Committee should have primary responsibility for setting compensation policies and providing necessary oversight to ensure compliance.</p>	<p>an interim basis. Mr. Riley has already begun to develop protocols and timelines for processing PRAs and other information requests. The President's Office will report periodically on progress in this area, and a permanent appointment will be made in the near future.</p> <p><b><u>RECOMMENDED ACTION: CONCUR</u></b></p> <p><b><u>ACTIONS UNDERWAY:</u></b></p> <p>1. <b><u>COMMITTEE ON COMPENSATION:</u></b> The charge of the Special Committee on Compensation is consistent with this recommendation that the Committee have primary responsibility for compensation policies, oversight, and compliance. This Committee should be made permanent, and its charge clearly articulated.</p> <p>2. <b><u>OVERSIGHT MECHANISMS:</u></b> Further analysis is required to determine the most effective oversight mechanisms to ensure compliance with policies, some of which will occur as part of the overarching policy review.</p> <p>3. <b><u>LIAISON:</u></b> President Dynes has designated, on an interim basis until a new senior administrative officer is named, Senior Vice President Bruce Darling as the administration's liaison to the Special Committee on Compensation.</p> <p>4. <b><u>OVERSIGHT COMMITTEE:</u></b> An Oversight Committee to provide guidance and direction for policy and procedure recommendations with representatives from UCOP, Campus Administration, Faculty and Staff shall be created by the Chair of the Regents, the Chair of the Special Committee on Compensation, and the President.</p> <p><b><u>ACTIONS UNDERWAY:</u></b></p>	<p>Special Committee on Compensation established: Jan 2006. Committee on Compensation to be established permanently: July 2006</p> <p>Analysis as part of overall policy review. Framework and timetable: July 2006 (See RE-74a, General.)</p> <p>Interim appointment made: April 2006 Permanent liaison: Upon filling position vacated by former SVP Mullinix.</p> <p>Create Oversight Committee: June 2006</p>

RE-74 Attachment

Action Item #	Task Force Recommendation #	Report Page #	Task Force Recommendation	Recommended Action and Comments	Timing
RE-74j	#2 Governance and Accountability	17	<p>The Regents should clearly delineate the respective authority of the Regents, the President, and the chancellors in approving compensation decisions. They should also specify which decisions can be delegated, the conditions under which decisions can be delegated, and the review and approval process for delegated decisions.</p> <p>Compensation decisions should be regularly audited to ensure that they are being made and approved at the appropriate levels.</p>	<p>1. To assist The Regents in implementing the Task Force recommendations, the President has appointed an Implementation Committee and workgroups focused on the major recommendations. The workgroups have begun organizing their work and are poised to effect any changes in policy and practice adopted by The Regents.</p> <p><b>RECOMMENDATION: CONCUR</b></p> <p><b>FUTURE ACTIONS:</b></p> <p>1. <u>DELINEATION OF AUTHORITY</u>. The clear delineation of authority on approving compensation decisions will occur as part of the overarching policy review.</p> <p>2. <u>REGULAR AUDITS</u>. The specific nature and content of the audit will be developed as part of the new policies and procedures. The Special Committee on Compensation and the Committee on Audit will work with the newly proposed Regents' Compliance Officer and the University Auditor to perform annual audits of compensation decisions and approvals.</p>	<p>Implementation Committee and workgroups appointed: May 2006. Work is underway.</p> <p>Delineation of authority as part of the overarching policy review. Framework and timeline: July 2006 (<i>See RE-74a, General.</i>)</p> <p>Audits: Annual, beginning with FY 2006-07</p> <p>Audit content: Jan 2007</p>
RE-74k	#3 Governance and Accountability	18	<p>Compensation policies should include specific guidance about when exceptions to policy are appropriate, who may grant them, and through which mechanisms. Exceptions should be subject to rigorous review and advance approval by the appropriate higher authority. To monitor compliance, all exceptions should be reported to a central office or individual.</p>	<p><b>RECOMMENDED ACTION: CONCUR</b></p> <p><b>ACTIONS UNDERWAY:</b></p> <p>1. <u>TEMPLATE</u>. As an immediate first step, the new compensation disclosure template (<i>see #2 Disclosure and Transparency above</i>) shows clearly any exceptions to policy for all new senior-level appointments that require Regental approval. Use of the template will be extended to other compensation actions for UC executives, including promotions, stipends, and other adjustments.</p> <p><b>FUTURE ACTIONS:</b></p> <p>1. <u>INFO SYSTEMS</u>. The proposed new human resources information systems (<i>see Disclosure and Transparency 3</i></p>	<p>New template: Completed and in use since March 2006</p> <p>HR info systems: <i>See RE-74d, #3 Disclosure</i></p>

RE-74 Attachment

Action Item #	Task Force Recommendation #	Report Page #	Task Force Recommendation	Recommended Action and Comments	Timing
RE-74i	#4 Governance and Accountability	18	Policies must include specific consequences for violations of compensation policy. Violations should be reported annually to the Regents' Compensation Committee and, where appropriate, sanctions should be issued.	<p>above) should include mechanisms to capture, track, and monitor exceptions to policy.</p> <p><u>2. POLICY REVIEW.</u> The overarching policy review will a) address exceptions to policy; and 2) reveal and resolve any outdated or confusing policies that may result in the excessive granting of exceptions. In the case of the latter, updating the policies should significantly reduce the use of exceptions.</p> <p>3. Annual audits of compensation decisions will include an examination of exceptions and the rationale for them. Monitoring for compliance will be the responsibility of the newly proposed Regents' Compliance Officer.</p> <p><b><u>RECOMMENDED ACTION: CONCUR</u></b></p> <p><b><u>ACTIONS UNDERWAY:</u></b></p> <p>1. <u>SPECIFIC POLICY ON VIOLATIONS.</u> An initial policy on violation of University policy or law by individuals with negotiated separation agreements is required.</p> <p><b><u>FUTURE ACTIONS:</u></b></p> <p>1. <u>COMPREHENSIVE POLICY ON VIOLATIONS.</u> A new comprehensive policy addressing the consequences for violations of policy will be developed.</p>	<p>and Transparency</p> <p>Policy revisions: Part of the overall policy review. Framework and timeline: July 2006. (See RE-74a, General.)</p> <p>Annual audits: See RE-74j, #2 Governance and Accountability.</p> <p>New policy: May 2006</p> <p>New comprehensive policy as part of overall policy review. Framework and timeline: July 2006. (See RE-74a, General.)</p>
RE-74m	#5 Governance and Accountability	19	UC should immediately eliminate any conflicts in its compensation and related governance policies and clarify precisely which policies apply to different groups of employees.	<p><b><u>RECOMMENDED ACTION: CONCUR</u></b></p> <p><b><u>FUTURE ACTIONS:</u></b></p> <p>1. <u>CLARIFY POLICIES, ELIMINATE CONFLICTS.</u> Undertake an overarching policy review to address conflicts in policy and to clarify which policies apply to whom.</p>	<p>Policy revisions as part of overall policy review. Framework and timeline: July 2006. (See RE-74a, General.)</p>



Action Item #	Task Force Recommendation #	Report Page #	Task Force Recommendation	Recommended Action and Comments	Timing
RE-74n	#6 Governance and Accountability	19	The Task Force recommends that the Regents retain direct authority to approve compensation for the President, senior vice presidents, vice presidents, associate/assistant vice presidents, the university auditor, the university controller, principal officers of the Regents, chancellors and vice chancellors, national laboratory directors and deputy directors, medical center CEOs, professional school deans, and the top five most highly compensated positions at each UC location. This currently yields 264 individuals.	<p><b>RECOMMENDED ACTION: CONCUR, with the exception that the top five most highly compensated positions at each UC location be excluded at this time pending further study.</b></p> <p><b>FUTURE ACTIONS:</b></p> <p>1. <b>MODIFY POLICIES.</b> Modify all policies, procedures, and reports to include the recommended positions (excluding the "top five").</p> <p>2. <b>FURTHER ANALYSIS.</b> Study further issues associated with including top five most highly compensated.</p>	Further analysis of "top five" and revised policies, procedures, and reports as part of overall policy review. Framework and timeline: July 2006. (See RE-74a, General)
RE-74o	#7 Governance and Accountability	20	UC leaders should vigorously promote standards of ethical conduct and UC should continue to broadly communicate its whistleblower and anti-retaliation policies.	<p><b>RECOMMENDED ACTION: CONCUR</b></p> <p><b>ACTIONS UNDERWAY:</b></p> <p>1. <b>ETHICS PROGRAM.</b> In September 2005, the Regents adopted the University's <i>Statement of Ethical Values and Standards of Ethical Conduct</i>, and a program of implementation, including training for all UC employees. President Dynes committed funding in April 2006 to implement the training program.</p> <p><b>FUTURE ACTIONS:</b></p> <p>1. <b>TRAINING.</b> Full implementation of the training program</p>	<p>Program adopted Sept 2005. Broad communication and education of whistleblower and anti-retaliation policies ongoing.</p> <p>Content development for the training has begun. Estimated roll-out to begin Fall 2006.</p>
RE-74p	#1 Specific Policies and Practices	21	The University should adopt specific limits on externally compensated activities to preclude conflicts of commitment on the part of senior executives. Based on leading best practices in governance from the public and private sectors, UC senior executives should be limited to	<p><b>RECOMMENDED ACTION: CONCUR in principle that there should be a limit, but requires additional analysis.</b></p> <p><b>FUTURE ACTIONS:</b></p>	

RE-74 Attachment

Action Item #	Task Force Recommendation #	Report Page #	Task Force Recommendation	Recommended Action and Comments	Timing
			<p>servicing on no more than three externally compensated boards.</p>	<p>1. <b>EXTERNAL BOARD SERVICE:</b> Develop a policy on UC service on all external boards, including externally compensated boards. The policy should be limited based on "a standard of reasonableness" and avoid a conflict of commitment and a conflict of interest.</p> <p>2. <b>ADDRESS DEFINITIONAL ISSUES.</b> Such issues include: Does "board" refer only to boards of directors, or also to board committees, scientific advisory committees, and the like? How will uncompensated board service that requires a significant time investment and may represent a "conflict of commitment" be considered in policy?</p>	<p>Analysis and recommendation: Sept 2006.</p> <p>Analysis and recommendation: Sept 2006.</p>
RE-74q	#2 Specific Policies and Practices	22	<p>Policies governing outside professional activities and board service for senior managers who also hold faculty appointments should be revised so that the senior manager policy prevails.</p>	<p><b>RECOMMENDED ACTION: CONCUR that policy needs revision for clarity and consistency, but requires additional analysis.</b></p> <p>A new policy governing outside professional activities and board service for senior managers with academic appointments should be developed in consultation with the Academic Senate, and brought back to The Regents.</p>	<p>New policy as part of overall policy review. Framework and timeline: July 2006. (See RE-74a, General.)</p>
RE-74r	#3 Specific Policies and Practices	22-23	<p>The University should carefully review its policies on "administrative leaves in lieu of sabbaticals" for senior managers who also hold academic appointments, especially chancellors, and revisit the provision that these leaves be paid at the higher administrative salary rate rather than the faculty salary rate.</p> <p>The University must also revisit the questionable practice of honoring sabbatical credits earned at other institutions to ensure it is in accordance with both the letter and the spirit of sabbatical policies. Furthermore, the Regents should eliminate the practice of making payments, at the commencement of employment, to compensate for forfeited sabbatical credits accrued at other institutions.</p>	<p><b>RECOMMENDED ACTION: CONCUR, and as part of overall policy review, explicitly include a policy provision that prohibits payments, at the commencement of employment, to compensate for forgone sabbatical credits accrued at other institutions; further analysis on other parts of recommendation is required.</b></p> <p><b>FUTURE ACTIONS:</b></p> <p>1. <b>POLICY REVIEW/REVISION:</b> Both the salary rate of pay for "administrative leaves in lieu of sabbatical" and the recruitment practice of honoring sabbatical credits earned at prior institutions require further evaluation. Recommendations should be developed in consultation with the Academic Senate and brought back to The Regents.</p> <p>Some issues to consider: How do UC's policies and practices compare with those at comparable institutions?</p>	<p>Policy analysis and recommended changes as part of overall policy review. Framework and timeline: July 2006. (See RE-74a, General.)</p>

RE-74 Attachment

Action Item #	Task Force Recommendation #	Report Page #	Task Force Recommendation	Recommended Action and Comments	Timing
RE-74s	#1 and #2 Competitive Compensation	24-25	The Regents should implement, in a vigorous and sustained manner, their compensation philosophy emphasizing the importance of competitive compensation as a means to maintain the quality of academic, management, and staff personnel.	<p>How any policy changes will affect those individuals who are about to take such a leave or those who have already received a transfer of sabbatical credits from prior institutions?</p> <p><b>RECOMMENDED ACTION: CONCUR</b></p> <p><b>ACTION UNDERWAY:</b></p> <p>1. <b>COMPENSATION PHILOSOPHY.</b> Beginning November 2005, The Regents have begun to implement their compensation philosophy (as originally stated in RE-61), which states a goal of bringing employee compensation to competitive levels in 10 years. The Regents began to implement this goal in 2005-06 with a supplemental 1% funding availability for salaries.</p> <p><b>FUTURE ACTIONS:</b></p> <p>1. <b>ADDITIONAL RESOURCES.</b> The Regents must continue to find additional resources to bring compensation to comparable levels, from all sources – including state, federal, and private funds – The Regents will continue to do so in consultation with faculty, staff, and administrators.</p> <p>2. <b>EXTERNAL BENCHMARKING.</b> External benchmarking should be ongoing once compensation elements for review are agreed upon. Need to determine frequency of benchmarking.</p>	Has begun but is ongoing.
RE-74t	#3 Competitive Compensation	26	The Regents should examine the composition of UC compensation to determine if the balance between cash compensation versus health and retirement benefits is optimal for recruitment and retention purposes. The Regents should approach this examination with the understanding that the underlying issues may differ among employee groups and that some issues are subject to the collective bargaining process.	<p><b>RECOMMENDED ACTION: CONCUR</b></p> <p><b>ACTIONS UNDERWAY:</b></p> <p>1. <b>ANALYSIS OF TOTAL COMPENSATION.</b> A workgroup appointed by the President is assisting The Regents in analyzing the composition of UC compensation, mindful of underlying differences among employee groups. This work has begun and is ongoing.</p>	Ongoing.

RE-74 Attachment

Action Item #	Task Force Recommendation #	Report Page #	Task Force Recommendation	Recommended Action and Comments	Timing
RE-74u	#4 Competitive Compensation	26-27	The Regents should regularly benchmark the University's compensation against peer institutions to ensure that UC compensation remains competitive.	<p><b>FUTURE ACTIONS:</b></p> <p><u>2. OVERSIGHT COMMITTEE.</u> Ongoing evaluation and consultation with systemwide faculty, staff, and administrators are necessary, culminating in changes to compensation and benefits that optimize retention and recruitment.</p> <p><u>RECOMMENDED ACTION: CONCUR</u></p> <p><b>ACTIONS UNDERWAY:</b></p> <p><u>1. BENCHMARKING.</u> UC currently benchmarks through participation in CPEC surveys on executive compensation and in national, third-party surveys.</p> <p><u>2. COMPENSATION PHILOSOPHY (RE-61).</u> Recently, with the adoption of the compensation philosophy stated in RE-61, a total remuneration study was completed by UC that comprehensively benchmarked UC against peer institutions.</p> <p><b>FUTURE ACTIONS:</b></p> <p><u>1. BENCHMARKING.</u> The Oversight Committee should recommend to The Regents the frequency of benchmarking. Additionally, the University should make efforts to coordinate the CPEC requirements with UC's so that a combined effort could be undertaken.</p> <p><u>RECOMMENDED ACTION: CONCUR</u></p> <p><b>ACTIONS UNDERWAY:</b></p> <p><u>1. COMPENSATION PHILOSOPHY (RE-61).</u> Based on the comprehensive comparability study undertaken by UC, The Regents approved RE-61 in November 2005, setting the goal of reaching comparability within 10 years. An additional 1% of base compensation was provided in 2005-06 as a first step in closing the compensation gap.</p>	<p>Timeline for implementation: Oct 2006</p> <p>Ongoing</p> <p>Total remuneration study completed: Sept 2006</p> <p>Benchmarking policy as part of overall policy review. Framework and timeline: July 2006. (See RE-74a, General.)</p> <p>Ongoing</p>
RE-74v	#5 Competitive Compensation	27	The Regents' Compensation Committee should identify and address as quickly as possible the key compensation challenges facing the University today, including the difficulties of competing for employees with better-funded institutions and the sometimes competing demands of market, merit, and equity.	<p><u>RECOMMENDED ACTION: CONCUR</u></p> <p><b>ACTIONS UNDERWAY:</b></p> <p><u>1. COMPENSATION PHILOSOPHY (RE-61).</u> Based on the comprehensive comparability study undertaken by UC, The Regents approved RE-61 in November 2005, setting the goal of reaching comparability within 10 years. An additional 1% of base compensation was provided in 2005-06 as a first step in closing the compensation gap.</p>	<p>Ongoing</p>

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Action Item #	Task Force Recommendation #	Report Page #	Task Force Recommendation	Recommended Action and Comments	Timing
RE-74w	Conclusion	28	<p>Additionally, as a final step in this accountability process, <i>the Task Force urges the Regents to authorize, in three years, a similar constituted, independent body to review and report back on the University's progress in these areas.</i> [bold emphasis included in report]</p>	<p>2. <u>ANNUAL REPORT.</u> An annual report on progress needs to be made to The Regents.</p> <p>3. <u>LEGISLATIVE REPORT.</u> As part of annual report to the Legislature, progress on overcoming the gap should be made.</p> <p>4. <u>COMPARABILITY STUDIES</u> on compensation benchmarking should be regularly conducted.</p> <p>5. <u>ADDITIONAL FUNDING SOURCES.</u> The Regents should consider other ways to focus on identifying and obtaining additional funding sources.</p> <p><u>RECOMMENDED ACTION: CONCUR</u></p> <p><b>FUTURE ACTIONS:</b></p> <p>1. The Regents pledge to commission, in three years' time, a similarly constituted Task Force for this purpose.</p>	<p>Progress reports: annual</p> <p>Progress reports: annual</p> <p>See RE-74u, #4 Competitive Compensation Ongoing</p> <p>Regents' pledge: May 2006 Commission report: 2009</p>



**Proposed Action Plan:  
Governing UC's  
Compensation  
Policies and Practices**

**University of California  
Board of Regents**

**May 17, 2006**

# Objective

## Overall Objective:

Redesign the policies, procedures and control mechanisms for the compensation and benefit programs of the University of California.

## Specific Objectives:

- Redesign UC's compensation policies to align them with UC's defined pay philosophy, harmonizing them with any business-critical local needs
- Design a governance process that appropriately recognizes the role of The Regents and appropriately segments local and system-wide decision rights
- Design appropriate business processes and supporting infrastructure, including technology, to manage compensation decisions, reporting and disclosure
- Include appropriate monitoring, compliance and enforcement mechanisms in the design of policies and processes
- Prioritize the policy, business process, and technology change recommendations based on impact and implementation issues
- Create appropriate tools and documentation to support the governance process, including decision rules, roles, and responsibilities



## The end result should meet the following criteria:

- Enables competitive, fair and reasonable compensation and benefits
- Compares favorably to best practices of the University's peer groups
- Is transparent, can be monitored and is enforced
- Reflects the University's system wide philosophy while providing appropriate autonomy to meet the needs of campuses, medical centers and laboratories

## Elements of an Effective Governance Structure

**An effective, complete compensation and benefit**

**governance structure for the University will require:**

- **An over-arching structure that describes guidelines and timing for an on-going system-wide review of policies**
- **A clear set of rules, roles and decision rights for each entity involved in making compensation policy decisions and for determining individual compensation decisions**
- **Business processes, technology and systems that request, collect and aggregate the appropriate information to enable monitoring and enforcement of system-wide guidelines**
- **Involvement and agreement from the appropriate stakeholders**

# Our Approach

We are recommending a three phased approach:

**Phase I – Obtain agreement on broad approach; Form Advisory Committee; Review appropriate internal and external staffing for project**

**Phase II – Perform high level discovery and develop policy framework and timetable; Develop detailed project plans to ensure effective implementation of project**

**Phase III – Implement detailed project plans, perform all required analyses, and engage stakeholders to gain approval for, and to execute a new governance structure**

**More detail on the proposed major tasks for each Phase are shown on the following pages.**

# Approach

## Phase I (May 17th Regents' meeting and immediately following)

- Obtain agreement from The Regents on objectives, framework, and approach
- Create Advisory Committee that includes representatives of Academic Senate, staff, and the administration and includes representatives from OP and the campuses, medical centers and labs; Coordinate work with President's Implementation Steering Committee and five work groups that have been chartered by the President
- Implement request for proposal and bring recommendation for consultant to assist in preparing the overall framework and the review of individual policies and procedures to July Regents' meeting
- Evaluate whether an external consultant is needed to provide on-going training for leaders and managers when the new policy compendium is in place

# Approach

Phase II (four months):

- **Create policy framework and timetable**
- **Understand in detail, current policies and procedures, system-wide and by entity, including review of reports and audits performed to date**
- **Develop a detailed project plan that specifies additional data needs, analyses, deliverables, benchmarking, stakeholder meetings and timing**
- **Review compensation and benefit policies for all employees with first emphasis on specific reporting and consideration for executive policies**
- **Determine stakeholders and their roles (inform, influence or decide) in developing a governance structure**

# Approach

## Phase III (10 to 12 months):

- Execute the detailed project plan for fulfilling additional data needs, analyses, deliverables, benchmarking analyses, stakeholder meetings and timing
- Meet with appropriate multi-entity advisory groups to review appropriate consolidation of disparate policies and agree on appropriate governance constraints going forward
- Develop and gain approval from the President and The Regents for a revised governance structure and compensation and benefit policies
- Develop and gain approval for revised business processes and technology needs to support recommended structure and policies
- Develop a detailed implementation plan that considers the University's priorities and budgetary constraints

## Additional Considerations

- During the data gathering phase, we will review all variations of pay, benefits, leave, “perks,” e.g., parking, etc. We will review exceptions as well as current approval and control processes
- When determining stakeholders, input or representation of the Academic Senate and the legislative and other appropriate agency representatives, and other internal consultative groups should be carefully considered
- Design of governance structure, business processes and technology will, in the short term, have to reflect constraints of HR/Payroll infrastructure already in existence
- Some processes and/or decisions may need to be centralized and all will require clear decision ownership and issue escalation processes
- Compensation policies will need to be dealt with considering the best overall structure while immediate action may need to be taken in order to deal with issues of public concern

## Additional Considerations

- Effective controls need technology support, and decisions around resources to be devoted to technology improvements at UC will need to be agreed upon
- Appropriate technology reviews will need to be undertaken, including the use of third-party technology providers or outsourcers
- Timing and completion of the project will depend on timely participation during data gathering phase and access to key stakeholders throughout the process



## Next Steps

- Agreement on overall approach at May Regents' meeting
- Report at July Regents meeting on progress and agree on policy framework and timetable

**Compensation Policies and Practices:  
Actions in Response to Task Force Recommendations**

Action Item #	Task Force Recommendation #	Report Page #	Task Force Recommendation	Recommended Action and Comments	Timing
RE-74a	All recommendations relating to policies and procedures		<p align="center">GENERAL</p> <p>The recommended actions pertain to all Task Force recommendations relating to policies and procedures.</p>	<p><b><u>RECOMMENDED ACTION: CONCUR</u></b></p> <p><b><u>FUTURE ACTIONS:</u></b></p> <p><b><u>1. CREATE POLICY FRAMEWORK &amp; TIMETABLE.</u></b> All compensation policies and procedures will be examined, a new comprehensive framework created, and new policies and procedures developed. A timetable for these will be established as part of the framework, and individual items will come forward for approval in accordance with this framework and timetable. (Note: The framework would include an outline, or "table of contents," of the subject matter of all policies.)</p> <p><b><u>2. CREATE ADVISORY COMMITTEE.</u></b> The development of these items will be accomplished with an Advisory Committee that is composed of representatives from the administration, faculty, and staff at the campuses and the Office of the President.</p> <p><b><u>3. RETAIN CONSULTANT.</u></b> An external consultant will be required to assist in preparing the overall framework and individual policies and procedures.</p> <p><b><u>4. ONGOING TRAINING.</u></b> An evaluation will be made to determine if an external consultant is required to provide ongoing training for leaders and managers once a new comprehensive policy compendium is in place.</p> <p><b><u>ACTIONS UNDERWAY:</u></b></p> <p><b><u>1. IMPLEMENTATION COMMITTEE.</u></b> To assist The Regents in implementing the Task Force recommendations, the President has appointed an Implementation Committee and workgroups focused on the major areas of the recommendations. The committee</p>	<p>Policy framework &amp; timetable: Sept 2006</p> <p>Advisory Committee: Create immediately</p> <p>Consultant recommendation: July 2006</p> <p>Consultant recommendation: July 2006</p> <p>Implementation Committee and workgroups appointed: May 2006. Work is</p>

RE-74 Attachment

Action Item #	Task Force Recommendation #	Report Page #	Task Force Recommendation	Recommended Action and Comments	Timing
RE-74b	#1 Disclosure and Transparency	10	The University should develop and broadly communicate a systemwide policy governing the disclosure of compensation information to the public. Such a disclosure policy must balance public access, personal privacy, and institutional competitiveness by defining what UC considers public versus private/protected information. UC must also provide ongoing training for its leaders and managers about its compensation disclosure policies and practices.	and workgroups have begun organizing their work and are poised to effect any changes in policy and practice adopted by The Regents.  <b><u>RECOMMENDED ACTION: CONCUR</u></b>  <b><u>FUTURE ACTIONS:</u></b>  1. <u>ESTABLISH NEW DISCLOSURE POLICY.</u>  2. <u>TRAINING ON POLICY.</u> Provide on-going training for leaders and managers. An evaluation will be made to determine if an external consultant is required to provide ongoing training once a new disclosure policy is in place.	underway.  Disclosure policy: July 2006  Training recommendations: July 2006
RE-74c	#2 Disclosure and Transparency	11	UC must ensure that all relevant information about compensation packages is provided to The Regents in advance of approval. Following Regents' approval, compensation information should be disclosed to the public in a timely manner.	<b><u>RECOMMENDED ACTION: CONCUR</u></b>  <b><u>ACTIONS UNDERWAY:</u></b>  1. <u>NEW COMPENSATION DISCLOSURE TEMPLATE.</u> A new template consistent with the sample template developed by the Task Force that includes all elements of total compensation for those employees whose compensation requires Regental approval will be used to present compensation information to The Regents prior to approval, as well as to disclose this information to the public following Regents' action.	New template: Completed and in use since March 2006
RE-74d	#3 Disclosure and Transparency	12	The University should invest in a modern, comprehensive, integrated human resources information system that enables compensation data to be quickly examined and analyzed—at the campuses, medical centers, national laboratories, and systemwide—so that UC can meet its obligation of public accountability.	<b><u>RECOMMENDED ACTION: CONCUR</u></b>  <b><u>FUTURE ACTIONS:</u></b>  1. <u>CONDUCT NEEDS ASSESSMENT AND PLAN.</u> Undertake a needs assessment and develop a plan and timeline for implementing a systemwide, comprehensive, integrated human resources information system. Significant additional resources will be required to develop a new comprehensive system.	Needs assessment, implementation plan and timeline: Sept 2006

Action Item #	Task Force Recommendation #	Report Page #	Task Force Recommendation	Recommended Action and Comments	Timing
			<p>Because the new systems will require a major investment of time, money, and staffing, the University should phase in implementation, beginning first with systems that track senior management compensation.</p>	<p><u>2. PHASE IN IMPLEMENTATION OF NEW INFORMATION SYSTEM</u></p> <p><b>ACTIONS UNDERWAY:</b></p> <p>1. <u>PHASE ONE.</u> President Dynes has committed funding for the first phase of the new system (capturing and tracking senior management compensation data).</p>	<p>Phase One: Operational by Dec 2006</p>
RE-74e	#4 Disclosure and Transparency	13-14	<p>The University should establish clear protocols, procedures, and forms that allow for full and timely compensation reporting. These reports should include:</p> <ul style="list-style-type: none"> <li>• Annual reports on total compensation for UC executives.</li> <li>• Annual reports on outside compensated professional activities.</li> <li>• Annual reports on base salaries for all UC employees.</li> <li>• Compliance with annual compensation reporting requirements to The Regents and the Legislature.</li> <li>• Regular reviews of compensation policies and practices.</li> <li>• Regular reports on compensation actions taken by The Regents at Board meetings as well as compensation actions taken between Board meetings.</li> </ul>	<p><b><u>RECOMMENDED ACTION: CONCUR</u></b></p> <p>The Regents unequivocally support full disclosure and public accountability. Nonetheless, in balancing disclosure with institutional competitiveness, additional analysis may be warranted on the proposed annual report on base salaries for all UC employees.</p> <p><b><u>FUTURE ACTIONS:</u></b></p> <p>1. <u>REVISE ANNUAL REPORTS.</u> The annual report on total compensation for UC executives will be revised to capture all elements of total compensation, once The Regents define "total compensation" (see RE-74g, #6 <i>Disclosure and Transparency</i>).</p> <p>2. <u>DETERMINE GROUP UNDER REGENTS' DIRECT OVERSIGHT.</u> For both this report and the annual report on outside compensated professional activities, The Regents also need to define the group of University employees (see RE-74n, #6 <i>Governance and Accountability</i>) and the time period (i.e., fiscal, calendar, or academic year) that the report will cover.</p> <p>3. <u>COMPLIANCE.</u> Compliance with annual compensation reporting requirements to The Regents, the Legislature, and the California Postsecondary Education Commission and annual reviews of compensation policies and practices will be the responsibility of the newly proposed Regents' Compliance Office.</p>	<p>Timeline for new, clear protocols, procedures, and forms for reporting: July 2006</p> <p>Defined as part of overall policy review. Framework and timetable: July 2006 (See RE-74a, General).</p> <p>Approval of Compliance Office: May 2006</p>

Action Item #	Task Force Recommendation #	Report Page #	Task Force Recommendation	Recommended Action and Comments	Timing
RE-74f	#5 Disclosure and Transparency	14	The University should improve public information and ensure that this information is readily available, including creating a new, easily accessible Web site for posting UC compensation information consistent with the other recommendations in this report.	<p><b><u>RECOMMENDED ACTION: CONCUR</u></b></p> <p><b><u>ACTIONS UNDERWAY:</u></b></p> <p>1. <b><u>COMPENSATION WEBSITE.</u></b> The President's Office is designing a new website dedicated to providing compensation information, reports, and studies. Once the overall policy review and reform is completed, the website will also make available all University compensation policies, in an easily accessible and searchable format.</p>	<p>Preliminary website design: May 2006</p> <p>Further website development is underway.</p>
RE-74g	#6 Disclosure and Transparency	15	The Regents should reaffirm the definition of "total compensation" in the Regents' 1992 Principles for Review of Executive Compensation and further clarify some missing elements to ensure consistency with accepted standards and practices.	<p><b><u>RECOMMENDED ACTION: CONCUR, and continue discussion in July</u></b></p> <p><b><u>FUTURE ACTIONS:</u></b></p> <p>1. <b><u>REAFFIRM PRINCIPLES.</u></b></p> <p>2. <b><u>DEFINE "TOTAL COMPENSATION."</u></b> Further analysis and discussion of the definition of "total compensation" is required. Issues to consider include: What elements are missing? How to valueate in dollar terms "retirement and other benefits"? What elements are included in "any forms of compensation"?</p> <p>3. <b><u>REVISE REPORTS, FORMS, POLICIES, AND PROCEDURES.</u></b> Once The Regents have defined the elements of "total compensation," all annual reports, disclosure forms and templates, and policies and practices will be made consistent with this definition and the Principles.</p>	<p>Reaffirm Principles: July 2006</p> <p>Define "Total Compensation": July 2006</p> <p>Revised as part of overall policy review. Framework and timetable: July 2006 (See RE-74a, General.)</p>
RE-74h	#7 Disclosure and Transparency	15	The UC Office of the President should immediately assign to one person the Public Information Practices Coordinator role. This staff member should coordinate all Public Records Act (PRA) requests and develop clear protocols and timelines for processing these	<p><b><u>RECOMMENDED ACTION: CONCUR</u></b></p> <p><b><u>ACTIONS UNDERWAY:</u></b></p> <p>1. <b><u>PUBLIC INFORMATION PRACTICES COORDINATION.</u></b> President Dynes has appointed Gail Riley as the Public Information Practices Coordinator, on</p>	<p>Interim appointment made: April 2006</p>

Action Item #	Task Force Recommendation #	Report Page #	Task Force Recommendation	Recommended Action and Comments	Timing
RE-74i	#1 Governance and Accountability	16-17	<p>The Regents should examine specific aspects of the University's compliance mechanisms, and if necessary, make changes or introduce new oversight mechanisms to ensure compliance. Specifically, the Regents' Compensation Committee should have primary responsibility for setting compensation policies and providing necessary oversight to ensure compliance.</p> <p>In order for the Committee to exercise proper oversight, the President should designate a senior official from the Office of the President to serve as the administration's liaison to the Regents' Compensation Committee to implement the Committee's mandate.</p> <p>The University should also establish a compensation oversight committee to work with the administrative liaison to the Regents to ensure that recommendations reflect the needs of the campuses and the accountability requirements of the UC system.</p>	<p>an interim basis. Mr. Riley has already begun to develop protocols and timelines for processing PRAs and other information requests. The President's Office will report periodically on progress in this area, and a permanent appointment will be made in the near future.</p> <p><b><u>RECOMMENDED ACTION: CONCUR</u></b></p> <p><b><u>ACTIONS UNDERWAY:</u></b></p> <p>1. <b><u>COMMITTEE ON COMPENSATION:</u></b> The charge of the Special Committee on Compensation is consistent with this recommendation that the Committee have primary responsibility for compensation policies, oversight, and compliance. This Committee should be made permanent, and its charge clearly articulated.</p> <p>2. <b><u>OVERSIGHT MECHANISMS.</u></b> Further analysis is required to determine the most effective oversight mechanisms to ensure compliance with policies, some of which will occur as part of the overarching policy review.</p> <p>3. <b><u>LIAISON.</u></b> President Dynes has designated, on an interim basis until a new senior administrative officer is named, Senior Vice President Bruce Darling as the administration's liaison to the Special Committee on Compensation.</p> <p>4. <b><u>OVERSIGHT COMMITTEE.</u></b> An Oversight Committee to provide guidance and direction for policy and procedure recommendations with representatives from UCOP, Campus Administration, Faculty and Staff shall be created by the Chair of the Regents, the Chair of the Special Committee on Compensation, and the President.</p> <p><b><u>ACTIONS UNDERWAY:</u></b></p>	<p>Special Committee on Compensation established: Jan 2006. Committee on Compensation to be established permanently: July 2006</p> <p>Analysis as part of overall policy review. Framework and timetable: July 2006 (See RE-74a, General.)</p> <p>Interim appointment made: April 2006 Permanent liaison: Upon filling position vacated by former SVP Mullinix.</p> <p>Create Oversight Committee: June 2006</p>

RE-74 Attachment

Action Item #	Task Force Recommendation #	Report Page #	Task Force Recommendation	Recommended Action and Comments	Timing
RE-74j	#2 Governance and Accountability	17	<p>The Regents should clearly delineate the respective authority of the Regents, the President, and the chancellors in approving compensation decisions. They should also specify which decisions can be delegated, the conditions under which decisions can be delegated, and the review and approval process for delegated decisions.</p> <p>Compensation decisions should be regularly audited to ensure that they are being made and approved at the appropriate levels.</p>	<p>1. To assist The Regents in implementing the Task Force recommendations, the President has appointed an Implementation Committee and workgroups focused on the major recommendations. The workgroups have begun organizing their work and are poised to effect any changes in policy and practice adopted by The Regents.</p> <p><b><u>RECOMMENDATION: CONCUR</u></b></p> <p><b><u>FUTURE ACTIONS:</u></b></p> <p>1. <u>DELINEATION OF AUTHORITY.</u> The clear delineation of authority on approving compensation decisions will occur as part of the overarching policy review.</p> <p>2. <u>REGULAR AUDITS.</u> The specific nature and content of the audit will be developed as part of the new policies and procedures. The Special Committee on Compensation and the Committee on Audit will work with the newly proposed Regents' Compliance Officer and the University Auditor to perform annual audits of compensation decisions and approvals.</p>	<p>Implementation Committee and workgroups appointed: May 2006. Work is underway.</p> <p>Delineation of authority as part of the overarching policy review. Framework and timeline: July 2006 (See RE-74a, General.)</p> <p>Audits: Annual, beginning with FY 2006-07</p> <p>Audit content: Jan 2007</p>
RE-74k	#3 Governance and Accountability	18	<p>Compensation policies should include specific guidance about when exceptions to policy are appropriate, who may grant them, and through which mechanisms. Exceptions should be subject to rigorous review and advance approval by the appropriate higher authority. To monitor compliance, all exceptions should be reported to a central office or individual.</p>	<p><b><u>RECOMMENDED ACTION: CONCUR</u></b></p> <p><b><u>ACTIONS UNDERWAY:</u></b></p> <p>1. <u>TEMPLATE.</u> As an immediate first step, the new compensation disclosure template (see #2 Disclosure and Transparency above) shows clearly any exceptions to policy for all new senior-level appointments that require Regental approval. Use of the template will be extended to other compensation actions for UC executives, including promotions, stipends, and other adjustments.</p> <p><b><u>FUTURE ACTIONS:</u></b></p> <p>1. <u>INFO SYSTEMS.</u> The proposed new human resources information systems (see Disclosure and Transparency 3</p>	<p>New template: Completed and in use since March 2006</p> <p>HR info systems: See RE-74d, #3 Disclosure</p>

RE-74 Attachment

Action Item #	Task Force Recommendation #	Report Page #	Task Force Recommendation	Recommended Action and Comments	Timing
RE-74l	#4 Governance and Accountability	18	Policies must include specific consequences for violations of compensation policy. Violations should be reported annually to the Regents' Compensation Committee and, where appropriate, sanctions should be issued.	<p>above) should include mechanisms to capture, track, and monitor exceptions to policy.</p> <p>2. <b>POLICY REVIEW.</b> The overarching policy review will a) address exceptions to policy; and 2) reveal and resolve any outdated or confusing policies that may result in the excessive granting of exceptions. In the case of the latter, updating the policies should significantly reduce the use of exceptions.</p> <p>3. Annual audits of compensation decisions will include an examination of exceptions and the rationale for them. Monitoring for compliance will be the responsibility of the newly proposed Regents' Compliance Officer.</p> <p><b><u>RECOMMENDED ACTION: CONCUR</u></b></p> <p><b><u>ACTIONS UNDERWAY:</u></b></p> <p>1. <b>SPECIFIC POLICY ON VIOLATIONS.</b> An initial policy on violation of University policy or law by individuals with negotiated separation agreements is required.</p> <p><b><u>FUTURE ACTIONS:</u></b></p> <p>1. <b>COMPREHENSIVE POLICY ON VIOLATIONS.</b> A new comprehensive policy addressing the consequences for violations of policy will be developed.</p>	<p>Policy revisions: Part of the overall policy review. Framework and timeline: July 2006. (See RE-74a, General.)</p> <p>Annual audits: See RE-74j, #2 Governance and Accountability.</p> <p>New policy: May 2006</p> <p>New comprehensive policy as part of overall policy review. Framework and timeline: July 2006. (See RE-74a, General.)</p>
RE-74m	#5 Governance and Accountability	19	UC should immediately eliminate any conflicts in its compensation and related governance policies and clarify precisely which policies apply to different groups of employees.	<p><b><u>RECOMMENDED ACTION: CONCUR</u></b></p> <p><b><u>FUTURE ACTIONS:</u></b></p> <p>1. <b>CLARIFY POLICIES, ELIMINATE CONFLICTS.</b> Undertake an overarching policy review to address conflicts in policy and to clarify which policies apply to whom.</p>	<p>Policy revisions as part of overall policy review. Framework and timeline: July 2006. (See RE-74a, General.)</p>



RE-74 Attachment

Action Item #	Task Force Recommendation #	Report Page #	Task Force Recommendation	Recommended Action and Comments	Timing
RE-74n	#6 Governance and Accountability	19	<p>The Task Force recommends that the Regents retain direct authority to approve compensation for the President, senior vice presidents, vice presidents, associate/assistant vice presidents, the university auditor, the university controller, principal officers of the Regents, chancellors and vice chancellors, national laboratory directors and deputy directors, medical center CEOs, professional school deans, and the top five most highly compensated positions at each UC location. This currently yields 264 individuals.</p>	<p><b>RECOMMENDED ACTION: CONCUR, with the exception that the top five most highly compensated positions at each UC location be excluded at this time pending further study.</b></p> <p><b>FUTURE ACTIONS:</b></p> <ol style="list-style-type: none"> <li><b>1. MODIFY POLICIES.</b> Modify all policies, procedures, and reports to include the recommended positions (excluding the "top five").</li> <li><b>2. FURTHER ANALYSIS.</b> Study further issues associated with including top five most highly compensated.</li> </ol>	<p>Further analysis of "top five" and revised policies, procedures, and reports as part of overall policy review. Framework and timeline: July 2006. (See RE-74a, General.)</p>
RE-74o	#7 Governance and Accountability	20	<p>UC leaders should vigorously promote standards of ethical conduct and UC should continue to broadly communicate its whistleblower and anti-retaliation policies.</p>	<p><b>RECOMMENDED ACTION: CONCUR</b></p> <p><b>ACTIONS UNDERWAY:</b></p> <ol style="list-style-type: none"> <li><b>1. ETHICS PROGRAM.</b> In September 2005, the Regents adopted the University's <i>Statement of Ethical Values and Standards of Ethical Conduct</i>, and a program of implementation, including training for all UC employees. President Dynes committed funding in April 2006 to implement the training program.</li> </ol> <p><b>FUTURE ACTIONS:</b></p> <ol style="list-style-type: none"> <li><b>1. TRAINING.</b> Full implementation of the training program</li> </ol>	<p>Program adopted Sept 2005. Broad communication and education of whistleblower and anti-retaliation policies ongoing.</p> <p>Content development for the training has begun. Estimated roll-out to begin Fall 2006.</p>
RE-74p	#1 Specific Policies and Practices	21	<p>The University should adopt specific limits on externally compensated activities to preclude conflicts of commitment on the part of senior executives. Based on leading best practices in governance from the public and private sectors, UC senior executives should be limited to</p>	<p><b>RECOMMENDED ACTION: CONCUR in principle that there should be a limit, but requires additional analysis.</b></p> <p><b>FUTURE ACTIONS:</b></p>	

RE-74 Attachment

Action Item #	Task Force Recommendation #	Report Page #	Task Force Recommendation	Recommended Action and Comments	Timing
			<p>serving on no more than three externally compensated boards.</p>	<p>1. <u>EXTERNAL BOARD SERVICE</u>. Develop a policy on UC service on all external boards, including externally compensated boards. The policy should be limited based on "a standard of reasonableness" and avoid a conflict of commitment and a conflict of interest.</p> <p>2. <u>ADDRESS DEFINITIONAL ISSUES</u>. Such issues include: Does "board" refer only to boards of directors, or also to board committees, scientific advisory committees, and the like? How will uncompensated board service that requires a significant time investment and may represent a "conflict of commitment" be considered in policy?</p>	<p>Analysis and recommendation: Sept 2006.</p> <p>Analysis and recommendation: Sept 2006.</p>
RE-74q	#2 Specific Policies and Practices	22	<p>Policies governing outside professional activities and board service for senior managers who also hold faculty appointments should be revised so that the senior manager policy prevails.</p>	<p><u>RECOMMENDED ACTION: CONCUR that policy needs revision for clarity and consistency, but requires additional analysis.</u></p> <p>A new policy governing outside professional activities and board service for senior managers with academic appointments should be developed in consultation with the Academic Senate, and brought back to The Regents.</p>	<p>New policy as part of overall policy review. Framework and timeline: July 2006. (See RE-74a, General.)</p>
RE-74r	#3 Specific Policies and Practices	22-23	<p>The University should carefully review its policies on "administrative leaves in lieu of sabbaticals" for senior managers who also hold academic appointments, especially chancellors, and revisit the provision that these leaves be paid at the higher administrative salary rate rather than the faculty salary rate.</p> <p>The University must also revisit the questionable practice of honoring sabbatical credits earned at other institutions to ensure it is in accordance with both the letter and the spirit of sabbatical policies. Furthermore, the Regents should eliminate the practice of making payments, at the commencement of employment, to compensate for forfeited sabbatical credits accrued at other institutions.</p>	<p><u>RECOMMENDED ACTION: CONCUR, and as part of overall policy review, explicitly include a policy provision that prohibits payments, at the commencement of employment, to compensate for forgone sabbatical credits accrued at other institutions; further analysis on other parts of recommendation is required.</u></p> <p><b>FUTURE ACTIONS:</b></p> <p>1. <u>POLICY REVIEW/REVISION</u>. Both the salary rate of pay for "administrative leaves in lieu of sabbatical" and the recruitment practice of honoring sabbatical credits earned at prior institutions require further evaluation. Recommendations should be developed in consultation with the Academic Senate and brought back to The Regents.</p> <p>Some issues to consider: How do UC's policies and practices compare with those at comparable institutions?</p>	<p>Policy analysis and recommended changes as part of overall policy review. Framework and timeline: July 2006. (See RE-74a, General.)</p>

RE-74 Attachment

Action Item #	Task Force Recommendation #	Report Page #	Task Force Recommendation	Recommended Action and Comments	Timing
RE-74s	#1 and #2 Competitive Compensation	24-25	The Regents should implement, in a vigorous and sustained manner, their compensation philosophy emphasizing the importance of competitive compensation as a means to maintain the quality of academic, management, and staff personnel.	<p>How any policy changes will affect those individuals who are about to take such a leave or those who have already received a transfer of sabbatical credits from prior institutions?</p> <p><b>RECOMMENDED ACTION: CONCUR</b></p> <p><b>ACTION UNDERWAY:</b></p> <p>1. <b>COMPENSATION PHILOSOPHY.</b> Beginning November 2005, The Regents have begun to implement their compensation philosophy (as originally stated in RE-61), which states a goal of bringing employee compensation to competitive levels in 10 years. The Regents began to implement this goal in 2005-06 with a supplemental 1% funding availability for salaries.</p> <p><b>FUTURE ACTIONS:</b></p> <p>1. <b>ADDITIONAL RESOURCES.</b> The Regents must continue to find additional resources to bring compensation to comparable levels, from all sources – including state, federal, and private funds – The Regents will continue to do so in consultation with faculty, staff, and administrators.</p> <p>2. <b>EXTERNAL BENCHMARKING.</b> External benchmarking should be ongoing once compensation elements for review are agreed upon. Need to determine frequency of benchmarking.</p>	Has begun but is ongoing.
RE-74t	#3 Competitive Compensation	26	The Regents should examine the composition of UC compensation to determine if the balance between cash compensation versus health and retirement benefits is optimal for recruitment and retention purposes. The Regents should approach this examination with the understanding that the underlying issues may differ among employee groups and that some issues are subject to the collective bargaining process.	<p><b>RECOMMENDED ACTION: CONCUR</b></p> <p><b>ACTIONS UNDERWAY:</b></p> <p>1. <b>ANALYSIS OF TOTAL COMPENSATION.</b> A workgroup appointed by the President is assisting The Regents in analyzing the composition of UC compensation, mindful of underlying differences among employee groups. This work has begun and is ongoing.</p>	Ongoing.

RE-74 Attachment

Action Item #	Task Force Recommendation #	Report Page #	Task Force Recommendation	Recommended Action and Comments	Timing
				<p><b>FUTURE ACTIONS:</b></p> <p>2. <u>OVERSIGHT COMMITTEE</u>. Ongoing evaluation and consultation with systemwide faculty, staff, and administrators are necessary, culminating in changes to compensation and benefits that optimize retention and recruitment.</p>	Timeline for implementation: Oct 2006
RE-74u	#4 Competitive Compensation	26-27	The Regents should regularly benchmark the University's compensation against peer institutions to ensure that UC compensation remains competitive.	<p><b><u>RECOMMENDED ACTION: CONCUR</u></b></p> <p><b>ACTIONS UNDERWAY:</b></p> <p>1. <u>BENCHMARKING</u>. UC currently benchmarks through participation in CPEC surveys on executive compensation and in national, third-party surveys.</p> <p>2. <u>COMPENSATION PHILOSOPHY (RE-61)</u>. Recently, with the adoption of the compensation philosophy stated in RE-61, a total remuneration study was completed by UC that comprehensively benchmarked UC against peer institutions.</p> <p><b>FUTURE ACTIONS:</b></p> <p>1. <u>BENCHMARKING</u>. The Oversight Committee should recommend to The Regents the frequency of benchmarking. Additionally, the University should make efforts to coordinate the CPEC requirements with UC's so that a combined effort could be undertaken.</p>	<p>Ongoing.</p> <p>Total remuneration study completed: Sept 2006</p>
RE-74v	#5 Competitive Compensation	27	The Regents' Compensation Committee should identify and address as quickly as possible the key compensation challenges facing the University today, including the difficulties of competing for employees with better-funded institutions and the sometimes competing demands of market, merit, and equity.	<p><b><u>RECOMMENDED ACTION: CONCUR</u></b></p> <p><b>ACTIONS UNDERWAY:</b></p> <p>1. <u>COMPENSATION PHILOSOPHY (RE-61)</u>. Based on the comprehensive comparability study undertaken by UC, The Regents approved RE-61 in November 2005, setting the goal of reaching comparability within 10 years. An additional 1% of base compensation was provided in 2005-06 as a first step in closing the compensation gap.</p>	<p>Benchmarking policy as part of overall policy review. Framework and timeline: July 2006. (See RE-74a, General.)</p> <p>Ongoing</p>

RE-74 Attachment

Action Item #	Task Force Recommendation #	Report Page #	Task Force Recommendation	Recommended Action and Comments	Timing
RE-74w	Conclusion	28	<p>Additionally, as a final step in this accountability process, <i>the Task Force urges the Regents to authorize, in three years, a similar constituted, independent body to review and report back on the University's progress in these areas.</i> [bold emphasis included in report]</p>	<p>2. <u>ANNUAL REPORT.</u> An annual report on progress needs to be made to The Regents.</p> <p>3. <u>LEGISLATIVE REPORT.</u> As part of annual report to the Legislature, progress on overcoming the gap should be made.</p> <p>4. <u>COMPARABILITY STUDIES</u> on compensation benchmarking should be regularly conducted.</p> <p>5. <u>ADDITIONAL FUNDING SOURCES.</u> The Regents should consider other ways to focus on identifying and obtaining additional funding sources.</p> <p><b><u>RECOMMENDED ACTION: CONCUR</u></b></p> <p><b>FUTURE ACTIONS:</b></p> <p>1. The Regents pledge to commission, in three years' time, a similarly constituted Task Force for this purpose.</p>	<p>Progress reports: annual</p> <p>Progress reports: annual</p> <p>See RE-74u, #4 Competitive Compensation.</p> <p>Ongoing</p> <p>Regents' pledge: May 2006</p> <p>Commission report: 2009</p>

# RE-76

Office of the Secretary

TO THE MEMBERS OF THE SPECIAL COMMITTEE ON COMPENSATION:

## ACTION ITEM

*For Meeting of July 20, 2006*

### **REGENTAL PLAN FOR REFORMS IN RESPONSE TO INTERNAL AND EXTERNAL AUDIT REPORTS, AND STATUS UPDATE OF IMPLEMENTATION OF RECOMMENDATIONS OF THE TASK FORCE ON UC COMPENSATION, ACCOUNTABILITY, AND TRANSPARENCY**

Regent Hopkinson recommends that the Special Committee on Compensation recommend to The Regents that they adopt the recommended actions shown in Attachment 1 in response to the audit recommendations of the Bureau of State Audits, PricewaterhouseCoopers, and the University Auditor related to University compensation and travel and entertainment.

In addition, Regent Hopkinson will provide an update on the status of implementation of the recommendations of the Task Force on UC Compensation, Accountability, and Transparency, as a follow-up to RE-74 which was adopted by the Board at the May meeting (see Attachment 2).

## **BACKGROUND**

In January 2006, Chairman Parsky retained PricewaterhouseCoopers (PwC) to conduct an independent audit of compensation and employment arrangements of the University's top 32 management positions over a 10-year period, encompassing more than 60 current and former UC employees. PwC released its audit findings and recommendations on April 24, 2006.

Also in January 2006, the Joint Legislative Audit Committee asked the Bureau of State Audits (BSA) to conduct its own audit of UC senior management compensation practices, focusing on 100 highly compensated faculty and administrative positions at the campuses and the Office of the President. The BSA audit report and recommendations were released on May 2, 2006.

At the May 2006 meeting of The Regents, the University Auditor presented the findings and recommendations from UC's internal audit of compensation for the employees in the University's Senior Management Group not already reviewed by PwC in its audit. Both

**Compensation Policies and Practices:  
Actions in Response to Audit Recommendations from  
the Bureau of State Audits (BSA), PricewaterhouseCoopers (PwC), and the Internal UC Auditor (IA)**

Action Item #	Audit Recommendation #	Recommendation	Recommended Action and Comments	Timing
RE-76a	BSA #1	<p>To improve its ability to monitor campus compliance, the president's office needs to issue clear directives prescribing consistent use of the Corporate Personnel System (CPS). These directives should include a requirement that campuses consistently classify compensation into standard categories that best describe the compensation provided to employees. Also, the president's office should standardize the categories that can be included in retirement-covered compensation and restrict the use of classifications, such as "By Agreement," that are too vague to allow the president's office to ensure that the compensation complies with university policy.</p>	<p><b>RECOMMENDED ACTION: CONCUR</b></p> <p><b>ACTIONS UNDERWAY:</b> These recommendations are being addressed on multiple fronts.</p> <ol style="list-style-type: none"> <li>1. CONSISTENT USE OF CODES. The systemwide Payroll Coordination Unit is working with the campuses on the consistent use of Description of Service (DOS) codes. As an initial step, the campuses have been informed that they can no longer establish their own new PPS (Payroll Personnel System) DOS codes but must request Payroll Coordination at UCOP to create the code so that consistency and linkage to CPS (Corporate Personnel System) can be assured.</li> <li>2. DATA WAREHOUSE. Most importantly, a data warehouse repository is being developed at UCOP for senior management compensation data fed from the payroll system.</li> <li>3. SENIOR MANAGEMENT COMPENSATION INFORMATION SYSTEM. The Senior Management Compensation Information System (SMIS) is on target for launch in the fall of 2006.</li> </ol> <p><b>FUTURE ACTIONS:</b></p> <ol style="list-style-type: none"> <li>4. Following its initial release, the SMIS will be enhanced to include collection of additional electronic data, tracking of requests for approval, and the development of online statements for the annual senior management compensation certification requirement. It is the first phase of a much larger effort to address UC's human resources information system requirements.</li> </ol>	<p>Underway</p> <p>Fall 2006: Launch of the Senior Management Compensation Information System.</p>

Action Item #	Audit Recommendation #	Recommendation	Recommended Action and Comments	Timing
RE-76d	BSA #4	<p>To preserve the integrity of the compensation policies it issues, the president's office needs to improve its oversight of campuses' compliance with those policies. One mechanism it should use to improve oversight is to annually identify unauthorized exceptions to policy, such as housing and relocation allowances paid above allowable limits and auto allowances being granted to individuals who do not qualify.</p>	<p><b><u>RECOMMENDED ACTION: CONCUR</u></b></p> <p><b>ACTIONS COMPLETED OR UNDERWAY:</b></p> <p>1. DEVELOP CHIEF COMPLIANCE OFFICER POSITION. The Chief Compliance Officer (CCO) will be responsible for establishing additional monitoring and oversight activities, including establishment of expectations for monitoring activities by line management within University operations and at the campus level, to ensure compliance with policies. The President's Implementation Committee might make recommendations for the CCO job description to assure oversight of compliance with compensation policies.</p> <p>2. INTERNAL AUDIT. In addition, the University's Internal Audit Program is committed to periodic audits of executive compensation and compliance with related policies. The scope and timing of these audits will be agreed upon with the Regents' Committee on Audit, with input from the Regents' Committee on Compensation.</p> <p>3. IDENTIFYING EXCEPTIONS. With regard to exceptions, the new compensation disclosure template shows clearly any exceptions to policy for all new senior-level appointments that require Regental approval. Use of the template will be extended to other compensation actions for UC executives, including promotions, stipends, and other adjustments.</p> <p>4. POLICY REVISIONS. Relevant policies will be reviewed for possible revisions with respect to defining what constitutes an exception; making clear the manner in which exceptions may be considered and approved; and establishing clear authority and guidelines for granting exceptions. In addition, a clear centralized process for review, oversight, and reporting of exceptions on a regular basis will be developed.</p>	<p>Chief Compliance Officer position established in May 2006.</p> <p>Beginning in July 2006: Review and approval of job description.</p> <p>Ongoing.</p> <p>Completed, in use.</p> <p>Sept 2006. Proposed policy on how exceptions may be considered and related issues to be presented to The Regents.</p>



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Action Item #	Audit Recommendation #	Recommendation	Recommended Action and Comments	Timing
RE-76g	BSA #7	To increase transparency as it relates to the compensation of highly paid university employees, The Regents should require the president's office to disclose all forms of compensation for university officers and for all employees whose compensation exceeds an established threshold. This disclosure should occur when The Regents approve the employees' salaries and at least annually in a report to The Regents. If the president's office continues to submit its annual report on compensation to The Regents, it should ensure that it is accurate and timely.	<b><u>RECOMMENDED ACTION: CONCUR</u></b>  <b><u>ACTIONS COMPLETED OR UNDERWAY:</u></b> These recommendations are already being addressed by the President's Implementation Committee in response to the Task Force recommendations. Also covered below in PwC Comp #1, #2, and #4. See Attachment 2, <u>RE-74b, RE-74c, RE-74d, RE-74e, and RE-74g, for details.</u>	Most actions are already completed. Others (i.e., information systems development to capture data for reporting) are underway and ongoing.
RE-76h	PwC Compensation #1	Consider implementing a "checklist" format for documenting elements of compensation. This standard format could be used to capture all agreements during the hiring process and subsequently be used for approval and disclosure purposes.	<b><u>RECOMMENDED ACTION: CONCUR</u></b>  <b><u>ACTIONS UNDERWAY:</u></b> These recommendations are already being addressed by the President's Implementation Committee in response to the Task Force recommendations. Also covered above in BSA #7. See Attachment 2, <u>RE-74c, RE-74d, RE-74e, and RE-74g, for details.</u>	Completed and in use since March 2006.
RE-76i	PwC Comp #2	Review the format of the Annual Report on Compensation to ensure that all elements of compensation requiring disclosure under Regental policies are included.	<b><u>RECOMMENDED ACTION: CONCUR</u></b>  <b><u>ACTIONS UNDERWAY:</u></b> This recommendation is already being addressed by the President's Implementation Committee in response to the Task Force recommendations. Also covered above in BSA #7. See Attachment 2, <u>RE-74d and RE-74e, for details.</u>	Next annual report will have revised format.
RE-76j	PwC Comp #3	Utilize payroll data to generate or validate the accuracy and completeness of the Annual Report on Compensation.	<b><u>RECOMMENDED ACTION: CONCUR</u></b>  <b><u>ACTIONS UNDERWAY:</u></b> 1. DATA WAREHOUSE. The Senior Management Information System (SMIS) currently in development is a data warehouse, fed by the Payroll Personnel System and other manual sources of compensation and total	SMIS to be launched in October 2006.

Action Item #	Audit Recommendation #	Recommendation	Recommended Action and Comments	Timing
			<p>Internal Audit Program is committed to periodic audits of executive compensation and compliance with related policies. The scope and timing of these audits will be agreed upon with the Regents' Committee on Audit, with input from the Regents' Committee on Compensation.</p> <p>3. IDENTIFYING EXCEPTIONS. With regard to exceptions, the new compensation disclosure template shows clearly any exceptions to policy for all new senior-level appointments that require Regental approval. Use of the template will be extended to other compensation actions for UC executives, including promotions, stipends and other adjustments.</p> <p>4. POLICY REVISIONS. Relevant policies will be reviewed for possible revisions with respect to defining what constitutes an exception; making clear the manner in which exceptions may be considered and approved; and establishing clear authority and guidelines for granting exceptions. In addition, a clear centralized process for review, oversight, and reporting of exceptions on a regular basis will be developed.</p> <p><b>FUTURE ACTIONS</b></p> <p>5. RECRUIT AND HIRE CHIEF COMPLIANCE OFFICER. A search for candidates for the Chief Compliance Officer position will be initiated promptly following approval of the job description.</p> <p>Also covered below in BSA #4.</p> <p>The issue of policy exceptions is also being addressed by the President's Implementation Committee in response to the Task Force recommendations. See Attachment 2, RE-74i and RE-74k, for details.</p>	<p>Ongoing.</p> <p>Completed, in use.</p> <p>Sept 2006: Proposed policy on how exceptions may be considered and related issues to be presented to The Regents.</p> <p>Following July 2006 Regents meeting.</p>
RE-76m	PwC Travel & Entertainment (T&E) #1	Provide training to all approvers of travel and entertainment expenses. Training should include guidance on permitted expenses and documentation requirements.	<p><b>RECOMMENDED ACTION: CONCUR ACTIONS UNDERWAY:</b></p> <p>I. LOCATION-SPECIFIC ACTION PLANS.</p>	Action plans due to

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Action Item #	Audit Recommendation #	Recommendation	Recommended Action and Comments	Timing
RF-76p	Internal Audit (IA) #1	Even with its current shortcomings, the Corporate Personnel System (CPS) can be utilized for continuous monitoring purposes as a diagnostic and analytical tool. Its usefulness will depend on the enforcement of more discipline in the assignment of transaction codes, but efforts in this regard should not await the development of new systems.	<p><b>RECOMMENDED ACTION: CONCUR</b></p> <p><b>ACTIONS UNDERWAY:</b></p> <p>1. DATA INTEGRITY. Since the Corporate Personnel System (CPS) consists of data extracts from campus payroll systems, the primary mechanisms to improve CPS data quality and integrity consist of improving the quality of the data input into the Payroll Personnel System via improved systems controls and edits and user discipline at the point of data entry.</p> <p>Also covered above in BSA #1 and in BSA #2 (Consistent Use of Codes).</p> <p><b>FUTURE ACTIONS:</b></p> <p>2. TRAINING. Training and online help and documentation will reinforce the need for accuracy and appropriateness of classification of transactions at the point of entry.</p> <p>3. FUTURE HR INFORMATION SYSTEM SOLUTIONS. Will be designed to provide access to consistent and accurate personnel data.</p>	<p>The Senior Management Information System (SMIS), to be launched in October 2006, will consist of well defined data elements and clear definitions of data fields at data entry points.</p> <p>Offered by UCOP and campus HR offices at the time of deployment of the SMIS.</p> <p>Planning for UC-wide HR Information System capabilities is underway. Status update at Sept 2006 Regents meeting.</p>
RE-76q	IA #2	The Senior Management Group (SMG) Coordinators' roles at the campuses need to be reassessed and their interaction with the UC Office of the President (UCOP) should be enhanced. Similarly, the SMG Coordinator at UCOP should take on an expanded role beyond assistance in the hiring phase of SMG employees.	<p><b>RECOMMENDED ACTION: CONCUR</b></p> <p><b>ACTIONS UNDERWAY:</b></p> <p>1. EXPLORE OPTIONS. UCOP is exploring options for expanded role and responsibilities of SMG unit at UCOP and improving relationship with and role of campus SMG Coordinators.</p>	Efforts just underway, ongoing.
RE-76r	IA #3	Policy review is especially needed in certain areas including: <ul style="list-style-type: none"> <li>• Stipends</li> </ul>	<p><b>RECOMMENDED ACTION: CONCUR</b></p> <p><b>ACTIONS UNDERWAY:</b></p>	Sept 1, 2006: RFP

**Compensation Policies and Practices:  
STATUS OF IMPLEMENTATION of Task Force Recommendations**

Action Item #	Task Force Recommendation # and Report Page #	Task Force Recommendation, and Action Adopted by The Regents in May 2006	Implementation Actions Completed, Actions Underway, and Future Actions	Original Estimated Timing	Status
RE-74a	All recommendations relating to policies and procedures	<p>GENERAL</p> <p>The recommended actions (see next column) pertain to all Task Force recommendations relating to policies and procedures.</p> <p><b><u>Regents' Action in May:</u></b> CONCUR</p>	<p><b><u>ACTIONS UNDERWAY AND FUTURE ACTIONS:</u></b></p> <p><b><u>74a(1). CREATE POLICY FRAMEWORK &amp; TIMETABLE.</u></b> All compensation policies and procedures will be examined, a new comprehensive framework created, and new policies and procedures developed. A timetable for these will be established as part of the framework, and individual items will come forward for approval in accordance with this framework and timetable. (Note: The framework would include an outline, or "table of contents," of the subject matter of all policies.)</p> <p><b><u>74a(2). CREATE ADVISORY COMMITTEE.</u></b> The development of these items will be accomplished with an Advisory Committee that is composed of representatives from the administration, faculty, and staff at the campuses and the Office of the President.</p> <p><b><u>74a(3). RETAIN CONSULTANT.</u></b> An external consultant will be required to assist in preparing the overall framework and individual policies and procedures.</p> <p><b><u>74a(4). ONGOING TRAINING.</u></b> An evaluation will be made to determine if an external consultant is required to provide ongoing training for leaders and managers once a new comprehensive policy compendium is in place.</p>	<p>Policy framework &amp; timetable: Sept 2006</p> <p>Advisory Committee: June 2006</p> <p>Consultant recommendation: July 2006</p> <p>Consultant recommendation: July 2006</p>	<p>With the help of selected consultant. (see RE-74a(3) below) expect policy framework and timetable to be ready January 2007. Overall effort to revise all policies will take at least one year.</p> <p>The Advisory Committee will be established concurrent with engaging an outside consultant.</p> <p>RFP will be issued to engage outside consultant in development of new comprehensive policy framework. Sept 1, 2006. RFP responses due. Nov 2006. Recommendation to Regents.</p> <p>UCOP is issuing an RFP for a new system to facilitate the delivery of this and other training. Evaluation called for will be done once the policy framework is developed.</p>

Action Item #	Task Force Recommendation # and Report Page #	Task Force Recommendation, and Action Adopted by The Regents in May 2006	Implementation Actions Completed, Actions, Underway, and Future Actions	Original Estimated Timing	Status
		<p>be disclosed to the public in a timely manner.</p> <p><u>Regents' Action in May:</u> CONCUR</p>	<p>employees whose compensation requires Regental approval will be used to present compensation information to The Regents prior to approval, as well as to disclose this information to the public following Regents' action.</p>		
RE-74d	#3 Disclosure and Transparency Page 12	<p>The University should invest in a modern, comprehensive, integrated human resources information system that enables compensation data to be quickly examined and analyzed—at the campuses, medical centers, national laboratories, and systemwide – so that UC can meet its obligation of public accountability.</p> <p>Because the new systems will require a major investment of time, money, and staffing, the University should phase in implementation, beginning first with systems that track senior management compensation.</p> <p><u>Regents' Action in May:</u> CONCUR</p>	<p><b>ACTIONS UNDERWAY:</b></p> <p><u>74d(1). CONDUCT NEEDS ASSESSMENT AND PLAN.</u> Undertake a needs assessment and develop a plan and timeline for implementing a systemwide, comprehensive, integrated human resources information system (HRIS). Significant additional resources will be required to develop a new comprehensive system.</p> <p><u>74d(2). PHASE IN IMPLEMENTATION OF NEW INFORMATION SYSTEM</u></p> <p><b>ACTIONS COMPLETED:</b></p> <p><u>74d(3). PHASE ONE.</u> President Dynes has committed funding for the first phase of the new system (capturing and tracking senior management compensation data).</p>	<p>Needs assessment, implementation plan and timeline: Sept 2006</p> <p>Phase One: Operational by Dec 2006</p>	<p>Sept 2006: A status update on efforts to assess the current University environment with respect to a comprehensive HRIS, system capabilities, and an evaluation of options with respect to those needs will be provided for The Regents.</p> <p>By Oct 2006, the Senior Management Information System (SMIS), a data warehouse that will contain total compensation data for those included in the Senior Leadership Compensation Group, will be implemented. Elements include: collection of payroll personnel system data; web-based entry of compensation-related and other critical information; standard reports, such as the Annual Report of Executive Compensation, and a "snapshot" report for each individual; and compensation offer data for prospective employees.</p>

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Action Item #	Task Force Recommendation # and Report Page #	Task Force Recommendation, and Action Adopted by The Regents in May 2006	Implementation Actions Completed, Actions, Underway, and Future Actions	Original Estimated Timing	Status
RE-74f	#5 Disclosure and Transparency Page 14	<p>Regular reports on compensation actions taken by The Regents at Board meetings as well as compensation actions taken between Board meetings.</p> <p><b><u>Regents' Action in May:</u></b> CONCUR with the following note: The Regents unequivocally support full disclosure and public accountability. Nonetheless, in balancing disclosure with institutional competitiveness, additional analysis may be warranted on the proposed annual report on base salaries for all UC employees.</p>	<p>74e(3). <b>COMPLIANCE.</b> Compliance with annual compensation reporting requirements to The Regents, the Legislature, and the California Postsecondary Education Commission and annual reviews of compensation policies and practices will be the responsibility of the newly proposed Regents' Compliance Office.</p> <p><b>ACTIONS UNDERWAY:</b> 74f(1). <b>COMPENSATION WEBSITE.</b> The President's Office is designing a new website dedicated to providing compensation information, reports, and studies. Once the overall policy review and reform is completed, the website will also make available all University compensation policies, in an easily accessible and searchable format.</p>	<p>Regents' approval of Compliance Office: May 2006</p>	<p>Item 7C for the July 2006 Regents meeting deals with Regental review and approval of compensation for 2006-07, including thresholds and group of employees under Regental oversight. Annual report on total compensation would cover these employees and other employees as specified in 2006-07 budget language. Draft policy on outside activities (under consultation) designates group to be covered and reported on.</p> <p>July 2006: Regents to review and approve job description for the Chief Compliance Officer (CCO). Search process is expected to be completed in Fall 2006.</p>
		<p>The University should improve public information and ensure that this information is readily available, including creating a new, easily accessible Web site for posting UC compensation information consistent with the other recommendations in this report.</p> <p><b><u>Regents' Action in May:</u></b> CONCUR</p>		<p>Preliminary website design: Presented at May 2006 Regents meeting.</p>	<p>Further website development is underway. pending content development which depends on overall policy review and revisions.</p>

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Action Item #	Task Force Recommendation # and Report Page #	Task Force Recommendation, and Action Adopted by The Regents in May 2006	Implementation Actions Completed, Actions, Underway, and Future Actions	Original Estimated Timing	Status
	<p>oversight mechanisms to ensure compliance. Specifically, the Regents' Compensation Committee should have primary responsibility for setting compensation policies and providing necessary oversight to ensure compliance.</p> <p>In order for the Committee to exercise proper oversight, the President should designate a senior official from the Office of the President to serve as the administration's liaison to the Regents' Compensation Committee to implement the Committee's mandate.</p> <p>The University should also establish a compensation oversight committee to work with the administrative liaison to the Regents to ensure that recommendations reflect the needs of the campuses and the accountability requirements of the UC system.</p> <p><b><u>Regents' Action in May:</u></b> CONCUR</p>	<p>recommendation that the Committee have primary responsibility for compensation policies, oversight, and compliance. This Committee should be made permanent, and its charge clearly articulated.</p> <p><b>74i(2). OVERSIGHT MECHANISMS.</b> Further analysis is required to determine the most effective oversight mechanisms to ensure compliance with policies, some of which will occur as part of the overarching policy review.</p> <p><b>74i(3). LIAISON.</b> President Dynes has designated, on an interim basis until a new senior administrative officer is named, Senior Vice President Bruce Darling as the administration's liaison to the Special Committee on Compensation.</p> <p><b>74i(4). PRESIDENT'S IMPLEMENTATION COMMITTEE.</b> To assist The Regents in implementing the Task Force recommendations, the President has appointed an Implementation Committee, composed of a steering committee and workgroups, focused on the major areas of the recommendations. The Implementation Committee and workgroups have begun organizing their work and are poised to effect any changes in policy and practice adopted by The Regents.</p> <p><b><u>FUTURE ACTIONS:</u></b></p> <p><b>74i(5). ADVISORY COMMITTEE.</b> An Advisory Committee to provide guidance and direction for policy and procedure recommendations with representatives from UCOP, Campus Administration, Faculty and Staff shall be created by the Chair of the Regents, the Chair of the Special Committee on Compensation, and the President.</p>	<p>2006. Committee on Compensation to be established permanently: July 2006</p> <p>Interim appointment made: April 2006 Permanent liaison: Upon filling position vacated by former SVP – Business &amp; Finance.</p> <p>President's Implementation Committee and workgroups appointed: May 2006. Work is underway and ongoing.</p> <p>Advisory Committee: June 2006</p>	<p>Committee</p> <p>Work is ongoing.</p> <p>Sept 2006: Recommendation for permanent liaison will be brought to The Regents.</p> <p>President's Implementation Committee and workgroups continue to meet and their work is ongoing. They are also poised to take on implementation of reforms related to audit recommendations, once The Regents act to adopt them.</p> <p>The Advisory Committee will be established concurrent with engaging an outside consultant.</p>	

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Action Item #	Task Force Recommendation # and Report Page #	Task Force Recommendation, and Action Adopted by The Regents in May 2006	Implementation Actions Completed, Actions, Underway, and Future Actions	Original Estimated Timing	Status
RE-74l	#4 Governance and Accountability Page 18	<p>Policies must include specific consequences for violations of compensation policy. Violations should be reported annually to the Regents' Compensation Committee and, where appropriate, sanctions should be issued.</p> <p><u>Regents' Action in May:</u> CONCUR</p>	<p><u>74k(3). POLICY REVISIONS.</u> Relevant policies will be reviewed for possible revisions with respect to defining what constitutes an exception; making clear the manner in which exceptions may be considered and approved; and establishing clear authority and guidelines for granting exceptions. In addition, a clear centralized process for review, oversight, and reporting of exceptions on a regular basis will be developed.</p> <p><u>74k(4). ANNUAL AUDITS.</u> Annual audits of compensation decisions will include an examination of exceptions and the rationale for them. Monitoring for compliance will be the responsibility of the Chief Compliance Officer.</p> <p><b>ACTIONS COMPLETED:</b></p> <p><u>74l(1). SPECIFIC POLICY ON VIOLATIONS.</u> An initial policy on violation of University policy or law by individuals with negotiated separation agreements is required.</p> <p><b>ACTIONS UNDERWAY AND FUTURE ACTIONS:</b></p> <p><u>74l(2). REVIEW AND CLARIFY POLICIES.</u> Review policies regarding consequences for violations to determine changes or clarifications needed.</p>	<p>Policy revisions: Part of the overall policy review. Framework and timeline: July 2006. (See RE-74a. General.)</p> <p>Annual audits: See RE-74j(2) above.</p> <p>New policy: May 2006</p>	<p>Sept 2006: Proposed policy on how exceptions may be considered and related issues to be presented to The Regents.</p> <p>See status of See RE-74j(2) above.</p> <p>Completed.</p> <p>In addition to reviewing all policies to determine if consequences should be incorporated, as part of overall policy review and revisions (see RE-74a), a recommendation for a general statement on consequences for violations will be made to The Regents in Sept 2006.</p>
RE-74m	#5 Governance and Accountability Page 19	<p>UC should immediately eliminate any conflicts in its compensation and related governance policies and clarify precisely which policies apply to different groups</p>	<p><b>ACTIONS UNDERWAY AND FUTURE ACTIONS:</b></p> <p><u>74m(1). CLARIFY POLICIES. ELIMINATE</u></p>	<p>To occur as part of overall policy review. Framework and timeline: July 2006. (See RE-74a. General.)</p> <p>To occur as part of overall policy review. Framework and</p>	<p>Work is ongoing. Expect to bring new policy framework and timetable to the Regents in</p>



RE-76 – Attachment 2

Action Item #	Task Force Recommendation # and Report Page #	Task Force Recommendation, and Action Adopted by The Regents in May 2006	Implementation Actions Completed, Actions, Underway, and Future Actions	Original Estimated Timing	Status
RE-74h	#1 Specific Policies and Practices Page 21	The University should adopt specific limits on externally compensated activities to preclude conflicts of commitment on the part of senior executives. Based on leading best practices in governance from the public and private sectors, UC senior executives should be limited to serving on no more than three externally compensated boards.  <u>Regents' Action in May:</u> CONCUR in principle that there should be a limit, but issue requires additional analysis.	April 2006 to implement an online training program.  <b>ACTIONS UNDERWAY:</b>  74q(2). <u>PROGRAM ROLLOUT.</u> Full implementation of the Ethics Program rollout. Training content under development by Ethics Rollout Team.  74q(3) <u>ETHICS TRAINING REPORTING.</u> Regular reporting of ongoing efforts regarding ethics training. (Whistleblower report is currently part of University Auditor's annual report every November Regents Meeting and quarterly reports to the Committee on Audit.)  <b>ACTIONS UNDERWAY:</b>  74p(1). <u>EXTERNAL BOARD SERVICE.</u> Develop a policy on UC service on all external boards, including externally compensated boards. The policy should be limited based on "a standard of reasonableness" and avoid a conflict of commitment and a conflict of interest.  74p(2). <u>ADDRESS DEFINITIONAL ISSUES.</u> Such issues include: Does "board" refer only to boards of directors, or also to board committees, scientific advisory committees, and the like? How will uncompensated board service that requires a significant time investment and may represent a "conflict of commitment" be considered in policy?	policies ongoing.  Rollout of online training in Fall 2006  Fall 2006  Analysis and recommendation: Sept 2006.  Analysis and recommendation: Sept 2006.	Training content under development by Ethics Rollout Team.  Work is ongoing. A regular reporting schedule will be determined after program rollout.  Draft policy and definitional recommendations for RE-74p(1) and (2) completed by workgroup and undergoing UC policy consultation process. Expect to have policy in effect by end of calendar 2006.  Sept 2006: Draft policy to be discussed with The Regents.
RE-74i	#2 Specific Policies and Practices Page 22	Policies governing outside professional activities and board service for senior managers who also hold faculty appointments	<b>ACTIONS UNDERWAY:</b>  74q(1). <u>NEW POLICY.</u> A new policy governing	New policy as part of overall policy review.	Draft new policy completed by workgroup and undergoing

Action Item #	Task Force Recommendation # and Report Page #	Task Force Recommendation, and Action Adopted by The Regents in May 2006	Implementation Actions Completed, Actions, Underway, and Future Actions	Original Estimated Timing	Status
RE-74s	#1 and #2 Competitive Compensation Pages 24-25	<p>The Regents should implement, in a vigorous and sustained manner, their compensation philosophy emphasizing the importance of competitive compensation as a means to maintain the quality of academic, management, and staff personnel.</p> <p><u>Regents' Action in May:</u> CONCUR</p>	<p><b>ACTIONS UNDERWAY:</b></p> <p><u>74s(1). COMPENSATION PHILOSOPHY.</u> Beginning November 2005, The Regents have begun to implement their compensation philosophy (as originally stated in RE-61), which states a goal of bringing employee compensation to competitive levels in 10 years. The Regents began to implement this goal in 2005-06 with a supplemental 1% funding availability for salaries.</p> <p><b>FUTURE ACTIONS:</b></p> <p><u>74s(2). ADDITIONAL RESOURCES.</u> The Regents must continue to find additional resources to bring compensation to comparable levels, from all sources – including state, federal, and private funds – The Regents will continue to do so in consultation with faculty, staff, and administrators.</p> <p><u>74s(3). EXTERNAL BENCHMARKING.</u> External benchmarking should be ongoing once compensation elements for review are agreed upon. Need to determine frequency of benchmarking.</p>	<p>Has begun but is ongoing.</p> <p>n/a</p> <p>n/a</p>	<p>n/a</p> <p>n/a</p> <p>Workgroup has developed benchmarking principles and recommendations; still under discussion.</p>
RE-74t	#3 Competitive Compensation Page 26	<p>The Regents should examine the composition of UC compensation to determine if the balance between cash compensation versus</p>	<p><b>ACTIONS UNDERWAY:</b></p> <p><u>74t(1). ANALYSIS OF TOTAL COMPENSATION.</u> A workgroup appointed by the President is assisting The</p>	<p>Ongoing.</p>	<p>Workgroup has developed</p>

RE-76 – Attachment 2

Action Item #	Task Force Recommendation # and Report Page #	Task Force Recommendation, and Action Adopted by The Regents in May 2006	Implementation Actions Completed, Actions, Underway, and Future Actions	Original Estimated Timing	Status
RE-74w	( conclusion Page 28	<p>facing the University today, including the difficulties of competing for employees with better-funded institutions and the sometimes competing demands of market, merit, and equity.</p> <p><b><u>Regents' Action in May:</u></b> CONCUR</p>	<p>undertaken by UC. The Regents approved RE-61 in November 2005, setting the goal of reaching comparability within 10 years. An additional 1% of base compensation was provided in 2005-06 as a first step in closing the compensation gap.</p> <p><b><u>74v(2). ANNUAL REPORT.</u></b> An annual report on progress needs to be made to The Regents.</p> <p><b><u>74v(3). LEGISLATIVE REPORT.</u></b> As part of annual report to the Legislature, progress on overcoming the gap should be made.</p> <p><b><u>74v(4). COMPARABILITY STUDIES</u></b> on compensation benchmarking should be regularly conducted.</p> <p><b><u>74v(5). ADDITIONAL FUNDING SOURCES.</u></b> The Regents should consider other ways to focus on identifying and obtaining additional funding sources.</p> <p><b><u>FUTURE ACTIONS:</u></b></p> <p>74w(1). The Regents pledge to commission, in three years' time, a similarly constituted Task Force for this purpose.</p>	<p>Progress reports: annual</p> <p>Progress reports: annual</p> <p>See RE-74u</p> <p>Ongoing</p> <p>Regents' pledge: May 2006</p> <p>Commission report: 2009</p>	<p>To be discussed and reported as part of the annual budget process.</p> <p>To be discussed and reported as part of the annual budget process.</p> <p>Workgroup has developed benchmarking principles and recommendations; still under discussion.</p> <p>n/a</p> <p>No further action at this time.</p>

Office of the President

TO THE MEMBERS OF THE COMMITTEE ON COMPENSATION:

**DISCUSSION ITEM**

*For Meeting of September 21, 2006*

**UNIVERSITY ACTIONS IN RESPONSE TO RECOMMENDATIONS OF THE TASK FORCE ON UC COMPENSATION, ACCOUNTABILITY, AND TRANSPARENCY AND INTERNAL AND EXTERNAL AUDIT REPORTS**

At the May and July Board meetings, The Regents concurred with the recommendations of the Task Force on UC Compensation, Accountability, and Transparency and of the three audit reports – an external audit conducted by PricewaterhouseCoopers (PwC), the report of the Bureau of State Audits, and the University Auditor's report. Since the release of the Task Force report in April, the President's Implementation Committee, appointed by President Dynes to implement these recommendations and consisting of high-level campus, medical center, and Office of the President representatives, has been addressing the issues of disclosure and transparency, accountability and governance, information systems, policies and practices, and competitive compensation.

**ACTIONS TAKEN OR TO BE RECOMMENDED**

As a result of the work of the President's Implementation Committee, the following actions have been taken or will be recommended for The Regents' approval:

**DISCLOSURE AND TRANSPARENCY.** President Dynes has taken or will recommend the following actions to ensure full, proactive, and timely disclosure of information to The Regents, the legislature, the media, and the public.

- A new definition of "total compensation" for approval, disclosure, and reporting purposes is recommended to make clear which elements comprise total compensation and for use throughout the University system for consistency and transparency. In November, the President will recommend relevant changes to the Regents' Principles for Review of Executive Compensation (Principles), Bylaws, and Standing Orders, for action at the January 2007 meeting.
- A new compensation disclosure policy is being adopted to set forth information related to compensation that is disclosable and information that is not. The University of California, as a public institution, recognizes its unique obligation to maintain the public

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- A new compensation disclosure policy is being adopted to set forth information related to compensation that is disclosable and information that is not. The University of California, as a public institution, recognizes its unique obligation to maintain the public

trust. This obligation includes being open and transparent about the way it spends taxpayer money, including to compensate its employees.

To that end, the University is committed to making information about employee compensation available to the public. This information is routinely made available upon action by the Board of Regents and through annual reports to The Regents, the legislature, and the public. In addition, it is made available upon request by individuals and the media.

At the same time, UC's commitment to transparency must be delicately balanced against the University's competing obligation to protect the personal privacy of its employees, as well as the continuing need to compete with other institutions, including private universities, for the best faculty, staff, and administrators.

In recognition of both the right of public access to records and the protection of personal privacy, a Presidential policy on public disclosure of compensation information is being adopted. (See Attachment 1, presented here as information only as it does not require Regental approval.)

- Guidelines for reporting compensation, with a goal toward transparency and open communication, are not only required, but essential. These guidelines provide direction for annual electronic reporting of executive compensation, regular review of compensation policies and practices, and regular reporting on compensation actions taken at and between Regents meetings. (See \_\_\_\_\_, presented here as information only as it does not require Regental approval.)

**GOVERNANCE AND ACCOUNTABILITY.** President Dynes has taken or will recommend the following actions to improve management and ensure consistency in the application, interpretation, and enforcement of policy. Further work in this area will continue as part of the overall policy reform efforts.

- A Presidential policy on exceptions is being adopted, providing as follows:
  1. When exceptions to policies are made, they shall be documented, including the reasons for the exception.
  2. Exceptions to policy shall be reported on a regular basis to the Vice President – Chief Compliance and Audit Officer.
  3. The Vice President – Chief Compliance and Audit Officer shall review exceptions that have been made to policies to confirm that they have been made in accord with the intent of the policies and public policy generally. Exceptions to policy that the Vice President – Chief Compliance and Audit Officer determines do not meet these standards shall be reported by the Vice President to the President and to the Board of Regents. In addition, if exceptions to a policy are being made on a regular basis, that fact shall be reported by the Vice President to the President and to the Board of

Regents, to permit, among other things, consideration of possible amendments to the policy.

This policy is effective immediately until the comprehensive review and reform of compensation policies—including exceptions to policies—is completed. In addition, the interim policy enacted by President Dynes in February 2006 that any exceptions to employment-related policies for senior managers will require approval by the President, in consultation with The Regents, will continue to be in effect until the comprehensive policy review and reform is complete. (This action does not require Regental approval and is presented here as information only.)

- A statement of consequences for serious violations of compensation policies should be added to the 1993 Principles for Review of Executive Compensation, as follows:

“Any serious violation of these principles or any University policy relating to compensation may, depending upon the facts and circumstances, result in adverse employment action, including without limitation, censure, counseling, suspension, loss of pay and/or dismissal from the employ of the University. The Vice President - Chief Compliance and Audit Officer shall provide an annual summary to the Board with respect to findings of serious wrongdoing, including the status of personnel actions proposed or taken.”

The President will recommend this amendment to the Principles in November, which will require Regental approval.

- With respect to the Task Force’s recommendation on the group of named senior officials for whom The Regents should retain direct authority to approve compensation, The Regents requested further study of the recommendation that includes the “top five most highly compensated positions at each UC location” (refer to RE-74n from May 2006). The President recommends that he report annually on compensation of the top five most highly compensated positions at each UC location, but that The Regents not approve this compensation in advance.

There are many reasons for not including these positions at this time. Many of these positions will be within the group of University Officers and professional school deans already proposed to be within The Regents’ direct authority. Furthermore, the positions and their compensation are variable, so the top five most highly compensated positions at any given time usually cannot be identified *in advance of* Regental approval of appointments, since their compensation often depends on performance (e.g., athletic coaches, clinical personnel, and other participants in incentive-based programs). In addition, at the campus medical centers, practicing clinicians may earn substantial additional compensation based on productivity and clinical revenue as determined by the University’s Health Sciences Compensation Plan (HSCP); however, because this compensation is paid in conformance with the HSCP as approved by The Regents,



submitting these compensation packages for additional approval achieves no real purpose. However, the President recommends that the University report on these individuals' compensation annually.

The group of positions that the President will recommend that The Regents retain direct authority to approve compensation for consists of the following: the President, Executive Vice Presidents, Senior Vice Presidents, other Vice Presidents, Associate Vice Presidents, Assistant Vice Presidents, University Auditor, Principal Officers of The Regents, Chancellors, Vice Chancellors, Directors and Deputy Directors of the Ernest Orlando Lawrence Berkeley National Laboratory and the Ernest Orlando Lawrence Livermore National Laboratory, Medical Center CEOs, and professional school deans.

At the November meeting, proposed modifications to the Bylaws and Standing Orders to reflect this change will be brought forward for Board action in January 2007.

- Revise various Bylaws and Standing Orders to clarify and simplify the authority and responsibilities of The Regents and the President with respect to making compensation decisions; to consolidate compensation-related responsibilities into a single locus; and to incorporate the new definition of total compensation. In addition, some technical amendments will be proposed (e.g., to update references to new administrative titles, delete references to the Los Alamos National Laboratories where appropriate).

Proposed revisions to the Bylaws and Standing Orders will be brought forward in November, for Board action in January 2007.

- Appoint the new Executive Vice President – Business Operations to serve as the liaison to the Committee on Compensation. In the interim, Executive Vice President Darling, in his current role overseeing compensation and human resources, will continue to serve as the liaison. (This does not require Regental action.)

**HUMAN RESOURCES INFORMATION SYSTEM.** The launch of the first phase of a new, modern, comprehensive human resources information system (HRIS) to capture, track, monitor, and allow analysis of senior manager compensation data is underway. As the Task Force report and audits noted, it is not possible to achieve the University's goals in compensation disclosure, transparency, and accountability without "a modern, comprehensive, integrated human resources information system" that enables compensation data to be captured, examined, and analyzed for disclosure, reporting, tracking, and monitoring purposes. In April, President Dynes committed funding for the first phase of the new HRIS, focused on capturing and tracking senior management compensation data.

Launch of Phase I: The Senior Leadership Information System (SLIS). The SLIS is being developed as a web-based, comprehensive repository of demographic, compensation, and remuneration data for members of the Senior Leadership Compensation Group. The system will import data from relevant UC systems and make

information available for querying and reporting, employ consistent, standard data definitions for greater information accuracy, and reduce opportunities for entering erroneous or incomplete information. Following the release of the system to campus and Office of the President senior management group coordinators in October, enhancements will be developed to streamline the approvals process, flag exceptions, and provide access to and generate supporting documents.

The SLIS will be fully operational by December 2006, in time for the next annual executive compensation reporting cycle beginning in early 2007.

Future system developments. In recognition of long-term under-investment in UC-wide systems supporting human resources and payroll functions, the University is developing a multi-year plan to significantly enhance information systems, manage core HR data and processes (e.g., recruitment, compensation), provide requisite data and information to employees and managers, assess the effectiveness of the University's human resources programs, and increase workforce value through employee development and performance management.

**COMPENSATION POLICIES AND PRACTICES.** In order to address many of the issues identified by the Task Force and audits, a complete rethinking of University compensation policies, practices, and procedures is required. The success of these reforms—as well as assurance that University policies and practices survive leadership changes systemwide—will depend on a new, comprehensive policy framework. It must be guided by the principles of public accountability and disclosure, effective governance and oversight, individual and institutional accountability, and institutional competitiveness.

Comprehensive policy review and framework. As requested by The Regents in May (refer to RE-74a(3)), the Office of the President is completing a competitive bidding process for an external consultant to assist in the development of the comprehensive policy framework and the development of new and revised policies and procedures in compensation, benefits, and related areas. It is anticipated that the conceptual basis for this new policy framework will be brought to The Regents for discussion at the January 2007 meeting, along with a timeline for completion of the policy review.

In the longer term, in developing a new comprehensive policy framework, the University will also undertake an evaluation of all faculty and staff compensation policies and procedures, in consultation with the affected employee groups.

Specific policies identified by the Task Force. The Task Force report identified as a priority the need for policies to guide campuses in two specific areas: (1) outside professional activities; and (2) rate of pay for administrative leave in lieu of sabbatical. A workgroup of the President's Implementation Committee is developing policy modifications to address both of these issues.

- **Outside Professional Activities.** In May, The Regents concurred in principle with the Task Force recommendation to limit the number of externally compensated professional activities and board service for senior managers and resolve conflicts in policy for senior managers (see RE-74p and RE-74q) but requested further analysis to ensure that any policy revisions were clear, consistent, and sound.

Among the proposed modifications are:

- Consolidation of existing policies and guidelines governing outside professional activities for senior managers into one coherent policy;
  - Strengthening of pre-approval and reporting requirements;
  - Clarifying which policies (e.g., academic, administrative) govern which positions (e.g., University Officers, non-faculty senior managers, senior managers with faculty appointments, academic appointees, members of the Health Sciences Compensation Plan, etc.); and
  - Clarifying how deans will be treated for the purposes of outside activities, consistent with the policies and practices of peer institutions.
- **Administrative and Sabbatical Leave.** The Regents also requested the University to further study its policies and practices on administrative leaves in lieu of sabbaticals for senior managers who also hold academic appointments, including the rate of pay for these leaves and the University's practice of honoring sabbatical credits earned at other institutions (refer to RE-74r from May 2006). Policy revisions must balance the need to compete in a market that generally grants such leaves with the need to be accountable and transparent to the legislature and the public for UC's compensation practices.

Among the proposed modifications are:

- Clarifying and consolidating various academic and administrative policies on sabbatical leave, administrative leave, and administrative leave in lieu of sabbatical;
- Clarifying eligibility criteria for accruing and taking sabbatical leave, in accordance with policy, for taking administrative leaves at full or partial pay (in which case, the commensurate amount of accrued sabbatical leave would be forfeited), and for taking administrative leave as credit for sabbatical credit accrued at a prior institution; and
- Stating explicitly that no cash payments may be made in lieu of administrative leave.

Both sets of proposed policy changes will undergo extensive campus review and comment, in accordance with longstanding University procedures. These policies also are subject to the review by the Academic Senate. Once the consultation process is complete, the proposed policies will be presented to The Regents for review, comment, and, where appropriate, approval.

**COMPETITIVE COMPENSATION.** The Task Force noted that, in order for UC to serve the people of California, it is essential that the University “remain in the top tier of the world’s research universities...[and]...provide its faculty, administrators, and staff a level of compensation that is competitive with that offered by universities in its peer group.” (Task Force report, p. 24.) Inherently, work in this area is of an ongoing nature and requires a long-term perspective.

A workgroup of the President’s Implementation Committee is currently developing principles for compensation benchmarking. The workgroup recommends that benchmarking be conducted systemwide for faculty, senior managers, and staff, but that it be conducted separately for each of these groups. Also under discussion is a possible recommendation that UC use the institutions where it gains and/or loses the most faculty and the most senior managers (respectively) as the appropriate institutions for benchmarking. Such origin/separation data is available for faculty but less available for senior managers. The group is likely to recommend that origin/separation data be collected for senior managers and included in the Human Resources Information System currently being developed.

Other issues under consideration include: the appropriate balance of compensation between salary and non-salary forms of compensation; the impact of greater transparency on competitiveness; the need to acquire additional resources to be competitive; and non-salary hindrances to competitiveness at UC (e.g., housing, cost of living).

Regular reports to The Regents will be made on the ongoing efforts to maintain competitive compensation.

**TRAVEL AND ENTERTAINMENT EXPENSES.** In addition to compensation issues, the PricewaterhouseCoopers audit and University Auditor’s review also identified issues related to travel and entertainment expenses. In response, the Office of the President requested and has received comprehensive action plans and implementation timetables from all UC locations for addressing the three primary areas identified in the audits: 1) provision of training for those personnel who approve travel and entertainment expenses, including guidance on permitted expenses and documentation requirements; 2) enforcement of clear and appropriate approval procedures and documentation requirements; and 3) ongoing monitoring and oversight to ensure adherence to policies and procedures. Implementation of these efforts have already begun at all UC locations, with anticipated systemwide completion in early 2007.

### **BACKGROUND**

The Task Force on UC Compensation, Accountability, and Transparency (Task Force) was appointed in December 2005 by Chairman Parsky to conduct an independent review of UC's policies and practices on executive compensation and on the release of public information about compensation and related matters. The Task Force was co-chaired by Regent Kozberg and former Assembly Speaker Robert Hertzberg and included distinguished state and national figures from government, education, business, and the media as members. The Task Force presented its

final report of findings and recommendations in April. The report focused on four key areas related to UC compensation: disclosure and transparency; governance and accountability; policies and practices; and competitive compensation.

In addition, in April, at Chairman Parsky's request, PricewaterhouseCoopers (PwC) released the findings and recommendations from an independent audit of compensation and employment arrangements of the University's top 32 management positions over a 10-year period. A week later, the Bureau of State Audits (BSA) issued its own audit of UC senior management compensation practices, focusing on 100 highly compensated faculty and administrative positions at the campuses and the Office of the President. In May, the University Auditor also presented the findings and recommendations of UC's internal audit of compensation for those top officials not already reviewed by PwC. Both the University Auditor's report and PwC's audit also examined travel and entertainment expenses for select UC management positions.

Taken together, the Task Force review and the three audits represent the most thorough and rigorous review of UC executive compensation ever conducted. At the May and July 2006 meetings of The Regents, the Board concurred with the recommendations from these reports and directed that their recommendations be examined and presented for Board action, as necessary, following appropriate modification.

#### **PRESIDENT'S IMPLEMENTATION COMMITTEE**

Immediately following the release of the Task Force report, President Dynes appointed a high-level Implementation Committee, composed of a Steering Committee and several workgroups, made up of campus, medical center, and Office of the President personnel, to begin the work of effecting changes in policy and practices. The Implementation Steering Committee was chaired by Provost Rory Hume and composed of the following members: Chancellors Michael Bishop and Michael Drake, Executive Vice Chancellors Virginia Hinshaw and Ellen Wartella, Vice Chancellor Sam Morabito, Executive Vice President Bruce Darling, Vice President Anne Broome, and Faculty Representative John Oakley. Supporting the Steering Committee were workgroups made up of campus, medical center, and Office of the President staff to address the five main areas of the Task Force recommendations: Disclosure and Transparency; Governance and Accountability; Information Systems; Policies and Practices; and Competitive Compensation. Following The Regents' adoption of the recommendations from the three audits in July, the Implementation Committee's scope expanded to also include implementation of the audit recommendations.

The work of the President's Implementation Committee will soon transition to the Advisory Committee, to be composed of campus and Office of the President representatives, to assist and advise in the development of new compensation policies and procedures.

(Attachments: [redacted])

UNIVERSITY OF CALIFORNIA  
POLICY ON PUBLIC DISCLOSURE OF COMPENSATION INFORMATION  
(for information only)

*September 2006*

The University of California, as a public institution, recognizes its unique obligation to maintain the public trust. This obligation includes being open and transparent about the way it spends public funds, including to compensate its employees.

To that end, the University is committed to making information about employee compensation available to the public. This information is routinely made available upon action by the Board of Regents and through annual reports to the Regents, the legislature and the public. In addition, it is made available upon request by individuals and the media.

At the same time, UC's commitment to transparency must be delicately balanced against the University's competing obligation to protect the personal privacy of its employees, as well as the continuing need to compete with other institutions, including private universities, for the best faculty, staff and administrators,

Both the right of public access to records and the protection of personal privacy are reflected in the California Constitution, and in state law. (Article I, Section 1 and 3 of the California Constitution; California Public Records Act; California Information Practices Act).

The Public Records Act specifically states that "every employment contract" entered into by a public agency is disclosable. Although the University does not typically enter into written "contracts" with its employees, basic terms and conditions of employment that would otherwise typically be contained in an employment contract are disclosable to the public.

For that reason, the basic terms and conditions of employment of any University employee will be disclosed to the public upon request, except where disclosure would constitute "an unwarranted invasion of personal privacy" as defined by the California Public Records Act. This "unwarranted invasion of personal privacy" is the standard for determining whether the information should be disclosed to the public, for any categories of employment and compensation information not reflected below.

Therefore, University policy requires that the following employment and compensation information about university employees to be released upon request:

- Name
- Date of hire and date of separation
- Position title
- Salary
- Organizational unit
- Job description
- Full-time or part-time and appointment type

The following salary and other cash payment information will also be released upon request:

- Annual base salary
- Stipends
- Bonus compensation

- Incentive compensation (including Clinical Enterprise Management Recognition Plan, Health Sciences Plan, Treasurer's Annual Incentive Plan, etc.)
- 'By-agreement' payments
- Senior Management Supplemental Benefit Program participation
- Automobile allowance or leased automobile

Information about the following benefits and perquisites will also be made available upon request:

- Eligibility for standard benefits package
- Vacation accrual or award outside of normal program/policy
- Senior Manager Life Insurance
- Executive Business Travel Insurance
- Executive Salary Continuation for Disability
- University home loan amount, interest rate, length of term
- University-provided housing
- Relocation allowance
- Temporary housing allowance
- Moving expenses
- Exceptional educational expenses
- Exceptional vacation allowance
- Payment in lieu of vacation and/or sabbatical pay
- Post-retirement employment agreements
- Consultant/independent contractor compensation agreements
- Severance/separation agreements
- Sabbatical/administrative leave in lieu of sabbatical accrual
- Special health benefits

In addition, the following terms and conditions are considered public information and will be made available upon request:

- Offer letter reflecting final terms and conditions of employment, with personal information (home address, etc.) redacted
- Separation or settlement agreement, with information that may state or imply performance issues redacted
- Post-retirement employment agreement
- Consultant/independent contractor compensation
- Eligibility for special health benefits program
- Sabbatical or administrative leave
- Administrative fund allocation
- Corporate board service
- Employment of family or other personal relationships that are explicitly part of any formal or informal employment agreement

The University considers the following compensation and employment information about its employees to be private, and will not be disclosed to the public:

- Home telephone number and home address
- Spouse's or other relatives' names
- Birth date
- Social security number

- Citizenship
- Tax withholdings
- Health care records
- Evaluation of performance
- Individual elections related to health and welfare benefits
- University home loan property address, value of property, loan application details
- Individual elections related to retirement or investment programs
- Student employee information protected under FERPA

These requirements will be prominently posted on the University's web site and employees will be clearly informed of this policy at the outset of their employment.



UNIVERSITY OF CALIFORNIA  
GUIDELINES FOR REPORTING COMPENSATION INFORMATION  
(for information only)

September 2006

*"The University should establish clear protocols, procedures, and forms that allow for full and timely compensation reporting..." (Final Report of the Task Force on UC Compensation, Accountability, and Transparency, p. 14)*

Transparency and open communication on executive compensation are necessary and essential for a public institution. The Work Group on Disclosure and Transparency – formed as part of the President's Implementation Committee – has sought to develop recommendations that will make the reporting of compensation information simple, reliable, understandable, and accessible.

Regular reports on total compensation for UC employees and executives

In addition to other reports the University is obligated to provide The Regents and the public on executive compensation, corporate board service, and other forms of compensation, the Work Group recommends:

1. The University of California shall provide an electronic annual report of UC employee compensation including, but not limited to:
  - Name
  - Date of hire/separation
  - Position title and organizational unit assignment
  - Base salary
  - Status of appointment (full time, part time, contract, etc)
2. The University of California shall develop an automatic computer program that has uniform established criteria for use by all campuses, where the information required for the annual report is developed only in that format. The information from all the campuses shall be sent electronically to the Office of the President for downloading and annual report compilation. The Senior Leadership Information System, which will be fully operational in December 2006, will be an important source of information for the annual report of senior leaders' total compensation.
3. The annual report shall include a section solely on executive compensation, which shall include total compensation.
4. The University shall also provide quarterly reports of recent hires of executives and staff earning the amount that currently requires Regental approval; separations; and Regental approval of raises.
5. The University shall provide its reports and updates to the legislature in both print and electronic versions.

Regular review of compensation policies and practices

The Work Group further recommends the following:

1. All new employees as part of their orientation shall be informed about UC's compensation policies, particularly in regard to what aspects of an employee's compensation package are publicly disclosable (see "Proposed Policy on Public Disclosure"). It is recommended that all managers be provided an overview seminar on compensation

policies, procedures, and rules of disclosure.

2. Any changes in policies and procedures shall be broadly and promptly communicated to appropriate UC employees.

Regular reports on compensation actions taken by The Regents at Board meetings, as well as compensation actions taken between Board meetings.

The Work Group also recommends that the University shall post all compensation actions immediately following action by the Board of Regents at regularly-scheduled board meetings and within one week of actions taken between meetings (interim actions). The mode of reporting shall be through the standardized template that has been developed to report total compensation.

PRELIMINARY REPORT ON 2005-06 EMPLOYEE COMPENSATION  
University of California  
November 2006

Summary

- UC compensation “above base pay” increases in 2005-06, reflecting workforce growth and market realities in recruiting and retaining faculty and staff
- Nearly 80% of such pay goes to academic employees, and particularly to health sciences faculty in connection with their patient care responsibilities
- Nearly 50% of the funding for this compensation comes from professional fees, clinical revenue, and other activities associated with UC teaching hospitals
- Compensation “above base pay” to senior managers increases slightly in 2005-06 but still represents less than 1% of the total
- UC continues reforms to compensation programs to provide for policy compliance and appropriate public disclosure

Total compensation for many University of California employees is made up of several different components. Some nurses and other employees in UC teaching hospitals, for instance, are compensated with a combination of base pay and shift differential for working evening or night shifts. Clinical faculty members who treat patients often negotiate total compensation packages that may include incentive payments under the terms of the University’s Health Sciences Compensation Plan, approved by The Regents. Other faculty salaries typically are made up of a combination of base pay, research funds, and summer teaching salary payments. Staff and administrators receive most of their income from base pay but can also earn stipends for performing additional temporary responsibilities.

Any compensation other than base salary and overtime is known as “**above base pay**” compensation. In many cases, these payments are an integral part of an employee’s annual total compensation. But this taxable income also can be temporary, such as stipends; or one-time, such as a housing allowance for a faculty member or administrator recruited to the University of California or a payout of accrued vacation for an employee leaving the University.

Preliminary analysis has now been completed on a new year’s worth of payroll data at the University of California. This preliminary analysis shows that this “above base pay” compensation to *senior managers* at the University of California increased from \$7 million in the 2004-05 fiscal year to \$7.17 million in 2005-06. (By contrast, nearly \$93 million in “above base pay” compensation was paid to union-represented UC staff employees in 2005-06.)

For the *total UC workforce, not including employees at the national laboratories*, \$843 million<sup>1</sup> in such “above base pay” compensation was paid in 2004-05, and that figure increased to \$916 million in 2005-06. (The University’s total annual payroll is approximately \$8 billion.) This growth is likely a result of several factors, including continued growth in the University’s workforce, currently composed of more than 170,000 employees; increases in employee base salaries, to which “above base pay” compensation is often tied; and the need for the University to continue using multiple elements of compensation in many cases to remain competitive in the market for talented faculty and staff.

**It is important to note that this \$916 million total does not represent “inappropriate” compensation or “executive perks,” as the compensation in this category is provided to a wide range of employees, and the majority of it is provided to faculty, particularly health sciences faculty, consistent with their teaching and clinical care responsibilities** and in accordance with the University’s Health Sciences Compensation Plan. External and internal audits of last year’s payroll data revealed that *some* payments within the category of “above base pay” compensation were not provided consistent with University policy and/or were not appropriately disclosed publicly. The Regents have responded aggressively by adopting new policy compliance mechanisms and oversight positions at the Office of the President, new policies for public disclosure of compensation information, open-session committee votes of The Regents on compensation items, and new requirements governing separation agreements, among other actions. The University has begun consistent public reporting of total compensation for those positions approved by The Regents and has committed to full annual reporting of total compensation for the entire senior leadership group.

**Consistent with its commitment to transparency and public accountability, the University is making this summary of the 2005-06 data and preliminary analysis of it broadly available to the public** as it is being delivered simultaneously to news media. The University had already committed to annual disclosures of compensation information to The Regents, the Legislature, and the public, consistent with the principles outlined by the Task Force on UC Compensation, Accountability, and Transparency. The University has been working to produce the first such disclosure in early 2007. However, the *San Francisco Chronicle* has requested immediate access, under the California Public Records Act, to this specific set of payroll data for the 2005-06 fiscal year. The University is complying with that request and making this summary of the data available broadly.

**This analysis is preliminary. A more complete analysis of the 2005-06 payroll data is currently underway** and is expected to be completed in mid-December.

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<sup>1</sup> The widely reported \$871 million figure included employees at the UC-managed national laboratories, who have not yet been accounted for in the 2005-06 payroll data analysis. The \$843 million figure is used here to ensure an accurate year-to-year comparison between 2004-05 and 2005-06.

### Background and Context

In 2005-06, the State of California provided \$3 billion in state funds to support the University's mission. This represented 20% of the University's \$15 billion in total revenue that year, excluding that associated with the Department of Energy national laboratories. The state government pays for the core of the University's instructional program, but costs for many other functions are supported by other revenue sources. This represents a tremendous benefit to the state and to California taxpayers, who receive the full educational, economic, and societal benefits from the University's activities while only paying a small fraction of the costs.

The remaining 80% of University revenue comes from a variety of sources, including the federal government, which provides grants and contracts for faculty research and also provides Medicare and Medicaid funding for patient care; HMO and private insurer payments to teaching hospitals, also for patient care; student fees, which are used for instruction-related costs, student financial aid, and student services; private funds that are designated to specific purposes; and income from self-supporting enterprises within the University, such as housing, parking, and bookstore operations. The University's largest expenditure is compensation for its employees, which totaled \$8 billion in 2005-06. The University negotiates compensation for its employees and then pays them from these separate revenue sources in proportion to the time and effort that they devote to their respective activities.

For example, a tenured professor of medicine may receive a total compensation package made up of several components: a base salary from state funds to pay for teaching medical students, compensation from one or more federal research grants for conducting research projects, and compensation from a UC faculty medical practice plan for the time the professor devotes to providing medical care to patients. The proper portion of the professor's time is charged to each of these revenue sources to ensure that each revenue source is paying the proportionate share of expenses, as required by accounting standards governing not-for-profit institutions.

Most non-medical faculty are compensated by the University, using state funds, for teaching students for the 9-month academic year. The faculty devote their time and effort during the remaining three summer months to research and scholarship that is typically paid with non-state funds. So, for many faculty, their summer salaries are paid from federal funds, from private foundations, or from other fund sources for research projects funded by those organizations. Additionally, with the huge increase in UC enrollments this decade, the University is now teaching approximately 67,000 students in the summer to utilize classrooms year-round. Faculty on 9-month appointments who teach summer session courses receive additional compensation, according to University policy, to teach these courses.

This structure of compensation "layers" applies to many staff employees as well. Some staff employees, particularly in the UC medical centers, receive "differential pay" on top of base salary for working night or weekend shifts. Other employees may earn stipends for performing additional temporary responsibilities. And bonus and incentive programs intended to reward employee performance also end up in the category of additional compensation "above base pay."

### Key Points and Analysis

#### 1. The 2005-06 data: Total compensation grows

- As previously reported, in the 2004-05 fiscal year \$871 million in “above base pay” compensation was provided to University of California employees. This figure reflected total compensation, minus base pay and overtime, for all UC employees. **Removing those employees at the national laboratories, who as yet have not been included in the 2005-06 payroll data set, the 2004-05 figure is \$843 million.**
- The next year’s worth of payroll data indicates that for the 2005-06 fiscal year, \$916 million was paid in compensation above base pay, excluding overtime, to UC employees other than those employed at the national laboratories. **Thus, the \$843 million in compensation beyond base pay in 2004-05 has grown in 2005-06 to \$916 million.**
- **Why has this increase occurred?** A fuller answer will require completion of a comprehensive analysis of the 2005-06 payroll data, an analysis now underway. But some likely factors are:
  - UC’s **employee workforce grew 1.4%** (more than 2,000 employees) between fall 2004 and fall 2005, driven by increases in services provided by the University:
    - Student enrollments grew by 2% between 2004-05 and 2005-06
    - Federal research expenditures at UC grew 2.3%
    - Inpatient days at UC medical centers grew 1%
  - **Base pay increased** for UC employees between 2004-05 and 2005-06, and many forms of “above base pay” compensation are tied to base pay.
  - The University continued to operate in a **marketplace in which multiple forms of compensation are required** in many employee categories in order to recruit and retain the most talented faculty and staff.
- **It is important to note that the implementation of compensation reforms at UC should not create an expectation that the \$916 million figure will decrease over time.** The vast majority of this compensation “above base pay” has not been called into question by the audits and reviews of UC compensation. Reforms to specific UC policies and practices may affect a small fraction of “above base pay” dollars over time, though these reforms began toward the end of the 2005-06 fiscal year and would have little impact on the 2005-06 payroll. Furthermore, as the services provided by the University continue to expand and the University’s workforce of more than 170,000 continues to grow in order to better serve more California students, more hospital patients, and more of the state’s research needs, dramatic reductions in the total amount of non-base pay compensation should **not** be expected.

## 2. The 2005-06 data: How the \$916 million breaks down

- A comprehensive analysis of the payroll data is now underway and is expected to be completed by mid-December.
- However, a preliminary analysis of the \$916 million in compensation “above base pay” to non-lab UC employees in 2005-06 indicates the following:
  - **By type of employee, nearly 80% of the compensation “above base pay” went to employees directly engaged in the academic mission.** These include professors, clinical professors, other teaching faculty, research titles, and a variety of other academic titles. (See accompanying Table 1 for details.)
  - **By fund source, nearly 50% of the funding for this compensation came from professional fees, clinical revenue, and other activities associated with the University’s teaching hospitals.** Approximately 9% of the funding came from State of California funds. Another 7% came from student fees, the majority of it from fees for summer sessions and University Extension courses. (See accompanying Table 2 for details.)
  - **The “top 10 earning” employees at the University in 2005-06 based on total compensation were either members of the health sciences faculty – typically world-renowned specialists in their fields – or athletic coaches.**
  - As described below, **less than 1% of the “above base pay” compensation (\$7.17 million) went to members of the Senior Management Group.** (See accompanying Table 3 for the detailed elements of compensation for the 31 employees holding the senior-most leadership positions at UC in 2005-06. See accompanying Table 4 for the total compensation figures contained in the 2005-06 payroll data set for all members of the Senior Management Group.)

3. The 2005-06 data: Senior managers still represent less than 1% of the total

- **Preliminary analysis of the 2005-06 payroll data indicates that members of UC's Senior Management Group received \$7.17 million of the total \$916 million in compensation "above base pay" provided to UC employees. This is slightly above the \$7 million figure for 2004-05.**
- The \$7.17 million paid to senior managers in 2005-06 breaks down in the following way:

Performance/incentive/bonus pay	\$1,678,000
Health Sciences Compensation Plan	\$1,136,000
Relocation	\$1,089,000
Payout of unused vacation upon separation	\$876,000
Severance pay <sup>2</sup>	\$762,000
Stipends for additional job responsibilities	\$714,000
Research/teaching <sup>3</sup>	\$517,000
Automobile allowance	\$394,000
<b>TOTAL</b>	<b>\$7,166,000</b>

- Of the \$1,678,000 total for performance/incentive/bonus pay to senior managers, \$921,414 was paid as performance awards to employees in the UC Treasurer's Office, and \$656,362 was paid as clinical enterprise incentive awards to employees at certain campuses with medical centers.
- The Senior Management Group consists of the senior leadership of the University, including the president, other officers of The Regents, chancellors, vice presidents, vice chancellors, associate and assistant vice presidents, some associate and assistant vice chancellors, some executive directors, and senior academic administrative titles such as deans. The \$7.17 million in the 2005-06 payroll data set was provided to 185 members of the Senior Management Group.

<sup>2</sup> Includes payments made to eligible administrators under the Senior Management Supplemental Benefit Program and other severance payments to employees.

<sup>3</sup> An academic appointee may receive additional compensation for services in connection with extramurally funded research projects undertaken by the University unless the terms of the University appointment prohibit acceptance of additional compensation. In addition, faculty members under certain conditions may receive additional compensation for specified additional University teaching activities, including University Extension courses, other continuing education programs run by the University, and self-supporting University degree programs.



4. A look at last year: What last year's comprehensive analysis of the 2004-05 data showed

- For context and comparison, in 2004-05, the \$871 million in UC compensation "above base pay," which included national laboratory employees, consisted of the following<sup>4</sup>. (Again, removing national laboratory employees from this calculation would have resulted in a total figure of \$843 million):
  - \$600 million (69%) was paid to **health sciences faculty** for treating patients or conducting research, and to **campus faculty** for additional teaching and research they performed during the summer, beyond their normal appointments.
  - \$70 million (8%) was "**differential pay**" provided to UC employees, most of them union-represented and most of them at the University's medical centers, for evening, night, weekend, holiday, "on call" or other shifts.
  - \$54 million (6%) was **payout of accrued vacation** to employees leaving UC.
  - \$57 million (7%) represented a wide variety of compensation "**by agreement**," including pay for students and postdoctoral fellows, adjunct and visiting professors, University Extension faculty, staff physicians, and other categories.
  - \$58 million (7%) represented **special performance, incentive, or bonus** pay.
  - \$30 million (3%) represented either **stipends** for employees taking on additional, temporary responsibilities or one-time **honorarium** payments.
  - \$9 million (1%) was for employee **automobile and housing allowances**.
  - The above were offset by a -\$7 million in savings from a University program that offered employees a temporary reduction in time and pay during 2004-05.
- Of the \$871 million total, \$7 million went to senior managers at UC in 2004-05.
- The University is now working on a comprehensive analysis that should provide, by mid-December, a comparable breakdown of the 2005-06 data.

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<sup>4</sup> "University of California Compensation: Breakdown of \$871 Million Figure Cited by the San Francisco Chronicle." January 2006, [http://www.universityofcalifornia.edu/news/compensation\\_chronicle\\_871million.pdf](http://www.universityofcalifornia.edu/news/compensation_chronicle_871million.pdf).

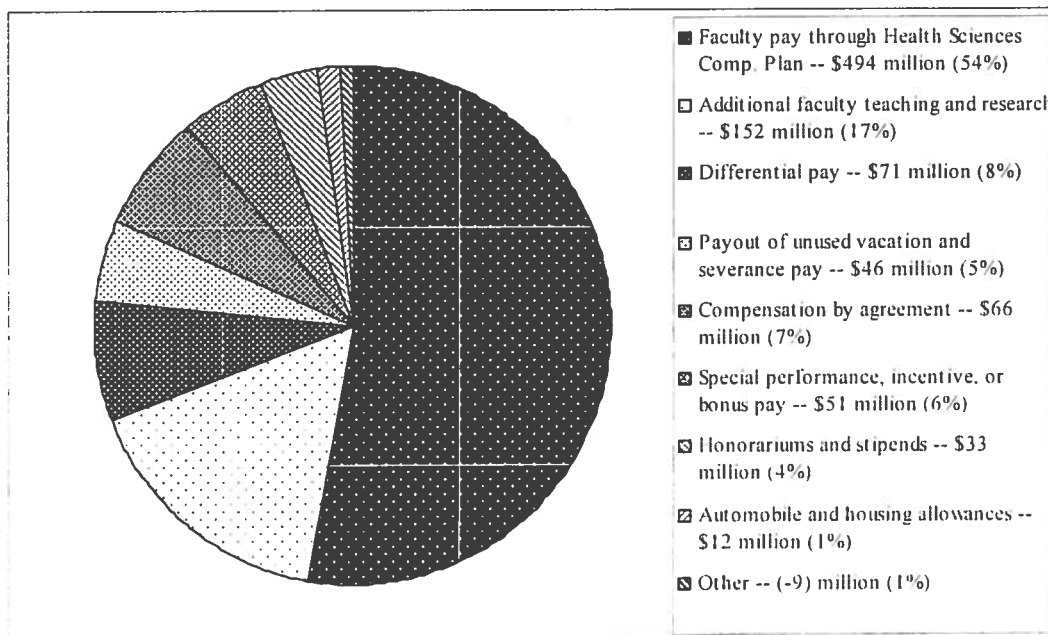
**Further Analysis of University of California  
“Above Base Pay” Employee Compensation for 2005-06  
December 2006**

Total compensation for many University of California employees is made up of several different components. Some nurses and other employees in UC teaching hospitals, for instance, are compensated with a combination of base pay and shift differential for working evening or night shifts. Clinical faculty members who treat patients often negotiate total compensation packages that may include incentive payments under the terms of the University’s Health Sciences Compensation Plan, approved by The Regents. Other faculty salaries are typically made up of a combination of base pay, research funds, and summer teaching salary payments. Staff and administrators receive most of their income from base pay but can also earn stipends for performing additional temporary responsibilities.

Any compensation other than base salary and overtime is known as “above base pay” compensation. **In November 2006, the University issued a preliminary report on “above base pay” compensation provided to UC employees during the 2005-06 fiscal year.** The report showed that \$916 million in “above base pay” compensation was paid in 2005-06, excluding employees at UC-managed national laboratories. Of this \$916 million, approximately \$7 million was paid to employees who are members of the University’s Senior Management Group.

The preliminary report, related materials explaining “above base pay” compensation, and a breakdown of the \$7 million paid to senior managers are available on the University’s public web site at [www.universityofcalifornia.edu/news/compensation/payroll2005-06/](http://www.universityofcalifornia.edu/news/compensation/payroll2005-06/).

**At the time the preliminary report was issued, the University committed to providing a fuller analysis of the “above base pay” data in December 2006. This document represents that analysis.** What follows is a breakdown of the \$916 million in “above base pay” compensation paid to UC employees in 2005-06. Of the \$916 million, \$73 million came from State General Funds and \$62 million from student fee revenue.



**Faculty pay through the Health Sciences Compensation Plan – \$494 million (54%)**

In addition to base salary, health sciences faculty are paid compensation funded primarily by professional fees generated by their clinical activities and competitive contract and grant research awards – all of which are paid through University accounts. These payments are regulated by a Regental policy, the Health Sciences Compensation Plan. This additional compensation is available to medical, dental, pharmacy, optometry, and nursing school faculty for the work they perform, such as treating patients or performing professional services, above and beyond their regular teaching requirement. The purpose of this compensation plan is to ensure that the University can recruit and retain exceptional faculty through competitive salaries, by agreement with the state Legislature.

**Additional faculty teaching and research – \$152 million (17%)**

Most general campus faculty (those not members of the health sciences faculty) have 9-month appointments. They are paid additional compensation for teaching and research done during the summer, above and beyond their regular teaching requirement, allowing the University to utilize its facilities on a year-round basis. Additionally, faculty are paid summer salaries by sponsors of federal and private research grants.

**Differential pay – \$71 million (8%)**

Of the total, \$67 million was paid to unionized employees, mostly at the University's medical centers, for evening, night, weekend, holiday, or "on call" shifts. An additional \$4 million was paid to non-unionized staff.

**Payout of unused vacation leave and severance pay – \$46 million (5%)**

Of the total, \$42 million was paid to employees who left University service as a payout of their unused vacation leave. \$12 million of this amount went to union-represented employees.

Also, \$4 million was paid as severance pay to employees upon ending employment in accordance with personnel policies or applicable collective bargaining agreements. Approximately \$1 million of this amount was paid to union-represented employees.

**Compensation by agreement for faculty, staff, students and managers – \$66 million (7%)**

Students and postdoctoral fellows – \$8.5 million: Some students and fellows bring fellowship funding provided by an outside agency with them to the University. Though resulting from separate agreements, the payments are made through the University's payroll system.

Adjunct, recalled and visiting professors – \$13 million: These and other academics (for instance, some lecturers, instructional assistants, and teaching assistants) receive compensation by term contract for providing instruction on an ad hoc basis for a limited period.

University Extension – \$10 million: This self-supporting program pays some of its instructional faculty "by agreement" through separate teaching contracts.

Staff physicians and dentists and other health sciences faculty – \$11.5 million: This category of employee includes staff physicians and dentists who do not have faculty appointments as well as other health sciences faculty who have a faculty appointment of 50% or less and thus are not eligible for the Health Sciences Compensation Plan. These employees may receive compensation in addition to base pay, similar to those in the Health Sciences Compensation Plan, described above. These payments are regulated by Regental and/or academic policy.

Student employees – \$7 million: Some student job titles are paid based on an assignment rather than on an hourly basis, e.g., second- and third-year resident assistants in the dormitories, student referees for intramural sports leagues, camp counselors, etc.

Recreational instructors – \$4 million: This employee category is often paid by the class or by the academic term, rather than per hour.

Interns and residents – \$7 million: Some campuses record payments for salary and other salary supplements to this group of employees as “by agreement” rather than as regular pay.

Advising and counseling services – \$1 million: This “by agreement” pay category refers to those who participate as community service mentors or who serve as an appointed official overseeing student activities such as a summer orientation program.

Contract workers and limited appointments – \$3 million: This is primarily for students from other educational organizations (e.g., high schools or community colleges) or theatrical artists and other theater support staff.

Compensatory time paid – \$500,000: One campus records compensatory time paid to employees in this category, rather than as overtime pay, which is not included in this analysis.

Certification pay – \$500,000: In accordance with labor contracts between the University and some of its employees, additional compensation above base pay is provided to recognize attainment of high professional standards within their fields of employment.

#### **Special performance, incentive or bonus pay – \$51 million (6%)**

This section includes two categories:

Special Performance Awards are given in recognition of distinguished service for significant achievements and contributions, and are available to employees and work teams at all levels of the organization. Approximately one-half of 1% of UC’s non-represented staff salary base is reserved for this employee recognition program and is included as part of the University’s personnel policy.

Incentive pay/bonuses includes pay when pre-determined, specified goals or objectives are attained. This category also includes relocation incentive pay, signing bonuses and employee referral bonuses primarily for appointments at the medical centers.

#### **Honorariums and stipends – \$33 million (4%)**

Honorariums – \$1 million: These one-time payments may be provided to academic and staff positions as well as non-employees in recognition of, for example, participating in a seminar or workshop as a guest speaker or panelist, or for giving special lectures.

Stipends – \$32 million: Stipends are compensation for undertaking temporarily assigned responsibilities that are outside the scope of an employee’s regular responsibilities and usually of a higher-level position. For instance, administrative stipends may be paid when an employee takes on additional job duties on a temporary basis, such as when a faculty member serves as a department chairperson in addition to regular academic duties.

#### **Employee automobile and housing allowances – \$12 million (1%)**

Temporary Housing Allowance – \$11.5 million: This category of payment is provided primarily to faculty who are recruited to the University and is generally provided on a temporary basis to facilitate the transition while they look for housing. However, the Chancellor is authorized to approve exceptions in individual cases.

Auto allowance – \$500,000: Certain staff in the Senior Management Group, as specified in University policy, are eligible to receive a monthly cash allowance in lieu of an automobile leased by the University. In fiscal year 2005-06 the monthly stipend was \$743.

**Other – (-\$9) million (1%)**

This category primarily reflects savings from the University's START program, which offered employees a voluntary temporary reduction in time and pay.

**TOTAL – \$916 million**

Office of the President

TO THE MEMBERS OF THE COMMITTEE ON COMPENSATION:

DISCUSSION AND ACTION ITEM

*For Meeting of January 18, 2007*

**DEFINITION OF TOTAL COMPENSATION FOR THE PURPOSE OF DEFINING THE  
“ANNUAL REPORT ON COMPENSATION”**

**RECOMMENDATION**

- A. The President recommends that the Committee on Compensation recommend to The Regents approval of the following definition of total compensation for the purpose of further defining the “Annual Report on Compensation”, as recommended by the Task Force on UC Compensation, Accountability, and Transparency, and adopted by the Regents under RE-74e.
- B. The President recommends that the Committee on Compensation recommend to The Regents approval of the definitions of the “Annual Report on Compensation”, including the group of University employees covered by the report, the time period, and other report parameters, as follows, as recommended by the Task Force on UC Compensation, Accountability, and Transparency, and adopted by the Regents under RE-74e.

**A. Definition of Total Compensation and Total Cash Compensation**

TOTAL COMPENSATION shall be defined as:

- 1. All salary and other cash payments made to the employee or on behalf of the employee including but not limited to: base salary, stipends, incentive payments, bonuses, cash awards, automobile allowances, or any other cash payments that would be considered W2 income to the employee.
- 2. One-time payments/reimbursements made to the employee or on behalf of the employee including but not limited to: relocation allowance, temporary housing reimbursements or allowances, moving expense reimbursements, payments pursuant to post-retirement agreement, payments pursuant to severance/separation agreements, or any other reimbursements made to the employee that would be considered W2 income and are not considered business-related expenses.
- 3. Any benefits and perquisites including but not limited to: health & welfare benefits including retirement available to all career employees, senior manager

life insurance, executive business travel insurance, executive salary continuation for disability, any home mortgage loans, senior management supplemental benefit program contributions, University provided housing, vacation and sick leave accrual, leased automobiles, post-retirement employment agreements, special or supplemental health or retirement benefits, severance or separation agreement benefits, any cash payment in connection with any severance or separation agreement, special sabbatical or other leave arrangements, or any other benefits or perquisites provided to the employee for services rendered to the University of California.

## **B. Definitions and Parameters for the Annual Report on Compensation**

### **1. Population Covered under the Annual Report on Compensation**

- a. This report will include the "named positions" for which the Regents retain direct authority to approve compensation, as specified in item 7C which was approved by the Regents on July 20, 2006:
  - president
  - executive and senior vice presidents
  - vice presidents
  - associate and assistant vice presidents
  - the university auditor
  - the university controller
  - principal officers of the Regents
  - chancellors and vice chancellors
  - national laboratory directors and deputy directors
  - medical center CEOs
  - deans

Other positions, including the top five most highly compensated positions at each UC location, may be designated by the Regents for review and approval of compensation actions.

The Annual Report on Compensation will also include positions for those employees who are in the Senior Leadership Compensation Group (SLCG) and all non-faculty academic administrators whose cash compensation exceeds the Indexed Compensation Level (ICL), currently at \$200,000, as increased in accordance with RE-61. Compensation for the purpose of determining the ICL shall include all compensation included in item A1 plus relocation allowances from A2, above. This definition of compensation is consistent with and supports The Regents current practice for determining the ICL for reviewing and approving executive compensation.

This is in accordance with the guidelines established in RE-61, approved on September 22, 2005 and under 7C approved on July 20, 2006.

- b. Employees in one of the named positions, but in an acting or interim capacity will be included in the report. Employees who serve in a named position during the

reporting year, but step down from that role and are no longer active in that role on December 31 of the reporting year, will also be included in the report.

Although not considered a part of total compensation, and therefore not included in the Annual Report on Compensation, data will be collected and tracked on the following: spousal employment agreements as a component of hiring, housing maintenance for those who are required to reside in University housing, administrative fund for business related expenses. This information will continue to be included in the individual action items presented to the Regents for approval.

## **2. Timeframe for Reporting under the Annual Report on Compensation**

This report will be produced and presented to the Regents for review and approval in March of each year (or the next scheduled Regents' Meeting) and include the compensation details noted above for the preceding calendar year for the population described above. Since the 2006 Annual Report on Compensation will be the first report to transition to a calendar year basis from a fiscal year basis, we will generate another separate report for calendar year 2005, to cover the gap in reporting. This report will be presented to the Regents in May 2006.

## **3. Compensation Elements Displayed for the Annual Report on Compensation**

Data will be displayed for each person covered under this report, per the attached table as provided in Attachment 1.

This definition of Total Compensation, and the layout and content of the Annual Report, is also consistent with the Budget Act language that requires the University to report annually to the Legislature on compensation for the "named positions" as defined above. The Budget Act language is included as

In addition, these reporting and definition recommendations are consistent with, and in some cases exceed, the reporting requirements established by SEC regulations adopted on July 26, 2006. Although these regulations are not applicable to the University of California, they represent sound disclosure standards.

Attachment 3 (see below) provides related findings and recommendations from the Task Force on UC Compensation, Accountability and Transparency. Only the pertinent sections from this report are provided in this attachment.

(Attachments)





Attachment 2

University of California  
2006-07 Budget

**Budget Act Language on UC Compensation, Accountability, and Transparency**

It is the intent of the Legislature that UC fundamentally reform its compensation policies and practices to more appropriately reflect its status as a public institution accountable to the State of California. It is the intent of the Legislature that UC submit an annual report by March 1 of each year through 2010-11 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 (Task Force), the PricewaterhouseCoopers report, and the Bureau of State Audits May 2, 2006 report. Specifically, the University's report should include the following:

(1) consistent with the Task Force's recommendation on reporting, annual reports provided to the Board of Regents on total compensation for specified University senior officials (including the President, Provost, senior vice presidents, vice presidents/provosts, associate/assistant vice presidents, the University auditor, the University controller, principal officers of The Regents, chancellors, vice chancellors, national laboratory directors/deputy directors, medical center CEOs, professional school deans, and the top five most highly compensated positions at the Office of the President and each campus, medical center, and Department of Energy Laboratory). Total compensation information on employees not covered by this language is to be made available to the Legislature upon request.

In its annual report of total compensation for senior officials, the University should use a standard reporting template, such as the template recommended in the April 2006 Report of the Task Force, that lists all elements of total compensation, including base salary, benefits and perquisites, and all other forms of UC-provided compensation that accrue to the individual.

(2) plans and actions taken by UC to reform compensation policies and practices to ensure that, (a) clear and appropriate policies are in place to define compensation, (b) university compensation remains competitive, (c) it is clear with whom the authority lies for making compensation decisions, (d) policies include specific guidance about when exceptions are appropriate, who may grant them, and through which mechanisms, so that exceptions do not become the rule, (e) conflicts among existing policies are eliminated, (f) mechanisms are in place to ensure compliance with newly reformed policies and to reliably impose consequences when policies are violated;

(3) plans and actions taken by UC to update its human resources information system to ensure that campuses and the Office of the President are entering and capturing data in an accurate and systematically compatible manner that permits disclosure of compensation information in a full and timely way.

It is further the intent of the Legislature that the fiscal subcommittees of both houses of the Legislature hold annual hearings to review this report.

### **Task Force on UC Compensation, Accountability, and Transparency**

The report from the Task Force on UC Compensation, Accountability, and Transparency recommends that The Regents clarify the definition of "total compensation" for Executives to include some missing elements of compensation and to ensure consistency with accepted standards and practices. The pertinent sections of the Task Force findings and recommendations are provided below. **Please note that sections of the text that were unrelated to executive compensation reporting or definition of compensation were deleted for improved continuity and ease of reading.**

#### **Disclosure and Transparency**

The Task Force finds that UC lacks a system to ensure reporting of total compensation for executives in accordance with policy.

#### **RECOMMENDATION**

The University should establish clear protocols, procedures, and forms that allow for full and timely compensation reporting. These reports should include:

- Annual reports on base salaries for all UC employees.
- Annual reports on total compensation for UC executives.
- Annual reports on outside compensated professional activities.
- Compliance with annual reporting requirements to the Regents and the Legislature.
- Regular reviews of compensation policies and practices.
- Regular reports on compensation actions taken by the Regents at Board meetings as well as compensation actions taken between Board meetings.

The Task Force finds that the lack of consensus about what constitutes total compensation at the University of California exacerbates confusion about disclosure policies.

The Regents should reaffirm the definition of "total compensation" in the Regents' 1992 Principles for Review of Executive Compensation and further clarify some missing elements to ensure consistency with accepted standards and practices.

#### **Governance and Accountability**

The Task Force finds that the Regents' ability to provide oversight of compensation decisions has been weakened by the large number of compensation decisions they were expected to review.

The Task Force recommends that the Regents retain direct authority to approve compensation for the President, senior vice presidents, vice presidents, associate/assistant vice presidents, the university auditor, the university controller, principal officers of the Regents, chancellors and vice chancellors, national laboratory directors and deputy directors, medical center CEOs, professional school deans, and the top five most highly compensated positions at each UC location. This currently yields 264 individuals.

The Task Force finds that UC lacks a system to ensure reporting of total compensation for executives in accordance with policy. This extends to policies requiring disclosure to the Regents when they are asked to approve initial senior-level appointments, to the media and the public once Regents' compensation actions are taken, and in annual reports to the Regents and the Legislature.

**Annual reports:** An example of the lack of checks and balances is the administration's failure to submit required annual reports on executive compensation and compensated corporate board service for two years in a row. The reason given was that the staff person responsible for keeping track of reporting deadlines had retired. This is inexcusable. The University must fulfill its obligation to inform the Regents annually. In the future, such annual reports should be certified by the senior-most official responsible for the report's content, and then posted online following receipt by the Regents. Furthermore, the annual report to the Regents on executive compensation should be revised to include all elements of total compensation, as required by the 1992 Regents' Principles for Review of Executive Compensation.

**Annual online reporting of all base salaries:** The Task Force believes the University should annually release base salaries for all UC employees, not just senior managers. In considering this matter, the Task Force weighed two issues: 1) whether to limit reports just to senior managers, and not to all employees; and 2) whether to extend reporting from base salary to total cash compensation.

In the end, the Task Force believes that on the first issue, the public interest in disclosure extends to faculty, staff, athletic coaches, and others. Many public universities (the University of Michigan, University of Washington, and University of Illinois, to name a few) proactively release a comprehensive listing of base salaries for all employees.

On the second issue, the Task Force is concerned that reporting more than base salary for all employees will put the University at a further competitive disadvantage in retaining top faculty. There have been reports that the recent media disclosure of UC total cash compensation has allowed competitors to make better and more informed offers to faculty.

These same factors do not apply to senior administrators. Therefore, the Task Force believes that the University should report online total compensation for the 264 individuals whose compensation has been recommended for approval by the Regents (see Governance and Accountability Recommendation #6, p. 22).

**Uniform forms of disclosure.** The Task Force spent a considerable amount of time on the issue of reporting and developed a sample compensation disclosure form to serve as a prototype for providing information for executive appointments and promotions (see Appendix, pp. 38-39). Such a form should be presented to the Regents along with other background material when they are asked to approve the hiring or promotion of an

executive. A form like this should be used throughout the UC system, so that others who review and approve such appointments and promotions also receive the same information.

Immediately following the Regents' approval, the form could also be attached to the UC press release and posted on the Web, so that all elements of compensation are displayed in a clear, straightforward manner for the public and the media. Current practice in this area is inconsistent across the UC system. The UC Office of the President regularly reports base salary in its press releases on new appointments, whereas many campuses do not report even base salary. Consistency in disclosure across the UC system is paramount.

**Regular and interim Board of Regents actions.** The University also needs to refine its protocols to ensure timely Web-posting of compensation actions taken by the Regents at their regular board meetings. With respect to actions taken between regular board meetings that can be approved by the President, the Chair of the Board of Regents, and the Chair of the Compensation Committee, the procedure is designed to provide flexibility in responding to urgent needs, including those involving recruitment and retention of key faculty and managers. These "interim board actions" are then reported to the full board at the next regularly scheduled meeting. However, the lack of clear protocols has caused some high-profile items to "fall between the cracks"—leading to an impression that items are being hidden from the public and the full board. The University needs to establish clear principles and procedures for determining what criteria need to be met (e.g., urgent retention cases that cannot wait for two months before the next board meeting) in order for a compensation package to be approved between regular board meetings.

The University should establish clear protocols, procedures, and forms that allow for full and timely compensation reporting. These reports should include:

- Annual reports on total compensation for UC executives.
- Annual reports on outside compensated professional activities.
- Compliance with annual reporting requirements to the Regents and the Legislature.
- Regular reviews of compensation policies and practices.
- Regular reports on compensation actions taken by the Regents at Board meetings as well as compensation actions taken between Board meetings.

Office of the President

TO MEMBERS OF THE COMMITTEE ON COMPENSATION:

**DISCUSSION ITEM**

*For Meeting of January 18, 2007*

**DEVELOPMENT OF A NEW COMPREHENSIVE POLICY FRAMEWORK AND  
TIMETABLE FOR THE REVIEW OF INDIVIDUAL POLICIES AND PRACTICES**

**BACKGROUND**

In April 2006, the Task Force on UC Compensation, Accountability, and Transparency presented its report of findings and recommendations. The report focused on four areas: disclosure and transparency; governance and accountability; specific policies and practices; and competitive compensation.

In response to the Task Force findings, The Regents approved the following recommendations as part of RE-74 in May 2006:

- **Create Policy Framework & Timetable:** All compensation policies and procedures will be examined, a new comprehensive framework created, and new policies and procedures developed. A timetable for these will be established as part of the framework, and individual items will come forward for approval in accordance with this framework and timetable.
- **Retain Consultant:** An external consultant will be required to assist in preparing the overall framework and individual policies and procedures.

Mercer Human Resource Consulting has been engaged to assist the University with the development of a new comprehensive policy framework and the revision of policies and practices as a result of a competitive RFP process.

This discussion item will include a \_\_\_\_\_ and discussion with The Regents on the conceptual basis for the policy framework, the structure and process of the policy review project, and the timetable for completion.



# **Update on Policy Review Project**

**January 18, 2007**

**University of  
California Board of  
Regents**

# Background



- In May, 2006, The Regents requested that:
  - “all compensation policies and procedures be examined, a new comprehensive framework created, and new policies and procedures developed;” and,
  - an external consultant be retained to assist in preparing the overall framework and individual policies and procedures:
- A Request for Proposal was distributed in July, 2006
- Mercer Human Resource Consulting was selected as the consultant for the project in November, 2006



# Objectives



- Clarify the governance structure for compensation and related policies to reflect the proper roles of various entities and develop a framework for policy management
- Articulate UC's compensation philosophy and revise compensation policies to more closely align them with that philosophy and to ensure clarity and transparency
- Develop mechanisms for compensation policy implementation, monitoring, reporting, disclosure, compliance, and enforcement
- Facilitate consistent policy compliance across UC

# Desired Results



Policies and practices that:

- Ensure transparency and provide for monitoring and compliance
- Are clear and understandable and can be consistently implemented at multiple locations
- Enable competitive, fair and reasonable compensation
- Compare favorably to the best practices of UC's peer groups
- Reflect UC's system-wide philosophies while providing flexibility to meet local needs

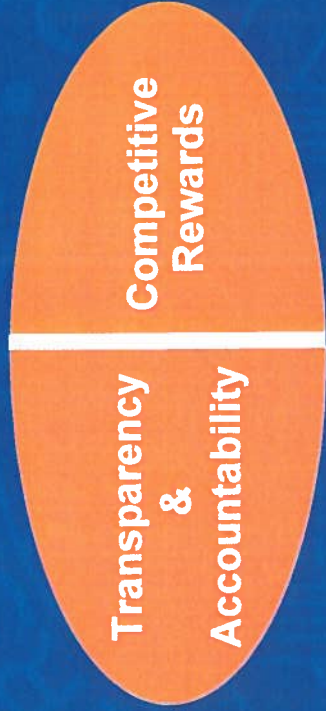
# Project Overview



**UC Mission:**  
Teaching  
Research  
Public Service

**External Environment**

- Public Perception
- Regulations
- Labor Market Practices
- Legislative Expectations



**Internal Environment**

- Existing Policies
- Workforce Characteristics
- UC Organization & Operating Style
- Shared Governance

**People Strategies**

**Guiding Principles**

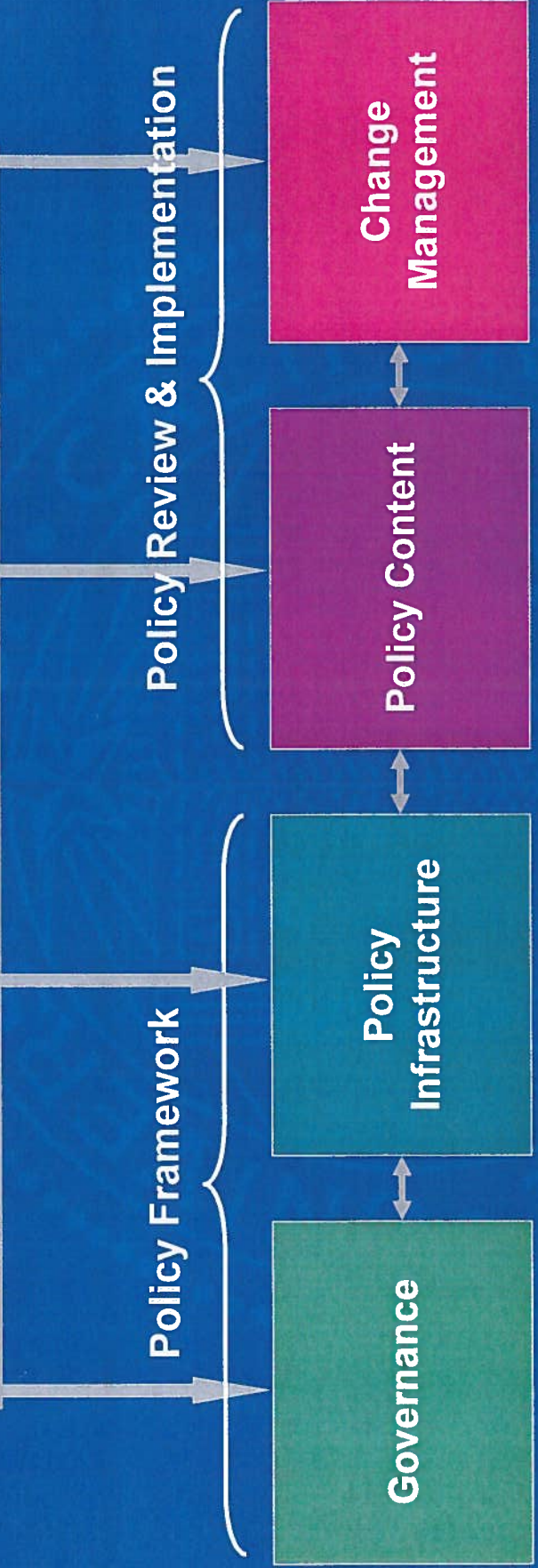
# Project Structure



Guiding Principles



Integrated Work Streams



Project Management

# Policy Framework

## For Compensation & Related Policies



- The Policy Framework is comprised of two key elements
  - The Governance Structure under which compensation and related policies are initiated, reviewed and approved
  - The Policy Infrastructure that ensures consistent format and clarity, universal access to current policies, and ongoing review and revision

# Governance

## For Compensation & Related Policies



- Assess the existing governance structure and decision making authorities through interviews at UCOP and designated locations
- Create guiding principles for, and then develop, the future governance structure and decision making authorities

# Governance

## For Compensation & Related Policies

- Review, obtain input on, and validate the proposed decision making authorities with the appropriate UC constituencies
- Develop a roles and responsibilities model to support the approved decision making authorities
- Design, recommend, obtain Regents approval on, and implement a governance monitoring and reporting protocol



# Policy Infrastructure



- Create a process for reviewing and rewriting UC compensation & related policies under the governance structure
- Identify core characteristics of UC policies and create a standardized policy template
- Develop a process for ongoing review and updating of UC policies
- Identify a knowledge management solution (searchable policy database) to facilitate access and consistent application



# Policy Content



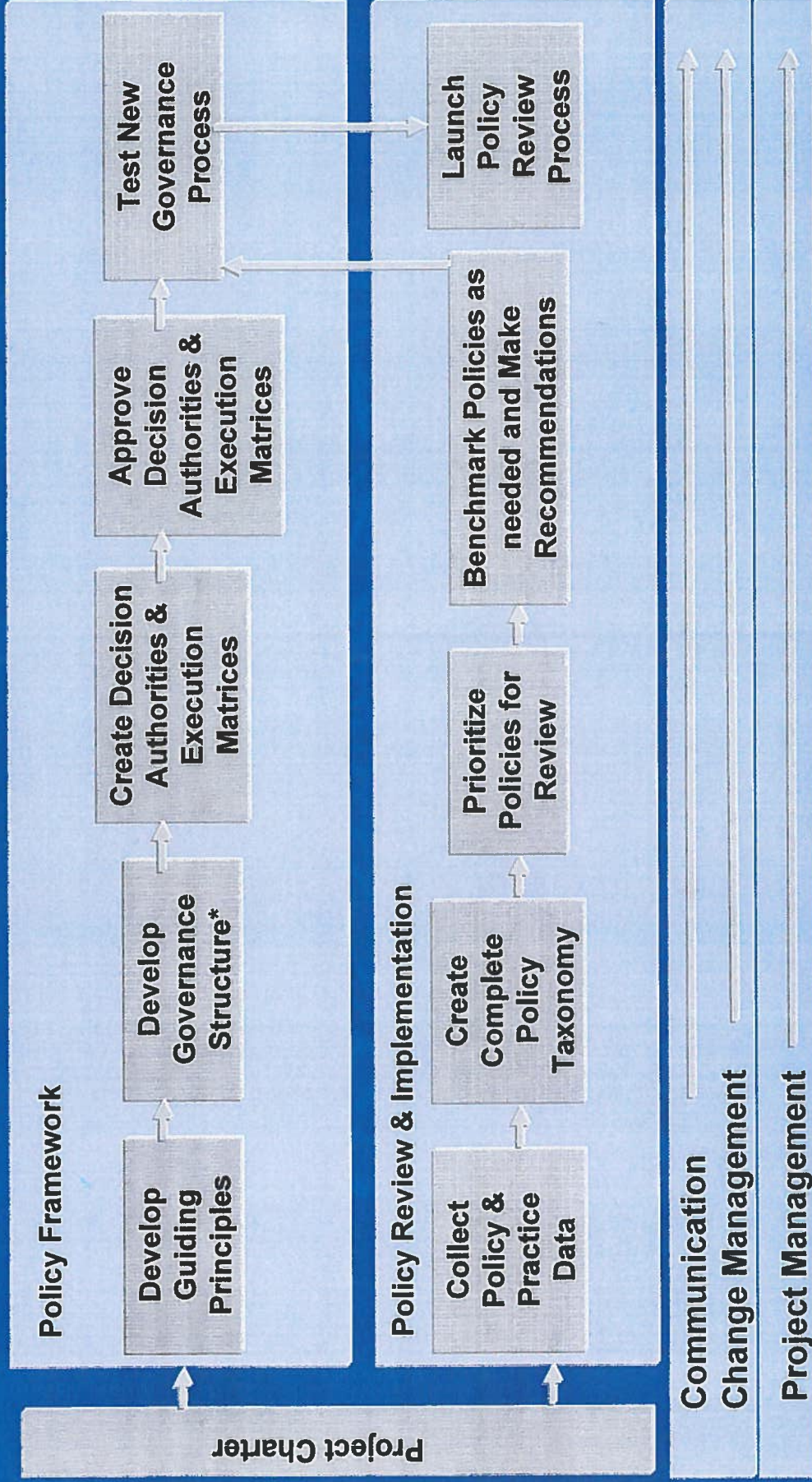
- Inventory and catalogue current compensation & related policies, and actual practices
- Prioritize policy reviews
- Benchmark UC policies vis-à-vis comparator organizations as needed
- Facilitate review of policies by stakeholder groups
- Develop recommendations to retain or refine existing policies, or add new policies

# Change Management



- Identify key stakeholders, involve them, and keep them informed
- Leverage communication to promote consistency
- Evaluate training needed to successfully implement the new Policy Framework
- Help create conditions for policy compliance throughout UC

# Initial Project Steps





# Timeline\*

Year	2006	2007												2008	
Month	12	1	2	3	4	5	6	7	8	9	10	11	12		
<b>Governance**</b>															
<b>Policy Infrastructure</b>															
<b>Policy Content</b>															
<b>Change Management</b>															***
<b>Project Management</b>															***

\* Regents meeting months are noted in gray

\*\* Governance for compensation & related policies

\*\*\* Clean up work only - most work will be completed in 2007

## 2006 UC Annual Report on Compensation for Senior Managers

As part of its commitment to transparency and public accountability, UC annually reports the compensation paid to its senior administrators.\* Below is information about UC's 2006 report, along with information about how the salaries of UC administrators compare to those at other institutions. This report will also be presented to the Legislature following the Regents' March meeting as part of the University's 2006 legislative report on executive compensation.

**Elements of the 2006 Annual Report:** The format for the 2006 report was redesigned to provide more specific compensation information than in the past and, where applicable, includes detailed explanations by individual of the compensation elements behind aggregated numbers. This new format, compliant with legislative reporting requirements, was approved by the Regents in January 2007 and includes the following:

- **Cash compensation:** Items in this category include: 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.
- **One-time payments/reimbursements:** These are payments made to an employee, or on behalf of an employee to a third party vendor. Examples include relocation allowances, temporary housing reimbursements or allowances, and moving expense reimbursements.
- **Benefits and perquisites:** Items in this category include leased auto payments or auto allowances, senior management benefits (including some or all of the following: life insurance, executive business travel insurance, executive 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 retirement vesting schedules, etc.), and home mortgage loans provided under the University programs (the original loan amount is presented).

**Covered Population:** The report being presented to the Regents at their March 2007 meeting covers 275 administrators who are designated as "senior officials", as defined in the meeting materials. This population includes incumbents and former incumbents, including those serving in an acting capacity and those who stepped down or terminated employment. NOTE: The report being presented at the May Regents' meeting will add to the March report and will include the population that currently requires Regental review and approval -- administrators whose cash compensation exceeds \$200,000 per annum.

**Reporting Methodology:** This report, to be published each spring, covers activity for the prior calendar year. Data for the 2006 report was collected manually by each campus and laboratory using a variety of sources such as payroll, account payables and personnel records. Multiple quality reviews were conducted by the Office of the President and locations. Individual employees were asked to certify the accuracy and completeness of their information, and to confirm that there was no other compensation paid to them, or due to them that had yet to be paid. In addition, campus and OP auditors reviewed the data to validate its accuracy and completeness, and each Chancellor and Executive Vice President reviewed their group data and certified that the employee population contained in the report was accurate and complete.

**Comparison of UC executive salaries:** In 2005, the UC Regents engaged Mercer Consulting to conduct an independent, comprehensive evaluation of the University's compensation and benefits. Mercer's study showed that while UC's benefits, especially retirement benefits, were superior to many of its competitors ("above market"), salaries for the majority of UC employees, including senior administrators, lag the market -- significantly so in some cases ([www.universityofcalifornia.edu/ucrc/comp/0506report/0506report.html](http://www.universityofcalifornia.edu/ucrc/comp/0506report/0506report.html)).

Given California's high cost of living, being able to pay market-competitive salaries -- to employees at all organizational levels -- is critical to UC's recruitment and retention efforts, and maintaining institutional quality. Despite recent gains in state funding for employee salaries, repeated budget cuts earlier this decade have resulted in salary levels for many UC employee groups, including senior administrators, that continue to lag the market and challenge UC's ability to maintain institutional excellence.

**Salaries for University Presidents**

Univ. of MI	\$516,501*
UT System	\$476,400*
Yale	\$618,822
Harvard	\$563,119
<b>UC</b>	<b>\$405,000</b>

Source: Chronicle of Higher Educ. 11/06

\*Not including deferred compensation

**Salary Comparisons for UC Chancellors**

<b>Avg. UC Chancellor Base Salary</b>	<b>\$322,330</b>	<b>Comparisons Lead UC By:</b>
Avg. Private Univ. Base Salary	\$651,896	<b>102%</b>
Comparison Eight Avg. Base Salary	\$495,717	<b>53%</b>
Full Comp. Group Avg. Base Salary	\$520,068	<b>61%</b>
Avg. Public Univ. Base Salary	\$388,240	<b>20%</b>
<b>Avg. UC Chancellor Salary for Campuses with Medical Schools</b>	<b>\$339,460</b>	
Comparison Eight Avg. Salary	\$507,192	<b>49%</b>
Full Comp. Group Avg. Salary	\$531,013	<b>56%</b>

Source: July 2006 Mercer Salary Survey of UC Chancellors.

\* Publication of the 2004 and 2005 reports occurred in 2006.

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## 2006 UC Annual Report on Compensated Outside Professional Activities

Like many universities, as well as public and private companies, UC policy allows its personnel to participate in outside professional activities, both compensated and uncompensated, in recognition of the myriad benefits that accrue to the University, and the people of California, from such activities:

"...Longstanding University policies and practices, including Regents' Standing Orders, have recognized the value of contributions made by University employees to external educational and research institutions, not-for-profit professional associations, state and Federal government, and private sector organizations. Considerable benefit accrues to the University from such service, deriving from association of University leaders with business leaders and the exchange of ideas among them. Such associations are intended to create a broader and deeper understanding and awareness of the University of California and its value to the State and the nation..."

**Current Policy:** To help ensure that such outside activity does not conflict with University responsibilities, at their January 2007 meeting the Regents adopted a revised policy regarding compensated outside activities for senior managers, consistent with the recommendations of the Task Force on UC Compensation, Accountability and Transparency. This revised policy was adopted on an interim basis and will remain in effect until implementation of a permanent policy, which is currently under systemwide review. Highlights of the current interim policy include:

- Compensated service on a for-profit board that is not a UC entity, for which the employee has governance responsibilities, shall not exceed three such boards unless approved in advance in writing by the Chair of the Regents' Compensation Committee and the President.
- Any such board service shall not negatively impact the employee's ability to perform their UC responsibilities, nor result in any potential conflict of interest for UC.
- The time required by the employee to perform their obligations on a board shall occur during non-University business hours or the employee shall utilize their vacation hours.
- Board service in excess of three:
  - For employees serving on more than three compensated boards, those individuals shall notify the President of such service, and shall divest themselves of those boards in excess of three by December 31, 2007.
  - An employee who currently exceeds the limit and who desires to continue to exceed this limit after December 31, 2007, shall obtain prior approval from the Chair of the Regents' Compensation Committee and the President prior to December 31, 2007.

**Covered Population:** Positions covered by the report include the president, executive and senior vice presidents, vice presidents, auditor, principal officers of the Regents, chancellors and vice chancellors, laboratory directors and deputy directors, medical center CEOs and deans.

**Reporting Methodology:** The report was developed through the local Senior Management Group Coordinator, as a result of the self-reporting of the individual administrator.

**Annual Reporting:** Consistent with its commitment and policies regarding transparency and public accountability, this report is to be published annually each spring for the activity of the prior calendar year. This report will also be presented to the Legislature following the Regents' March meeting as part of the University's 2006 legislative report on executive compensation.

Office of the President  
March, 2007

**University of California  
Legislative Report on Executive Compensation**

This report has been prepared consistent with the 2006-07 budget bill requiring the University of California (UC) to report through 2010-11 on actions taken to comply with the recommendations of the April 2006 report of the Task Force on UC Compensation, Accountability and Transparency (Task Force), the April 2006 PricewaterhouseCoopers report, and the May 2006 Bureau of State Audits report.

Over the past year, the University of California has adopted a wide range of reforms to improve its processes for approval, monitoring and public disclosure of compensation, benefits and perquisites for the University's senior executives.

These reforms reflect the University's ongoing commitment to address the recommendations of the Task Force, audits and management reviews, and represent the most thorough and rigorous examination conducted to date of UC executive compensation.

The reforms have been grouped into the following major categories and specifically address the items listed in the budget bill:

- Disclosure and Transparency;
- Annual Reporting of Total Compensation for Named Positions (consistent with Provision 27(a) of the budget act);
- Accountability and Governance;
- Compensation Policy Reforms (consistent with Provision 27(b) of the budget act);
- Human Resources Information System Reform (consistent with Provision 27(c) of the budget act).

Collectively, these reforms demonstrate the University's strengthened commitment to public accountability and to correcting the administrative deficiencies identified by the aforementioned reviews.

The following is an inventory of actions taken over the last year or currently underway to reform practices and/or policies related to executive compensation, grouped by major category.

## **DISCLOSURE AND TRANSPARENCY**

The University has implemented new practices and procedures for disclosing and reporting compensation information. The cornerstone of the new reporting requirements is a standard template that displays all elements of total compensation for those appointments approved by The Regents. Specifically, the template lists annual base salary, incentive or bonus payments, stipends, other cash payments, all benefits and perquisites, one-time payments (such as moving



expenses or relocation allowances) and future benefits, and designates whether each element of compensation is an exception to University policy. The template also includes a clear statement that any and all forms of compensation are included in the form and represents the only compensation permitted. The template is consistent with the recommendations of the Task Force. The new reporting requirements and template have enabled the University to meet not only its obligations to public disclosure, transparency, and accountability, but also have become a valuable tool for institutional accountability and governance in allowing University officials and The Regents to monitor any and all exceptions to policy.

Specifically, thus far, the University has:

1. Clarified the definition of “total compensation” for the purposes of systemwide approval, public disclosure and reporting to make explicitly clear those elements which comprise total compensation. Previously, when The Regents were asked to approve the compensation of new senior executive hires, only certain elements of total compensation were provided to The Regents and to the public. The format for providing compensation information was inconsistent and has now been standardized.
2. Established a new presidential policy for the public disclosure of compensation information. This new policy requires that particular employment and compensation information about university employees be released upon request, except where disclosure would constitute “an unwarranted invasion of personal privacy” as defined by the California Public Records Act.
3. Adopted a new practice that The Regents’ Compensation Committee will vote in open session on compensation items for all University officials requiring approval by The Regents. Information about the actions to be considered in open session is being made available to the public and the media the afternoon before the open session vote of the Compensation Committee. This action goes beyond what is required under existing open meeting laws and a recent related court ruling.
4. Implemented new procedures for preparation of the Annual Report on Compensated Outside Professional Activities for calendar year 2006 and produced the first report in a new format for the March 2007 Regents’ meeting. The information provided is reported and certified as complete and accurate by each individual in the named positions that are required to report such activities to The Regents.
5. Instituted new guidelines for the reporting of compensation information and implemented a standard template for reporting total executive compensation. The University will provide The Board of Regents, and the public, reports on executive compensation, corporate board service, and other forms of compensation, including:
  - a. Providing an annual report of salaries for all UC employees, including a section on total compensation for senior executives. This annual report was done in November 2006.

- b. Posting of all compensation actions immediately following action by The Regents at regularly scheduled meetings and within one week of actions taken between meetings (interim actions). This practice has been in effect since January 2006. The reporting of these items is according to the standardized template that has been developed to report total compensation, including all perquisites.
  - c. Implementing a new systemwide procedure regarding the disclosure of compensation information in press releases, beginning in September 2006, as follows:
    - i. All press releases on appointments approved by The Regents will include total compensation, including a clear statement of the approved base salary and other approved elements of compensation with a link to the template that details the other elements of compensation.
    - ii. Press releases issued for appointments not requiring Regental approval will include base salary, with an offer to make other compensation information available upon request.
6. Immediately following recommendations of the Task Force in the spring of 2006, the University appointed an interim systemwide Public Information Practices Coordinator who is charged with coordinating all Public Records Act (PRA) requests and establishing clear protocols and timelines for processing such requests.
7. Early in 2006, the University created a website dedicated to posting compensation information, including Regents' actions at meetings and in between meetings related to compensation that is easily accessible to the public.

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

Consistent with the Task Force's recommendation on reporting, the University has implemented a new format for the Annual Report on Compensation, with the first report being presented at the Board of Regents March, 2007 meeting. The population represented in this report includes University senior executives 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. This report includes compensation details on 275 incumbents and former incumbents in these positions including those in an acting capacity and those who stepped down or terminated employment.

Information on each employee includes the following:

- 1. Cash Compensation: The report presents the following details on each person - 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. 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 pay to avoid problems with partial-year assignments.

2. One-time payments and reimbursements are 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 include automobile allowances, leased automobiles, senior executive benefits (including life insurance, executive business travel insurance, executive salary continuation for disability - although life insurance may be waived by eligible employees), University provided housing, severance benefits, senior executive 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).

## **ACCOUNTABILITY AND GOVERNANCE**

As part of the new approval process for senior executive compensation, approval by The Regents is currently required for any employee whose total cash compensation exceeds \$200,000, or for any employee who holds a senior executive level position in the University. In addition, all elements of total compensation, including any exceptions to policy, for these employees must be disclosed to The Regents at the time Regents' approval is required and to the public immediately following Regents' action.

In addition, the University has:

1. Established a new standing Committee on Compensation which meets regularly to review and recommend for approval to the full Board of Regents all compensation actions for all senior executives within the University whose compensation requires Regents' approval. The Committee on Compensation provides greater oversight and policy guidance on compensation issues.
2. Initiated a reorganization of the UC Office of the President to ensure better compliance with policies and principles and strengthen the University's business practices and management. Actions include the establishment of new senior executive positions and restructuring of other positions, including:
  - i. Senior Vice President-Chief Compliance and Audit Officer, reporting directly to The Regents (new position). The creation of the Office of Compliance and Audit, headed by a Senior Vice President reporting to the Regents, was done in order to

- specifically focus efforts and resources on insuring continuing oversight and compliance with Regents and University policies and applicable laws.
- ii. Executive Vice President and Chief Financial Officer (new position).
  - iii. Executive Vice President and Chief Business Operations Officer (restructured position).
  - iv. The Regents hired a new General Counsel and Senior Vice President-Legal Affairs (replacement position).
  - v. Secretary and Chief of Staff to The Regents (restructured position). The expansion of the role of the Secretary of The Regents to include a "chief of staff" function will provide increased coordination and administrative support to enhance The Regents ability to meet their fiduciary and oversight responsibilities.

As a part of this endeavor, the University is in the process of engaging external expertise to assist in revising and restructuring the decision-making processes at the University. This will include a review of where certain organizational responsibilities reside and the development of a more administrative operation.

3. Contracted for and reviewed an independent external audit by PricewaterhouseCoopers of senior executive compensation and departure agreements for the top 32 University officials over the past ten years.
4. Directed an internal audit and reviewed findings and recommendations from the University Auditor of compensation for the employees in the University's Senior Management Group not already reviewed by PricewaterhouseCoopers in its audit. This audit covered a three-year period and also sampled travel and entertainment expenses.
5. Reviewed findings from an audit by the Bureau of State Audits of the University's compensation practices, which focused on 100 campus and Office of the President faculty and administrative positions.
6. Formed an independent Task Force, co-chaired by former California Assembly Speaker Robert Hertzberg and UC Regent Joanne Kozberg and consisting of distinguished state and national leaders to examine UC compensation, accountability, and transparency issues. The Task Force recommended extensive changes to University policies and practices.
7. Adopted recommendations of the Hertzberg-Kozberg Task Force and external and internal audits and management reviews. Implementation began immediately following The Regents' adoption.
8. Approved the issuance of corrected W-2 forms (Form W-2c) to senior executives for benefits that the University did not properly report as compensation. These administrative errors by the University were identified by the external PricewaterhouseCoopers audit of executive compensation and other internal management audits and reviews.

9. Reviewed all senior executive compensation that had not been previously brought to The Regents for their approval and approved items retroactively, as appropriate.
10. Initiated process for consideration of University-wide campus/laboratory and Regents Corrective Action Plans, as well as corrective actions to address those University employees who authorized compensation or benefits that were not in full compliance with University policy, as identified in the various external and internal audits.
11. Committed to conducting annual audits specifically senior executive compensation. The first follow up audit has been initiated.
12. Implemented mandatory ethics briefing for all UC employees beginning in the fall of 2006.

## **POLICY REFORMS, INCLUDING SPECIFIC POLICIES**

The University of California is moving systematically to review and revise its compensation policies and practices. The University has embarked on a comprehensive, thorough, far-reaching review and overhaul of compensation and related policies for senior executives. The goal is to develop policies that are clear, consistent, transparent, easily understood, and provide guidance on when and how exceptions may occur. This process will also address any conflicts between policies for senior executives and policies for academics, including bringing clarity to those policies for senior executives that also hold academic appointments.

This is not an easy or quick undertaking since existing University policies were often developed ad hoc and were often implemented with overlapping or conflicting provisions. This effort will also include a process by which policies are reviewed and updated on a regular basis.

At The Regents' request, the University has engaged external experts to assist in this process. The project will focus on the following four aspects:

- Governance – Assess and revise how compensation is approved and related decisions are made, including who has decision-making authority.
- Policy Infrastructure – Develop a consistent format for compensation and related policies, a process for reviewing and updating policies, and an accessible data base to all such policies to ensure consistent implementation across the University system.
- Policy Content – This is the core of the project. All current compensation and related policies will be reviewed and recommendations developed on which policies to keep, revisions to be made, or new policies that need to be developed. In revising and developing content, the University has an opportunity to ensure that going forward, the compensation policies – as well as approval authority and documentation requirements – are clear, transparent, understandable, and enforceable.

- Compliance – As part of this process, the University will develop mechanisms and controls to assure compliance with these policies.

All four elements of the project are currently underway. The University expects to complete most of the policy review and revision by the end of 2007.

To accomplish the desired outcomes of the project the University will ensure that:

1. Clear and appropriate policies are in place to define compensation. Written policies must be clear on the definition of compensation, conform to a consistent template and be developed in a clear and concise manner. Further, the University must make sure that the policies are properly communicated to relevant stakeholders, monitored, and enforced.
2. University compensation remains competitive. As policies are reviewed and revised, some will be benchmarked against those of comparator institutions to ensure that UC's policies are competitive. As part of its ongoing review, UC will continue to confirm that its salary levels and total remuneration are competitive with established comparator groups.
3. Policies will be developed so that it is clear who has the responsibility and authority for making certain compensation decisions, and whether, when, and to whom that authority may be delegated.
4. Policies will include specific guidance about when exceptions are appropriate, who may grant exceptions, and under what conditions exceptions may be granted, so that exceptions do not become the rule.
5. Conflicts among existing policies are eliminated. A clear governance structure and clearly written policies will eliminate the current ambiguity about which policies apply to whom under what circumstances.
6. Mechanisms are in place to ensure compliance with newly reformed policies and to reliably impose consequences when policies are violated. A searchable database of compensation and related policies is being developed. In addition, procedures will be put in place to monitor the application of policies and identify cases of non-compliance with policy. Training and education for employees will be developed and carried out so that employees fully understand the policies, how they apply and can be accessed, and understand consequences for non-compliance.
7. In addition to the comprehensive review of policies—and in some cases, as a part of that process—the following specific policy actions have been taken by the University to address particular problems identified by the Task Force:
  - a. The Regents have adopted an interim policy recommended by the Task Force, pending the outcome of the policy review process, limiting the number of outside

paid corporate boards to three for all senior executives, unless The Regents have provided advance written approval.

- b. No cash payment will be approved for sabbatical credits transferred from other institutions, for senior executives who also hold academic appointments. These policies are being examined as part of the comprehensive policy review and reform effort.
- c. Regents' approval is required on all separation agreements and settlement of employee claims for those employees whose compensation requires Regents' approval and for all employees in cases where the settlement amount is \$100,000 or more.
- d. Minor and major capital projects for the Chancellors' residences or offices costing \$25,000 to \$5,000,000 must be approved by the President; and all major capital projects costing over \$5,000,000 must be approved by The Regents.
- e. Exceptions to employment-related policies for senior executives require approval by the President and The Regents (interim policy).
- f. Clarified the approval and documentation requirements for exceptions to policy.
- g. Strengthened oversight of travel and entertainment expenditures by: 1) training personnel who approve travel and entertainment expenses; 2) enforcing approval procedures and documentation requirements; and 3) monitoring to ensure adherence to policies and procedures.

## **HUMAN RESOURCES INFORMATION SYSTEM**

Last year, the University commissioned an inventory of current and planned Human Resources (HR) initiatives and assessed options for UC to improve its human resources information systems. The study findings, issued in October 2006, led to the development of a proposal to enhance the collection and management of information related to all University employees and to provide additional human resources applications to UC locations.

The study recommended a common UC human resources information system platform to provide the capability to collect uniform data and eliminate the need to develop multiple interfaces to UC-wide systems. Increased standardization of human resources related information, policies and practices is a critical component. Both commercially available human resources information systems and UC-developed human resources applications are viable options to pursue in order to provide needed capabilities.

A proposal to launch a UC-wide initiative to implement this strategy is currently under review. Specifically, the proposal includes the following elements:

1. Improve the Quality of and Access to Employee Data:
  - a. Improve data quality through conformance to standard data definitions and uniform data entry practices at the locations. Perform additional data edits and reviews to reflect UC HR policy.
  - b. Collect new data elements and new human resources information system applications and store these data in a comprehensive data warehouse with tools for analysis and reporting
2. Develop UC Enterprise HR/Payroll Service Architecture:
  - a. Create an architecture (Service Oriented Architecture) and standards to integrate components in the proposed Payroll / HR systems solution.
  - b. Develop a Web interface to facilitate updates to the Employee Database (EDB).
3. Provide New Human Resources Applications to Address UC-wide Needs:
  - a. Prioritize and develop new UC-wide HR applications and deploy them through a common solution under the new architecture. (Sources could include a commercial HRIS or current campus designed “best practice” systems.).
  - b. Create an administrative Web “portal” to provide HR offices, payroll offices, and departmental users with access to new payroll and human resources applications that address needs identified in the study such as:
    - o Affirmative Action/Equal Employment Opportunity
    - o Applicant Tracking/Recruitment Management
    - o Benefits Management
    - o Certification and Licenses
    - o Compensation Management
    - o Grievance Tracking
    - o HR/Personnel Management
    - o Leave Accrual Management
    - o Performance Management
    - o Position Control Management
    - o Salary and Job Codes
    - o Salary and Merit History
    - o Time and Attendance
    - o Training and Development
    - o Workers Compensation

In the meantime as a preliminary phase to the much larger initiative, a Senior Leadership Information System (SLIS) was launched in October 2006, which will enable UC to capture,



track, and report on all forms of compensation for the University's senior executives. A second phase to further enhance the capabilities of this system is currently underway.

## **SUMMARY**

While much has been accomplished in the past year, the University continues to address the recommendations of the Task Force on UC Compensation, Accountability and Transparency and related audits in this coming year. The effort currently underway to develop a comprehensive policy framework and compensation and Human Resources policies that are consistent, transparent and easily understood will be the University's primary task in the coming year. The majority of this project will be completed by the end of the calendar year. Additionally, UC will continue to make progress in developing its technology database to readily access data on its employees that will provide consistency and the necessary oversight to ensure compliance. This will be a multi-year effort, given the magnitude of the changes throughout the UC system that must be achieved.

Collectively, these reforms demonstrate the University's strengthened commitment to public accountability and to correcting the administrative deficiencies identified by the aforementioned reviews.

## Actions taken to reform UC's compensation policies and practices

Over the past year, the University of California has adopted a wide range of reforms to improve the ways in which compensation, benefits and perquisites for the University's senior managers and executives are approved, monitored and publicly disclosed.

These reforms -- inventoried below -- reflect the University's ongoing commitment to address the recommendations from several reviews and audits of the University's policies and practices, including an analysis by an independent task force, outside audits by PricewaterhouseCoopers and the California Bureau of State Audits, and an internal UC audit. Taken together, the reviews represent the most thorough and rigorous examination ever conducted of UC executive compensation.

The reforms have been grouped into five major categories, although several of the reforms could appear in more than one category. The five categories include:

- Disclosure and Transparency;
- Accountability and Governance;
- Policy Reforms;
- Policy Compliance, Enforcement, Monitoring and Oversight; and
- Human Resources Information System Reform.

Collectively, these reforms demonstrate the University's complete commitment to public accountability and to correcting the administrative deficiencies identified by the aforementioned reviews.

### DISCLOSURE AND TRANSPARENCY

- Beginning this year, provide the Legislature with an annual report through 2010-11 on the total compensation provided to the University's senior executives as well as annual updates on the University's progress in reforming its compensation policies and practices.
- Clarified the definition of "total compensation" for purposes of systemwide approval, public disclosure, and reporting to make explicitly clear which elements comprise total compensation.
- Established a new presidential policy for the public disclosure of compensation information.
- Instituted new guidelines for the reporting of compensation information. In addition to other reports the University is obligated to provide its Board of Regents and the public on executive compensation, corporate board service, and other forms of compensation, the University will:
  - Provide an electronic annual report of salaries for *all* UC employees, including a section on *total* compensation for senior managers.
  - Provide ongoing, regular reports of recent hires of executives and staff earning the amount that currently requires Regents' approval; separations; and Regents' approval of raises.
  - Post all compensation actions immediately following action by the Regents at regularly scheduled board meetings and within one week of actions taken between meetings (interim actions). Reporting shall be through the standardized template that has been developed to report total compensation, including all perquisites, in a clear and transparent manner.
  - Implement a new systemwide procedure regarding the disclosure of compensation information in press releases as follows:

- **Regent-approved appointments:** All press releases on appointments approved by the Regents will include total compensation. This means that the press release will include a clear statement of the base salary approved, and a listing of the other approved elements of compensation. The press release will also provide a link to the template that details these other elements of compensation;
  - **All other appointments:** When a press release is issued for other appointments that do not require approval of the Regents, the press release will include base salary, with an offer to make other compensation information available upon request.
- Adopted new practice that the Regents' compensation committee will vote in open session on compensation for all University officials requiring approval by the Regents, as part of the University's ongoing commitment to transparency and public accountability. This action goes beyond what is required under existing open meeting laws and a recent related court ruling.
  - Appointed an interim systemwide Public Information Practices Coordinator charged with coordinating all Public Records Act (PRA) requests and establishing clear protocols and timelines for processing such requests.
  - Created a website dedicated to posting compensation information, including Regents' actions at meetings and in between meetings related to compensation that is easily accessible to the public.

## ACCOUNTABILITY AND GOVERNANCE

- Adopted a new structure and approval process for senior management compensation to strengthen Regents' oversight and market appropriateness for senior management compensation.
- As part of the new approval process for senior management compensation actions, approval by the Regents is required for all non-faculty employees in the Senior Leadership Compensation Group, and certain other specified employees whose total cash compensation exceeds \$200,000, *or* for whom a base salary increase of 7.5% or more is proposed, *or* for any action recommended for an employee who is among the top leadership positions in the University. In addition, *all* elements of total compensation—including explicitly noting any exceptions to policy—for these employees must be disclosed to the Regents at the time of requesting approval and to the public.
- Established a Regents' committee on compensation to provide greater oversight and policy guidance on compensation.
- Initiated a reorganization of the UC Office of the President to ensure better compliance with policies and principles and strengthen the University's business practices and management. Actions include the establishment of several new leadership positions, including:
  - Chief Compliance and Audit Officer/Senior Vice President (reporting directly to the Regents)
  - Chief Financial Officer/Executive Vice President
  - Chief Business Operations Officer/Executive Vice President
  - In addition to these new positions and hires, The Regents have also hired a new General Counsel and will soon hire a new Chief of Staff and Secretary to The Regents.
- Launched independent external audit by PricewaterhouseCoopers of senior manager compensation and departure agreements for top University officials over the past ten years.
- Formed an independent Task Force, co-chaired by former California Assembly Speaker Robert Hertzberg and UC Regent Joanne Kozberg and consisting of distinguished state and national leaders, to examine UC compensation, accountability, and transparency issues.
- Adopted all recommendations of the Hertzberg-Kozberg Task Force and external and internal audits and management reviews. Implementation began immediately following the Regents' adoption and is ongoing.

- Issued corrected W-2 forms (Form W-2c) to some senior managers for benefits that the University did not properly report previously as compensation. These administrative errors by the University were identified by the external PricewaterhouseCoopers audit of executive compensation.
- Launched process for consideration of corrective actions to address those University employees who authorized compensation or benefits that were not in full compliance with University policy, as identified in the various external and internal audits.
- Committed to conducting annual audits specifically of senior management compensation.
- Added a statement of consequences relating to serious violations of compensation policies to the 1993 Regents' Principles for Review of Executive Compensation. The 1993 Principles, as well as all other compensation-related policies, are being examined as part of a comprehensive policy review and reform currently underway.
- As part of a comprehensive policy review, the University will clarify and simplify the authority and responsibilities among the Regents and the president to make compensation decisions, including specifying the group of designated University employees for whom the Regents shall retain direct authority to approve compensation.
- Implemented mandatory ethics briefing for all UC employees.

#### **POLICY REFORMS, INCLUDING SPECIFIC POLICIES**

- Undertaken a comprehensive policy review and reform, with the help of an external consultant, that will establish a new framework for compensation and related policies and authority over compensation decisions.
- Examined the Task Force recommendation to set a numeric limit on the number of externally compensated professional activities and board service for senior managers. While the comprehensive policy review (above) is underway, the Regents have adopted an interim policy limiting the number of outside paid corporate boards to three for all senior managers, unless the Regents have given advance approval in writing.
- Examined the Task Force recommendation relating to administrative and sabbatical leave policies, particularly for those senior managers who also hold academic appointments. These policies are also being examined as part of the comprehensive policy review and reform effort.
- Adopted interim policy on separation agreements and settlements of employee claims requiring Regents' approval on all such agreements and claims for those employees whose compensation requires Regents' approval and for all employees in cases where the settlement amount is \$100,000 or more.
- Adopted new policy requiring minor and major capital projects for the Chancellors' residences or offices costing \$25,000 to \$5,000,000, inclusive, be approved by the President; and all major capital projects costing over \$5,000,000 be approved by the Regents.

#### **POLICY COMPLIANCE, ENFORCEMENT, MONITORING, AND OVERSIGHT, INCLUDING EXCEPTIONS TO POLICY**

- Established interim policy stating that any exceptions to employment-related policies for senior managers require approval by the President and the Regents.

- Directed University Controller to institute appropriate controls on all Chancellors' and the President's residence and office expenditures so that expenditures that exceed original approval amount occur less frequently.
- Instituted a new policy to clarify the approval and documentation requirements for exceptions to policy.
- Strengthened oversight of travel and entertainment expenditures by requiring action plans from UC campuses, laboratories, and the Office of the President for addressing the three primary areas identified in the audits: 1) provision of training for those personnel who approve travel and entertainment expenses; 2) enforcement of clear and appropriate approval procedures and documentation requirements; and 3) ongoing monitoring and oversight to ensure adherence to policies and procedures.

### **HUMAN RESOURCES INFORMATION SYSTEM**

- Launched first phase of the development of a new modern, comprehensive, integrated human resources information system in order to better track, manage, and report compensation data. The first phase focuses on capturing senior management compensation data and became operational in December 2006, in time for the next annual executive compensation reporting cycle beginning in early 2007. Work to develop such a system for all other employees is ongoing.

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# C17

Office of the President

TO MEMBERS OF THE COMMITTEE ON COMPENSATION:

DISCUSSION ITEM

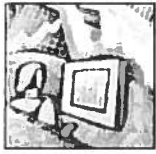
*For Meeting of May 16, 2007*

**UPDATE ON POLICY REVIEW PROJECT FOR COMPENSATION AND RELATED POLICIES**

This item will consist of an oral presentation by the Associate Vice President – Human Resources and Benefits and Mercer Human Resource Consulting on the status of the Policy Review Project. The consultant was engaged and the project was initiated in response to the recommendations of the Task Force on UC Compensation, Accountability and Transparency in April 2006 and action by The Regents on RE-74 in May 2006.

As reported to The Regents in January 2007, this work has focused on four areas related to compensation and related policies: 1) governance of such policies, 2) the infrastructure needed for organizing, housing and accessing the policies, 3) review and revision of the content of the policies, and 4) the communications and training needed to create awareness of and adherence to the new policies. The ultimate goal of the project is to create a new, comprehensive policy framework and to review and revise all Senior Management compensation and related policies.

Attachment



**Policy Review Project**  
Guiding Principles for Policy Setting and  
Compensation Governance  
**DRAFT - Internal Working Document**



**A. Guiding Principles for Overall Policy Setting**

- I. The authority of The Regents includes issuance of broad statements of principle that will be used to establish a framework for policy setting for the University.
- II. Policies approved by The Regents will support the purpose, principles, and philosophy of the tripartite mission of the University to provide excellence in teaching, research, and public service to the State of California and beyond.
- III. Policies approved by The Regents will reflect the fiduciary responsibilities of the Board.
- IV. Policies approved by The Regents will be consistent with the long-term goals of the University.
- V. Policies approved by The Regents will support the President's role in development and establishment of policies, associated guidelines, procedures, and standards for adherence to and monitoring of policy compliance.
- VI. Policies approved by The Regents will receive careful deliberation and will be approved only after consultation, as appropriate, with faculty, other academic, student, and staff constituencies and the General Counsel of The Regents.
- VII. Policies approved by The Regents will be guided by the principles of public, institutional, and individual accountability, transparency and disclosure, and effective governance and oversight.

**B. Governance Framework for Compensation**

- I. Except where expressly retained or otherwise delegated by The Regents, authority for compensation decisions and actions is vested in the President of the University and may be delegated.
- II. Procedures for determining and setting compensation levels will be clear, comprehensive, and transparent.
- III. Compensation policies will clearly set forth the approval authority for all compensation actions.
- IV. Compensation policies will clearly set forth the administrative requirements for compensation requests that are presented for action.
- V. Compensation actions must be approved by a person who is at least one level above the person to whom the individual being compensated reports.
- VI. An exception to a compensation policy is a request for compensation that is not expressly provided for under the applicable University policy. Exceptions should be rarely granted and only for compelling and articulated reasons.
- VII. Approved exceptions to policies should be reported and monitored to ensure compliance with the principles governing exceptions, as expressed in this section.
- VIII. Compensation policies and procedures periodically will be reviewed and revised, as appropriate, under a formal review process.
- IX. The University will create procedures for reporting and monitoring compensation actions. Business processes, technology, and systems will be established and maintained so that University personnel may collect, aggregate, and review compensation-related information in a timely manner.
- X. Senior Management Group (SMG) policies with respect to outside professional activities and board service will govern senior managers who also hold faculty appointments, notwithstanding any contrary provisions of academic policies.



**Policy Review Project**  
**Guiding Principles for Policy Setting and**  
**Compensation Governance**  
**DRAFT - Internal Working Document**



### C. Guiding Principles for Compensation Policy

#### Compensation Philosophy:

The quality of academic, management, and staff personnel is essential to maintain the excellence and institutional competitiveness of the University of California and its ability to contribute to the health and vitality of the State of California. UC's strategy is to attract and retain the highest-quality academic, managerial, and staff talent by offering competitive total remuneration.

#### I. Board of Regents:

- a) The Regents will set annually salary-increase funding levels for all groups of employees, considering such factors as total compensation retention, recruitment, performance, and other matters upon recommendation by the President through the appropriate Regents' Standing Committees.
- b) The Regents will approve all compensation decisions for [specific Senior Executives] upon recommendation by the President through the appropriate Regents' Standing Committees.

#### II. Regents Compensation Committee:

- a) Advise the Board on all matters pertaining to the elements of compensation and benefits for University employees to ensure that compensation and benefits policies, procedures, programs, and practices are fair, effective, clear, comprehensible, transparent, and accountable, and inspire the trust of the University community and the public.
- b) Assess the University's progress in achieving the goals of obtaining, prioritizing, and directing funds to increase salaries to achieve market comparability for all groups of employees over periods established by the Board.
- c) Review and advise the Board on all matters relating to the implementation of the Senior Leadership Compensation Policy, adopted by The Regents in November 2005.
- d) Act in an advisory capacity to the President of the University with respect to compensation decisions for such Officers of the University as may be appropriate for consideration by the Committee.
- e) Consider and recommend to the Board on matters relating to academic and staff personnel policies and personnel programs and labor relations presented by the President of the University.
- f) Recommend to the Board on matters relating to professorial salary scales.

#### III. The President:

- a) The President will make compensation decisions and determine actions for all University employees, except those for whom The Regents have expressly retained or otherwise delegated authority.
- b) The President may delegate compensation authority to other Officers of the University in their area of responsibility.
- c) The President will be responsible for development of compensation policies, associated guidelines, procedures, and standards for adherence to and monitoring of policy compliance.
- d) The President will report new compensation policies or compensation policy revisions to The Regents prior to issuance.
- e) New compensation policies and compensation policy revisions will receive careful deliberation by the Office of the President and will be acted upon after consultation, as appropriate, with faculty, other academic, student, and staff constituencies and the General Counsel of The Regents.





**Policy Review Project**  
Guiding Principles for Policy Setting and  
Compensation Governance  
**DRAFT - Internal Working Document**



IV. The Principal Officers of the Regents, Chancellors, Executive Vice Presidents and Laboratory Directors:

- a) The Principal Officers of the Regents, Chancellors, Executive Vice Presidents and Laboratory Directors will make compensation decisions and determine actions for all employees within their jurisdiction, except those for whom the President or The Regents have retained authority consistent with the governance framework established herein.
- b) The Principal Officers of the Regents, Chancellors, Executive Vice Presidents or Laboratory Directors may delegate authority for compensation actions and decisions in their area of responsibility.

May 17, 2007

## REPORT OF THE COMMITTEE ON COMPENSATION

During the past year, The Regents have undertaken an intensive effort to review and reform the University's compensation policies and practices, particularly those pertaining to senior management. This effort has been focused on identifying and reviewing violations of policy and poor decisions that may have been made in the past, adopting new policies and procedures to improve the University's compensation programs for the future, and implementing appropriate control mechanisms to ensure compliance and oversight. As a part of this on-going process, actions for the remaining audit findings related to executive compensation were reviewed.

The actions represented by the two attached documents complete the University's response to the findings of the three compensation audits conducted last year by PricewaterhouseCoopers, the Bureau of State Audits and the University Auditor.

### I. ACTION ON AUDIT FINDINGS RELATED TO EXECUTIVE COMPENSATION – AUDIT FINDINGS RELATED TO ACTION TAKEN BY PRESIDENT DYNES

In reviewing this ~~audit report~~ on President Dynes' actions in these matters, it is clear (as is the case with other administrators) that President Dynes' actions were taken as a result of advice and recommendations from those in positions whose responsibility was to know University policies, specifically the Senior Vice President for Business & Finance, the Senior Management Group unit, the Office of the General Counsel, and Human Resources Benefits. The President's actions were taken based on representations to the President that actions were in conformance with University policy and within the context of policies and procedures that were extremely unclear and ambiguous.

The final responsibility for these actions is of course that of the President. After due consideration of the report and the previous actions The Regents have taken with respect to President Dynes' role related to findings in the audits of the executive compensation area, the Committee has determined that appropriate corrective actions are being or have been implemented.

2. ACTIONS ON AUDIT FINDINGS RELATED TO UC CAMPUS AND LABORATORY LOCATIONS

This attached report from the President relates to the audit items identified at each of the campuses and laboratories systemwide. As with the President, it appears that the actions taken at the campuses and laboratories were taken as a result of advice and recommendations from those in positions whose responsibility was to know University policies including, in many instances, staff at the campuses and/or at UCOP. The decision-making process was based on policies and procedures that were unclear and ambiguous. The Committee concurs with the President's report on the appropriate actions on these items.

The University has made great strides in creating a transparent, fair and clear compensation process and has demonstrated its commitment that this is integral to the way business is done. But there is still much to do. It is important that this Committee continue to monitor the progress of the University in implementing administrative reforms and that the annual reviews of the President continue to monitor progress in this area.

Sincerely,

Judith L. Hopkinson  
Chair, Compensation Committee

# **Actions on Audit Findings Related to Executive Compensation – Audit Findings Related to Actions Taken By President Dynes**

## **Introduction**

This is the final report of the plan on the proposed actions to address the Audit Findings Related to Executive Compensation – Audit Findings Related to Actions Taken By President Dynes. This summary report continues the University of California's response to the audits conducted last year by Price Waterhouse Coopers, the Bureau of State Audits, and the University's Internal Audit office, as well as a variety of management reviews, all in the area of executive compensation. The University has recently adopted three Corrective Action Plans: (1) a Regents' Corrective Action Plan; (2) a Universitywide Corrective Action Plan; and (3) a Campus/Laboratory Corrective Action Plan, all intended to address the broad systemic issues and practices that were identified as deficiencies by the audit reports. The University will also be taking additional administrative corrective actions to address the audit findings, including a systemwide revision of human resources policies, and regular audits of compliance in this area.

## **Summary**

Human Resources/Benefits and the Office of General Counsel have reviewed the items identified in the audits and management reviews that are associated with actions taken by President Dynes, including those taken by him when he was Chancellor at UCSD. There is no evidence of any action taken for reasons of any personal gain, whether financial or otherwise. All actions were taken in good faith, and in furtherance of the University's recruitment and retention efforts. The audit items described below appear to have resulted primarily from systemic confusion and ambiguity surrounding certain University policies. Dynes, both as President and as Chancellor relied on advice from those in positions whose responsibility was to know University policies, specifically the Senior Management Group unit, the Senior Vice President for Business & Finance, the Office of the General Counsel, and Human Resources/Benefits.

The Regents have previously considered all of these audit items with regard to whether the recipient of compensation should retain the compensation element, and in virtually every instance have retroactively approved the award of compensation.

## **Categories of Items**

After review of the audit items for purposes of analyzing whether any further individual action maybe appropriate, it became clear that the items fell into several categories, reflecting patterns of events that occurred at more than one location, or even systemwide. To get a better understanding of the real nature of the audit items, it is valuable to consider these patterns of error, both to help understand the reasons for the errors occurring, and to understand how best to correct the problem and prevent similar issues

from arising in the future. For these purposes, we categorized the items in the following manner:

1. **Regents' Principles** (Regents' Principles for Review of Executive Compensation. Standing Orders 100.3 and 101.2) (Failure to obtain Regental approval for elements of compensation, where campuses did not inform UCOP about elements of compensation)
2. **Vacation accrual** (Improper rate of vacation accrual – 24 vs. 18 days)
3. **Temporary housing** (Failure to obtain appropriate approval for exceptions to 30 day time period)
4. **Senior Management Severance Pay Plan (SMSPP/SMSBP)** (Failure to obtain proper approval for exceptions to eligibility in SMSPP)
5. **No policy violation** (In certain instances, the audit or management review indicated a policy violation, but further review has resulted in a conclusion that there was no violation)
6. **UCOP** (Failure to recommend Regental approval for elements of compensation as required under the Regents' Principles, where campus advised UCOP about the compensation, but the UCOP SMG unit or OGC failed to recommend Regental approval)
7. **Other** (Includes items like failure to forfeit vacation in return for summer research compensation, simple administrative errors, improper coding of compensation as "covered compensation" for retirement purposes, and other items with unusual circumstances.)

When considered in these categories, the audit and management review findings associated with President Dynes during his tenure as President and as Chancellor break down as follows:

Items by Category – Dynes as President	Category 1 Regents' Principles And Category 6 UCOP	Category 2 Vacation	Category 3 Temporary Housing	Category 4 SMSPP	Category 5 No Policy Violation	Category 7 Other	Total
President	17*	4	0	0	1	0	22

Items by Category – Dynes as Chancellor	Category 1 Regents' Principles	Category 2 Vacation	Category 3 Temporary Housing	Category 4 SMSPP	Category 5 No Policy Violation	Category 6 UCOP	Category 7 Other	Total
Chancellor	1	3	0	0	0	8	1	13

\*Note: For purposes of categorizing audit items related to President Dynes during his term as President, Category 1 and Category 6 have been combined, to include all items reflecting a failure to recommend Regental approval. For purposes of categorizing audit items at locations (including with regard to President Dynes during his tenure as Chancellor at UCSD), items reflecting a failure to obtain Regental approval have been divided between: Category 1 Regents' Principles (reflecting a failure on the part of the location to forward information about elements of compensation to UCOP for purposes of recommending Regental approval); and Category 6 UCOP (reflecting a failure on the part of UCOP to submit all elements of compensation for appropriate Regental approval). Understandably, there is no such distinction to be drawn related to President Dynes during his term at UCOP, where all actions were taken on the recommendation of the UCOP SMG unit and other UCOP employees.

Further discussion of each category follows.

### **Categories 1 and 6: Regents' Principles and UCOP: 1993 Regents' Principles for Review of Executive Compensation**

**History:** In November 1993, The Regents adopted the "Principles for Review of Executive Compensation" which: (1) provided a broad definition of executive compensation; (2) identified executive positions covered by the Principles and the information that was to be disclosed to The Regents; (3) identified how the Regents would act upon such proposed Compensation; and (4) outlined the process by which The Regents' action, and compensation information would be released to the public. The "Principles for Review of Executive Compensation" must be read in conjunction with Regents Standing Orders 100.3 and 101.2 which address compensation matters for specified University officers and employees.

**Nature of Items (Dynes as President):** The audits and management reviews found that systemwide, there were numerous instances in which the "Principles for the Review of Executive Compensation" were not followed. The base hiring/promotional salary was consistently reported to the Regents for approval, but other elements of compensation were frequently omitted from Regents' items.

There were 17 items identified in this category with regard to President Dynes' tenure as President, relating to failures to obtain Regental approval for: accelerated vesting in retiree health (2 recipients); transfer of sabbatical credit (4 recipients); payment for vacation at prior job; reinstatement of unused vacation; relocation allowance (2 recipients); stipend (3 recipients), participation in SMSPP program; temporary housing; MOP loan; and moving expenses grossed up for taxes.

**Reasons for Actions (Dynes as President):**

Prior to and during President Dynes' tenure at UCOP, employees with expertise in this area were assigned to properly draft and submit items to be acted on by The Regents. As a matter of his practice at the time, after President Dynes decided on the terms to be offered to potential new hires, he or someone else on his immediate staff forwarded the offer terms to these employees for preparation of the Regents' item. He did not take any actions directly with regard to deciding which elements of compensation should be included for approval in the Regents' item, nor did he direct his employees in that regard. He was not involved in the drafting of Regents' items, and in fact in many cases did not see the items in advance of the Regents' meetings. Instead, his role was primarily as a key participant in negotiations with top hires.

More specifically, the practice that President Dynes adopted with regard to new hires was as follows: in conjunction with the UCOP SMG unit and the Senior Vice President for Business and Finance, he would engage in negotiations with a potential candidate. When negotiations were close to final, the Senior Vice President for Business and Finance would consult informally with a few key Regents about a particular compensation package. If those Regents concurred, the UCOP SMG unit would draft a Regents' item. The SMG unit determined which elements of the offers constituted "compensation" for purposes of the Regents' policies, which to highlight in the recommendation section of the Regents' item, and which to describe in the background section of the item. The standard practice at the time seemed to be that in most cases only the appointment salary itself would be included in the Regents' item for approval. President Dynes was unaware that this practice was erroneous, because it was consistent with the practice he had seen while serving as Chancellor at UCSD, and because he was relying on UCOP personnel whom he reasonably expected to be expert in this area.

**Nature of Items (Dynes as Chancellor):**

There was only 1 item identified in this category with regard to President Dynes' tenure as Chancellor where the element of compensation (transfer of sabbatical credits) was not forwarded to UCOP for review and appropriate action.

There were 8 items identified where Chancellor Dynes and the campus forwarded all necessary information to UCOP, but UCOP failed to obtain appropriate Regental approvals. Those items included the following elements of compensation: relocation incentive; special incentive award; special severance agreement (4 items); stipend; and auto allowance.

**Reasons for Actions (Dynes as Chancellor):** In all but one instance, Chancellor Dynes and the campus appropriately disclosed all relevant information either formally or informally to the UCOP SMG unit, but that office failed, for whatever reason, to properly recommend Regental approval.

In the one instance where the campus failed to forward information about transfer of sabbatical credits, this appears to have been caused by misunderstanding and confusion around the application of the Regents' Principles for Review of Executive Compensation, and the definition of "compensation" required to be approved by the Regents. The campus did not consider the transfer of sabbatical credits to be an element of "compensation" that required approval by UCOP or by The Regents. Transfer of sabbatical credits is a common recruitment practice when recruiting key academic administrators from other institutions, and was not in itself improper. There were similar errors identified at other locations; there appears to have been a systemwide misunderstanding in this area.

**Institutional Corrective Action:** The Regents (including the Committee on Compensation) have adopted procedures to insure that the Regents are provided with all elements of executive compensation (under a clarified and expanded definition of Total Compensation). The Office of the President implemented this new process during the past year, including implementation of a new reporting database for the compensation actions related to the Senior Leadership of the University. The new reporting database and new procedures have been used for every action requiring Regental approval since their adoption. At the time there was no easily used compendium of University policies in this area. The University is moving towards a streamlined set of compensation policies that are readily available on the web.

## **Category 2: Vacation Accrual Rate**

Based upon the history below, the audits and management reviews determined that systemwide, many individuals who were hired or promoted to an SMG position were granted annual vacation accrual rate of 24 days per year rather than the policy rate of 18 days per year.

**History:** July 1, 1996 the University reduced (for new hires) the vacation accrual schedule from 24 days per year to 18 days for under 5 years of service; 21 days for 5-10 years of service; 24 days after 10 years of service.

In the spring of 2001, the Senior Management Advisory Committee recommended that the University amend the vacation accrual policy (PPSM 41) by returning to 24 days per year from date of hire for SMG employees who held academic appointments. The rationale for the proposed change was that a) recruiting experience in the marketplace



justified the 24 days and b) internally. UC faculty on 12 month appointments who were hired as Deans already enjoyed a month's vacation.

Campuses were told by the UCOP Senior Management Unit to anticipate a July 1, 2001 start date for the 24 days for SMG/ academic appointments. However, in June 2001 it was decided not to propose the change to The Regents at that time.

In the spring of 2006, when the audits were being conducted, the following situations existed:

- Two campuses (UCI and UCSF) did not implement the changes on July 1, 2001 for SMG/academic appointments and thus were continuing to follow the policy of 18 days for new hires.
- Six campuses (UCB, UCD, UCLA, UCR, UCSD and UCSC) began converting in July 2001 those current SMG/academic appointments (as well as new hires) to the 24 day accrual level.
- One campus (UCSB) had never changed to the reduced accrual schedule on July 1, 1996 and continued to hire all SMG's at 24 days per year.
- Similarly, UCM hired all its SMG employees at 24 days per year since it began hiring as a new campus.

**Nature of Actions (President and Chancellor):** The reviewers identified 4 recipients of improper vacation accrual related to President Dynes' term as President, and 3 recipients of improper vacation accrual related to President Dynes' term as Chancellor. In each case, the recipient was offered the higher vacation accrual rate, and there was no approval for an exception to policy – the higher rate was treated as though it were the correct rate under University policy.

**Reasons for Actions (President and Chancellor):** The UCOP Senior Management Group never formally informed the locations that the vacation policy change would not proceed as planned. A majority of the campuses mistakenly believed that the proposed change had taken effect and that the policy permitted the higher rate of vacation accrual. There was widespread confusion about what the effective policy was, both at the locations and at UCOP. There is no evidence of intentional violation of this policy.

**Institutional Corrective Action:** Corrective Action Plans are being instituted at both the System level and at appropriate locations to insure the ongoing proper administration and compliance with the vacation policy.

### **Category 3: Temporary Housing**

**History:** The audits and management reviews identified that systemwide, there were some instances when SMG members were eligible for a temporary housing allowance

under the relocation policy (Business and Finance Manual G-13) but such allowance was not disclosed to The Regents as required under the Principles on Executive Compensation.

The policy provides for extensions of the temporary housing allowance beyond 30 days by the Chancellor, if granted for a reasonable period of time. All of these cases appeared to involve a lack of follow up on granting the exception when a given SMG member had a need for more than the initial 30 day of temporary housing.

**Nature of Actions:** There were no audit items identified in this category for President or Chancellor Dynes. There was one item related to temporary housing that has been categorized in Category 1 (Regents' Principles), because the procedural error was not a failure to obtain Presidential approval, but rather failure to recommend Regental approval.

**Institutional Corrective Action:** Corrective Action Plans are being instituted at both the System level and at appropriate locations to insure the ongoing proper administration and compliance with the temporary housing policy.

#### **Category 4: SMSPP/SMSBP**

**History:** On July 1, 1996 (the same date that the vacation accrual rate for new SMG hires was reduced from 24 days a year to 18 days a year), the University changed the eligibility rule for participation in the SMSPP for new SMG members who have tenured faculty positions. The rule states that such individuals would no longer be eligible for participation in the SMSPP unless the President grants an exception to participate.

The audits and management reviews identified several instances systemwide in which individual SMG members were participating without a presidential exception and/or were administratively placed in the SMSPP without verification of their academic tenure status. It appears that in most of these cases participation in the plan was part of an offer of employment but there was a failure to obtain a Presidential exception and/or the individual was placed in the plan without appropriate determination of their tenure status.

**Nature of Actions:** There were no audit items identified in this category for President or Chancellor Dynes. There was one item related to SMSPP that has been categorized in Category 1 (Regents' Principles), because the procedural error was the failure to recommend Regental approval.

**Institutional Corrective Action:** The SMSPP has now been replaced by the Senior Management Supplemental Benefit Plan which is administered by a centralized office within the Retirement Administration unit which verifies all eligibility requirements and

pay status under appropriate procedures. These issues have also been addressed by corrective action plans.

### **Category 5: No Policy Violation**

In certain instances, the audit or management review indicated a policy violation, but upon further review a conclusion was reached that there was no violation. One item has been identified in this category with regard to President Dynes (during his term as President).

This item relates to Former President Atkinson, who received a paid leave of 3 months to be "on call" for President Dynes, upon stepping down as President. The purpose of the agreement was to ensure a smooth transition to a new President of the University. This agreement appears to fall outside of the Regents' Principles for Review of Executive Compensation, because the compensation does not appear to have been for work performed in an SMG position. Therefore there was no requirement at the time for Regental approval of this agreement.

**Institutional Corrective Action:** Under current procedures, any post-termination employment for SMG members covered by Regental approval requirements would be taken to The Regents for approval, even if the new appointment were not as an SMG member.

### **Category 6: UCOP (See above, Category 1, Regents' Principles)**

Items in this category have been addressed above, under Category 1, Regents' Principles.

Again, for purposes of categorizing audit items related to President Dynes during his term as President, Category 1 and Category 6 have been combined, to include all items reflecting a failure to recommend Regental approval.

For purposes of categorizing audit items at locations (including with regard to President Dynes during his tenure as Chancellor at UCSD), items reflecting a failure to obtain Regental approval have been divided between: Category 1 Regents' Principles (reflecting a failure on the part of the location to forward information about elements of compensation to UCOP for purposes of recommending Regental approval); and Category 6 UCOP (reflecting a failure on the part of UCOP to submit all elements of compensation for appropriate Regental approval).

There is no such distinction to be drawn related to President Dynes during his term at UCOP, where all actions were taken on the recommendation of the UCOP SMG unit and other UCOP employees.

### **Category 7: Other**

The "Other" category includes items that do not fit neatly into one of the above categories. The items in the "other" category are not necessarily items where there is an increased individual or location culpability, but merely those items of which there were too few in number to constitute a separate category.

There is only one item identified in this category related to an action taken by President Dynes. This item related to his service as UCSD Chancellor. The recipient was appointed to an SMG position in September 2002. Due to an administrative error, the recipient's original SMG appointment was at a salary rate lower than his faculty salary rate. The campus paid the recipient under a Health Sciences Compensation Plan faculty appointment, rather than appropriately ensuring that an SMG appointment was implemented. The campus spent years appealing to UCOP for approval to pay the individual through his faculty appointment, and/or for salary increases for the individual. The Regents approved the recipient's salary at a new rate, and formally determined that the position was part of the SMG group in July 2006.

The campus actions appear to have been intended to correct a situation in which the recipient's original SMG appointment was at a salary rate lower than his faculty salary rate. The campus was in communication with UCOP throughout, appealing to UCOP for a re-examination of the matter. The matter is still being addressed.

## Actions on Audit Findings Related to UC Campus and Laboratory Locations

### BERKELEY

There are 14 audit findings related to the Berkeley campus that involved decisions made by senior managers who are currently employed at the Berkeley campus. Of these, one does not represent a policy violation: nine relate to vacation accrual, which was a Universitywide problem of policy implementation for which responsibility rests with the Office of the President Senior Management Group unit, which has been corrected; one was an isolated administrative error that was promptly corrected upon discovery, and two were consistent policy interpretation errors that pre-date the current campus leadership.

### DAVIS

There are 25 audit findings related to the Davis Campus that involve decisions made by senior managers who are currently employed at the Davis campus. Of these, three do not represent policy violations; four relate to vacation accrual, which was a Universitywide problem of policy implementation for which responsibility rests with the Office of the President, which has been corrected; 11 represent instances in which the Davis campus properly consulted with the Office of the President Senior Management Group unit or the General Counsel which, in turn, did not seek Regents' approval due to misinterpretation of policy requirements; two were instances in which the campus mistakenly thought it had approval authority; two were instances in which the campus inadvertently omitted an element of compensation from a draft Regents' item; and two were W-2 issues that have been investigated by an independent investigator who found that the Chancellor was unaware of the programs that created the W-2 issues, and took prompt corrective action upon discovery of these issues.

### IRVINE

There was one audit finding related to the Irvine campus that involves decisions made by a senior manager who is currently employed at the Irvine campus. This instance does not represent a policy violation, as the leave was properly approved. It involved the mislabeling of an "administrative leave with pay" as a "sabbatical," an error that has been corrected.

## LOS ANGELES

There were 28 audit findings related to the Los Angeles campus that involve decisions made by senior managers who are currently employed by the Los Angeles campus. Of these, four do not represent policy violations; seven relate to vacation accrual, which was a Universitywide problem of policy implementation for which responsibility rests with the Office of the President Senior Management Group unit, which has been corrected; five represent instances in which the campus properly consulted with the Office of the President Senior Management Group unit which, in turn, did not properly seek Regents' approval due to misinterpretation of policy requirements; nine were not brought by the campus to the attention of the Office of the President in order to seek Regents' approval due to misinterpretation of policy requirements; one was an administrative oversight; one involved a policy interpretation error by both the campus and the Office of the President Senior Management Group unit about eligibility for participation in the Senior Management Severance Pay Plan; and one involved an appropriate but inefficient method for implementing a salary reduction required by the recipient's offer letter.

## MERCED

There were 10 audit findings related to the Merced campus that involve decisions made by senior managers who are currently employed by the Merced campus. Of these, four do not represent policy violations and six relate to vacation accrual, which was a Universitywide problem of policy implementation for which responsibility rests with the Office of the President Senior Management Group unit, which has been corrected.

## RIVERSIDE

There were 17 audit findings related to the Riverside campus that involve decisions made by senior managers who are currently employed by the Riverside campus. Of these, three do not represent policy violations; three relate to vacation accrual, which was a Universitywide problem of policy implementation for which responsibility rests with the Office of the President Senior Management Group unit, which has been corrected; seven represent instances in which the campus properly consulted with the Office of the President Senior Management Group unit which, in turn, did not properly seek Regents' approval; one involved an isolated administrative error; and three involved errors in payroll coding that resulted in housing allowances being improperly coded as retirement-covered compensation, errors that have been corrected.

### SAN DIEGO

There were seven audit findings related to the San Diego campus that involve decisions made by senior managers who are currently employed by the San Diego campus. Of these, two represent instances in which the campus properly consulted with the Office of the President Senior Management Group unit which, in turn, did not properly seek Regents' approval due to misinterpretation of policy requirements; one involved a misinterpretation of policy requiring Regents' approval for a retention payment; two involved inadvertently not obtaining Regents' approval for the correction of miscalculations of Clinical Enterprise Recognition Plan payments, even though the original payments were approved by The Regents; one involved an administrative oversight; and one involved payment of an automobile allowance while the recipient was on sabbatical leave, during which the recipient spent a significant amount of sabbatical leave time in San Diego while conducting University business. One other item reflected in the audits involved an up-front cash payment of sabbatical credits transferred from another institution. A Universitywide corrective action requires that all compensation for the Senior Leadership Compensation Group must be approved in advance by The Regents.

### SAN FRANCISCO

There are eight audit findings related to the San Francisco campus that involve decisions made by senior managers who are currently employed by the San Francisco campus. Of these, one does not represent a policy violation; six represent instances in which the campus properly consulted the Office of the President Senior Management Group unit or the General Counsel which, in turn, did not properly seek Regents' approval due to misinterpretation of policy requirements; and one involved the offer of a severance agreement that was not communicated to the Office of the President because of a policy misinterpretation that such items did not require Regents' approval. The Chancellor has been asked to review these instances to determine whether corrective actions at the campus may be appropriate regarding the handling of these Senior Management Group compensation items.

### SANTA BARBARA

There were five audit findings related to the Santa Barbara campus that involve decisions made by senior managers who are currently employed by the Santa Barbara campus. Of these, three relate to vacation accrual, which was a Universitywide problem of policy implementation for which responsibility rests with the Office of the President Senior Management Group unit, which has been corrected; one represents

an instance in which the campus properly consulted with the Office of the President Senior Management Group unit which, in turn, did not properly seek Regents' approval due to misinterpretation of policy requirements; and one involved an instance in which vacation time was not properly forfeited in conjunction with summer research compensation, an error that was corrected.

#### SANTA CRUZ

There were five audit findings related to the Santa Cruz campus that involve decisions made by senior managers who are currently employed by the Santa Cruz campus. Of these, one relates to vacation accrual, which was a Universitywide problem of policy implementation for which responsibility rests with the Office of the President Senior Management Group unit, which has been corrected; two represent instances in which the campus properly consulted with the Office of the President Senior Management Group unit which, in turn, did not properly seek Regents' approval due to misinterpretation of policy requirements; and two involve instances in which a stipend was provided in lieu of an automobile allowance for two senior managers who were not eligible for automobile allowances.

#### LAWRENCE BERKELEY NATIONAL LABORATORY

There were 11 audit findings related to the Lawrence Berkeley National Laboratory that involve decisions made by senior managers who are currently employed by the Laboratory. Of these, two do not represent policy violations; one represents an instance in which the Laboratory properly consulted with the Office of the President Senior Management Group unit which, in turn, did not properly seek Regents' approval due to misinterpretation of policy requirements; seven involved instances in which eligibility for the Senior Management Severance Pay Plan was not properly administered; and one involves the payment of an automobile allowance during sabbatical, in which the Laboratory and the Office of the President Senior Management Group unit made mistakes due to confusion over policy interpretation. Director Chu has been asked to review these instances to determine whether corrective actions at the Laboratory may be appropriate regarding these Senior Management Group compensation items.

#### ACTIONS

In all instances where individual corrective action was warranted, that corrective action has already been taken, and The Regents have concurred with the action.



**J3**

Office of the President

**TO THE MEMBERS OF THE COMMITTEE ON AUDIT AND THE  
COMMITTEE ON COMPENSATION:**

**DISCUSSION ITEM**

*For the Meeting of July 19, 2007*

**FINAL PROJECT REPORT FROM NATIONAL ACADEMY OF PUBLIC  
ADMINISTRATION ON THE UNIVERSITY OF CALIFORNIA'S CERTIFIED  
ASSESSMENT OF HR SYSTEMS: A PATHWAY TO ASSURANCE**

At this meeting, representatives of the National Academy of Public Administration (NAPA) will present the final report on the University of California's Certified Assessment of HR Systems (CAHRS). Attached is the Executive Summary of the report. A complete copy of the final report will be distributed at the July meeting. Beginning in November 2005, the Regents were informed that a new HR assurance model was being developed and that UC was partnering with NAPA to develop a self-assessment and peer review process. At the January 2006 meeting, the Regents were notified that options were being explored to test pilot designs of the program. The preliminary pilot designs would be initiated at several UC campus, medical center, and Department of Energy laboratory locations.

The Regents were informed at the July 2006 meeting that the Human Resources and Benefits Department introduced CAHRS as a pilot program at the San Francisco campus, the UCSF Medical Center, the Office of the President, and the Lawrence Berkeley National Laboratory. NAPA was asked also to assist with the validation of the HR standards.

In March 2007, teleconference discussions were held with the Chairs and Vice Chairs of the Committees on Audit and Compensation on the current status of development of the CAHRS process, the planning for implementation of the CAHRS process at other UC locations beyond the pilot locations, and that UC Davis would join the pilot process.

NAPA Vice President of Academy Studies, J. William Gadsby and NAPA Panel Chair Dr. Frank Thompson will give the presentation and share the final report, which outlines the project, the design and development of the CAHRS system, and recommendations for further implementation of CAHRS.

( Attachment )

*A Report by a Panel of the*

NATIONAL ACADEMY OF  
PUBLIC ADMINISTRATION

*For the University of California*

**July 2007**

# **CERTIFIED ASSESSMENT OF HUMAN RESOURCE SYSTEMS**

## **A Pathway to Assurance**

### **Panel**

Frank Thompson,\* *Chair*

Joel D. Aberbach\*

Eddie Goldenberg\*

Jeff T.H. Pon

Curtis Smith\*

David M. Walker<sup>#</sup>

\* *Academy Fellow*

## Executive Summary

As one of the nation's most prestigious and respected public universities, the University of California (UC) needs high quality human resources (HR) policies and programs to support its world class academic and research operations. In addition, the UC Board of Regents requires assurances that HR policies are applied appropriately and consistently throughout the ten campuses, five medical centers and two national laboratories that comprise the UC system. To satisfy the Regents, UC leadership sought (1) validated HR standards against which performance could be measured, (2) assessment processes to compare UC HR performance to the established standards and to identify any necessary remedial actions and (3) external validation that would certify compliance with the standards.

No off-the-shelf HR standards or existing assessment models matched UC requirements. Despite recent advances, HR is still a relatively ill-defined practice, with little overall consensus on a universal set of standards against which HR can be measured. Also, while there are programs to certify individual HR professionals on the basis of their credentials or expertise, no program exists to certify HR systems as a whole. Thus, UC looked to the National Academy of Public Administration because of its reputation, large body of HR-related work, and the deep reservoir of talent and expertise within the Academy Fellowship and staff.

This joint UC-Academy partnership produced the *Certified Assessment of Human Resources Systems (CAHRS)*. While specifically designed for UC, *CAHRS* is sufficiently flexible to be transferable to other organizations – both public and private – with relatively minor modification.

*CAHRS* consists of five components:

- **Validated HR Standards** against which HR performance can be measured
- **Readiness Review** to prepare an organization for Self-Assessment
- **Self-Assessment** to formally compare HR operations to the Standards
- **Peer Review** to ensure the integrity of the Self-Assessment by producing an independent expert Opinion on the extent to which the Standards have been met
- **Certification** which occurs when the Peer Review Opinion attests or certifies that an organization has successfully met all of the Standards.

### The HR Standards

The *CAHRS* HR Standards balance both strategic and operational HR dimensions. They reflect the Academy's view that, while service delivery remains the threshold issue for establishing HR credibility, the HR function is evolving to play a more strategic and enabling role in enhancing organizational performance and achieving mission accomplishment.

The seven *CAHRS* Standards are:

(1) System-wide Management, which sets forth performance expectations for corporate level HR, including setting strategic direction, formulating policies, designing systems, communicating with and representing the organization, consulting and advising, demonstrating overall system accountability, and carrying out functions best handled at the corporate level.

(2) HR Strategic Management, which describes performance elements such as collaboratively developing HR strategic plans, playing a leadership/enabling role in the management of the organization, identifying current and emerging workforce needs, and promoting commitment to ethical values and diversity.

(3) HR Operations and Program Assurance, which addresses performance elements involving assurance and evaluation, HR metrics and continuous improvement, HR staff management, HR systems and infrastructure, and HR consultation and assistance.

(4) Employment and Talent Management, which describes performance expectations for acquiring the talent needed to achieve mission goals and objectives, and for effectively managing employees to enhance organizational capacity, and to improve individual performance through effective performance management and rewards and recognition.

(5) Total Compensation and Benefits, which focuses on managing compensation and benefits to attract, retain and motivate a highly qualified and diverse workforce, and exercising appropriate stewardship of public funds consistent with established compensation philosophy and policies.

(6) Training and Development, which describes performance expectations for equipping employees with the requisite competences to achieve current and future mission requirements and to improve individual and organizational performance.

(7) Work Environment and Employee/Labor Relations, which focuses on providing a productive work environment by dealing with employees and recognized bargaining units fairly and constructively and promoting a safe and supportive work environment.

The Academy Panel developed these *CAHRS* HR Standards with extensive input from subject matter experts, thought leaders, HR practitioners, UC stakeholders, numerous Academy experts, academics, representatives of HR professional associations as well as HR professionals from federal and state agencies and non-profit organizations. The HR Standards were validated at several stages and tested at multiple UC Locations.

### **Readiness Review**

A Readiness Review is an informal “self-help” activity designed to prepare an organization for formal Self-Assessment. It involves studying the HR Standards.

informally assessing HR performance against those Standards, and identifying remedial actions in preparation for the more rigorous Self-Assessment.

### **Self-Assessment**

Self-Assessment is a process during which an internally selected team compares its own operations to the HR Standards and reaches conclusions about the extent to which the Standards are being achieved. Unlike a Readiness Review, a Self-Assessment requires support and documentation to back-up conclusions, results in a formal report, and is subject to external Peer Review.

### **Peer Review and Certification**

Peer Review is a quality assurance process widely used in accounting, auditing and other professions, and is a familiar concept in academic, medical, research and evaluation communities. In *CAHRS*, Peer Review is a top level review by independent external experts to ensure the integrity of an organization's Self-Assessment, provide advice and suggestions for improving HR operations, and identify best practices suitable for emulation elsewhere.

The end product of the Peer Review is a formal Peer Review Opinion which renders a judgment about the extent to which an organization meets the HR Standards. Certification is based on a Peer Review Opinion's formal attestation that **all** Standards are met.

The Academy has prepared guidelines and instructions for carrying out each phase of the *CAHRS* process. These are contained in three publications: *the Readiness Review Guide, the Assessor Guide, and the Peer Review and Certification Guide*.

### **Conclusions and Recommendations**

In its report, the Panel recommends that UC adopt, at least initially, the *CAHRS* model for its non-academic staff employees, which account for about two thirds of all its total employment. Fundamentally, the Panel believes that *CAHRS* can be an effective means for providing the assurances that the UC Regents are seeking about HR operations. Other potential benefits include: bolstering accountability and transparency, mitigating risks associated with non-compliant actions, promoting appropriate consistency in the interpretation and application of policies throughout the system, strengthening HR capacity and improving performance, targeting resources to priority needs, sharing best practices, and reducing the time and effort devoted to responding to internal and external oversight mechanisms.

At UC's request, the Panel is recommending actions needed to implement *CAHRS* system-wide. The Academy's expertise and experience suggest that large organizational changes such as *CAHRS* require leadership commitment, effective change management and communication strategies, sufficient resources, supportive information systems, and

clearly defined roles and responsibilities. Implementing *CAHRS* will be a challenge given UC's size, its breadth of operations, and shared governance structure. Of particular importance is the need for a comprehensive Human Resources Information System – something that is lacking at this time.

Accordingly the Panel recommends that:

- *The Regents of the University of California and the President of the University clearly express their support for CAHRS, and require its implementation throughout the University.*
- *The Regents and the President ensure that CAHRS is integrated (aligned) with all related Regental/UC initiatives designed to promote sound management and responsible public stewardship.*
- *The President affirm that UC's Office of the President Human Resources and Benefits Department (UCOP-HR&B) will be accountable for the implementation and ongoing administration of CAHRS and provide to that department the authority, staff resources and infrastructure needed to manage the CAHRS implementation and continued administration successfully.*
- *UCOP-HR&B develop a comprehensive communication and education implementation plan for CAHRS with emphasis on engaging, and obtaining support from, Location Leadership and other key stakeholders.*
- *UCOP-HR&B implement CAHRS according to a phased plan and timeline, endorsed by the Regents, with specific Location adoption of CAHRS being guided by overall Location readiness.*
- *The Regents and the President take steps to ensure the development of a comprehensive Human Resources Information System.*
- *The President, in consultation with key Location stakeholders, clarify authorities, roles and responsibilities for the full range of HR functions and activities, especially in Locations where HR responsibilities are shared.*
- *UCOP-HR&B develop training and share best practices and successful approaches for building collaborative, consultative, cooperative relationships and partnerships with others performing HR roles.*
- *The Regents, the President, and UCOP-HR&B ensure that CAHRS remains a "continuous improvement" effort to strengthen HR practice at UC.*
- *Over time, UCOP-HR&B work collaboratively with the Locations to identify a system-wide set of core HR performance metrics beyond the illustrative examples incorporated in the Standards.*

Office of the President

TO MEMBERS OF THE SPECIAL COMMITTEE ON COMPENSATION:

DISCUSSION ITEM

*For the Meeting of July 20, 2006*

**STATUS UPDATE ON HUMAN RESOURCES ACCREDITATION AND ASSURANCE**

As reported at the January 17, 2006 meeting, the Human Resources and Benefits Department is involved in a pilot accreditation program, based on a Human Resources policy assurance model that includes a single point of accountability. The implementation of the accreditation program will provide assurances that the HR policies and practices are being appropriately applied and complied with at the local level.

UC is partnering with the National Academy of Public Administration (NAPA) to develop the pilot HR accreditation program. At the Regents' meeting, NAPA representatives Mr. Morgan R. Kinghorn, NAPA President and Dr. Frank Thompson, NAPA Panel Chair will give a brief presentation on the status of the program pilots.

The pilot HR accreditation process will include standards in broad practice areas of assurance and operations, and service areas, including compensation and benefits, employment and career management, training and development, and employee and labor relations. In addition to assisting with the validation of the HR standards, NAPA will act as the external peer reviewer and make recommendations on further implementation of the HR accreditation process at other UC locations beyond the pilot program.

The HR accreditation program will require rigorous self-assessment and peer review. It is intended to improve efficiency and effectiveness in HR operations and oversight to ensure consistency in HR policy interpretation, implementation, and assurance. The self-assessment phase of the program will begin in fall 2006 at four UC pilot sites.

**C12**

**Office of the President**

**TO THE MEMBERS OF THE COMMITTEE ON COMPENSATION:**

**DISCUSSION ITEM**

*For the Meeting of September 19, 2007*

**REPORT ON IMPLEMENTATION OF UNIVERSITYWIDE AND  
CAMPUS/LABORATORY CORRECTIVE ACTION PLANS**

This item is a Progress Report on actions taken pursuant to the Corrective Action Plans approved by The Regents in March and July 2007 (Attachments 1 and 2). These plans were implemented universitywide by the Office of the President and locally by the campuses in advance of the upcoming merit salary review cycle. The plans address items which resulted from deficiencies in compensation policies and procedures at each respective location, and certain systemwide deficiencies. The Associate Vice President – Human Resources and Benefits is responsible for oversight of the implementation of the Corrective Action Plans.

**BACKGROUND**

In March 2007, The Regents approved the Universitywide Corrective Action Plan which covered broad systemic issues identified in the compensation audits and management reviews that were not limited to single actions or locations. In July 2007, The Regents approved the Campus/Laboratory Corrective Action Plans which addressed violations of compensation policies related to each respective campus or laboratory. The development of the Corrective Action Plan Progress Reports included in this item is the result of an interactive process between each location and Human Resources and Benefits at the Office of the President. The collaboration with the campuses also resulted in the identification of suggested strategies that may be implemented on a systemwide basis in order to enhance the University's ability to ensure compliance with compensation policies and procedures in the future.

***Universitywide Corrective Action Plan***

The Progress Report on the Universitywide Corrective Action Plan addresses six elements of compensation practices where deficiencies were found (Attachment 1). Corrective actions for each of the plan elements have been implemented, and processes continue to be refined as additional experience is gained in administration. Periodic testing will occur in partnership with Internal Audit and the Compliance Office.



*Campus/Laboratory Corrective Action Plans (CAPs)*

Attachment 2 is a summary of the Progress Reports submitted by each location on the implementation of specific corrective actions to address local deficiencies. The summary combines the reports from locations with similar issues, as those locations collaborated to ensure consistent application of corrective actions and sharing of information relevant to improving processes and practices.

*Suggestion Summary*

As part of the Corrective Action Plan project, locations were asked to submit suggestions for systemwide improvements that would enhance their ability to prevent deficiencies in compensation practices. The locations expressed broad support for a) the implementation of a centrally managed Human Resources Information System coordinated with local payroll and accounts payable systems, b) the Policy Review project to create a comprehensive policy framework and review and revise compensation and related policies, and c) the publication of a comprehensive matrix of delegations of authority for approvals of compensation and related items. The University is already working on these important initiatives and the locations are ready to enhance their effectiveness through the implementation of the new tools that may be offered.

In addition, the locations identified some specific suggestions as follows:

- Development of a more rapid process for approving positions created or filled in the SMG program
- Creation and implementation of mandatory alert flags in payroll systems across locations to track special payment categories
- Creation of enhanced on-line resource tools that incorporate current "rules" in the recruitment process and can alert and guide users of policy limits

These suggestions will be incorporated into efforts currently underway to improve systems, policies and procedures.

(Attachments)

**Universitywide Corrective Action Plan Progress Reports**

**I. Failure to follow 1993 Regents Principles requiring disclosure to the Board for approval of all compensation elements contained in the definition of Executive Compensation.**

The following actions have been taken to insure present and future compliance with the 1993 Principles:

- 1) Development of a template now being used by the UCOP Senior Management Group (SMG) Office to capture all executive compensation items required by the Guidelines when hiring, promoting, granting equity increases, stipends and other items under total compensation actions. Any exceptions to UC policy must also be identified in the template data. Verification of the data and its accuracy occurs with the employing location prior to production of the Regents action items. In addition to the template, the elements of compensation are also included in Regents Items.
- 2) Development of an annual report on total compensation for SMG members and other administrators above the Regents salary threshold.
- 3) Instituted new guidelines for the reporting of compensation information relating to corporate board service.
- 4) Office of General Counsel reviews all relevant executive compensation items before they are submitted to The Regents.
- 5) Any exceptions to UC policy must now be clearly identified in all Regents action items.

**Timeline for Implementation**

Above processes are in place and continue to be refined as additional experience is gained. As new policies are adopted, they may require a redefinition of these processes and possibly enhanced reporting.

**Periodic Testing Plan**

A continuous improvement process is in place in the Senior Management Compensation, Policy, and Recruiting Unit with input from The Regents' chair of the committee on compensation and regular consultation with Internal Audit and/or the Compliance Office.

**Person/Unit Responsible for Implementation and Monitoring:**

Name: Dennis Larsen

Title: Executive Director

Department: Senior Management Compensation, Policy, and Recruiting Unit

## **II. Vacation Accrual**

The audits and management reviews identified numerous occurrences where newly hired SMG members received a more beneficial annual vacation accrual than UC policy provided (i.e., 21 or 24 days per year rather than the policy of 18 days per year). A majority of these were individuals who also held a tenured academic appointment with the University. The data thus suggested that the vacation accrual levels for newly hired SMG members was not properly managed in terms of communications, application and compliance after the July 1, 1996 change which reduced the vacation accrual rate for new hires to 18 days per year (from 24 days per year).

The following actions have been taken to ensure continuing compliance with the vacation policy (PPS #41) for SMG members:

- 1) Development of the template to capture executive compensation items. Verification of the data and its accuracy occurs with the employing location prior to production of the Regents action items.
- 2) The annual certification/declaration process now required of each SMG member serves as a verification disclosure tool to ensure that the vacation accrual rate of each SMG member is compliant with the vacation policy.
- 3) The annual report to The Regents on Executive Compensation of each SMG member, and the template used to report all elements of compensation when actions are presented to The Regents for approval, will include any exception(s) to the vacation accrual levels established in the vacation policy.

### **Timeline for Implementation**

The above processes are in place and continue to be refined as additional experience is gained.

### **Periodic Testing Plan**

Actions 2 and 3 above will provide for periodic compliance validation in consultation with Internal Audit and/or the Compliance Office.

### **Person/Unit Responsible for Implementation and Monitoring:**

Name: Dennis Larsen

Title: Executive Director

Department: Senior Management Compensation, Policy, and Recruiting Unit

### **III. Honoraria**

The audits and management reviews identified several situations where SMG members received honoraria payments which were not in compliance with the SMG policy (II 30-J) which prohibits 100% SMG appointments from receiving additional compensation from any University fund source. (This policy allows for two exceptions which are: 1) payments for teaching UC extension courses and 2) salary payments for summer research for Deans and Provosts). This policy has historically relied upon personal accountability for compliance with the policy (i.e. self-policing). There was historically no centralized process with an ability to capture the data necessary to help insure compliance.

While continuing to recognize the self-policing nature of this policy, the following actions have been taken to insure continuing compliance with the Honoraria policy:

- 1) The Senior Management Compensation, Policy, and Recruiting Unit, when conducting the new annual certification/declaration process as part of the outside activities reporting effort, will query all SMG members on any additional income paid by or received from the University.
- 2) An annual review and analysis of the W-2s of all SMG members by location SMG coordinators will be conducted to ensure compliance with the Honoraria policy. If any inappropriate payment(s) is identified, appropriate action, including restitution of the overpayment, will be instituted.
- 3) Periodically through electronic or paper communications, SMG members will be reminded of their responsibilities under the Honoraria policy (II 30-J).

#### **Timeline for Implementation**

The above process is in now in place with any refinements to be made as experience dictates.

#### **Periodic Testing**

Actions 1 and 2 above will provide for periodic compliance validation in consultation with Internal Audit and/or the Compliance Office.

#### **Person/Unit Responsible for Implementation and Monitoring:**

Name: Dennis Larsen

Title: Executive Director

Department: Senior Management Compensation, Policy, and Recruiting Unit

#### **IV. Auto Allowance**

The audits identified some instances where SMG members received an automobile allowance which was not consistent with the University policy (Bus. & Fin. Manual, AMC E-821) and proper approvals for policy exceptions were not granted.

The following actions have been taken to ensure continued compliance with the auto allowance policy:

- 1) Development of the template to capture executive compensation items. Verification of the data and its accuracy occurs with the employing location prior to production of the Regents action items.
- 2) The Senior Leadership Information System (SLIS) will capture data entered by the campuses and laboratory for each SMG member's eligibility and any exceptions granted for an auto allowance.
- 3) The annual certification/declaration process required of each SMG member serves as a verification tool to ensure that any auto allowance (or leased auto) received by an SMG member is reported.
- 4) An annual review and analysis of the W-2s of all SMG members by SMG Coordinators at each location will be conducted to ensure compliance with the Auto Allowance policy. If any inappropriate payment(s) is identified, appropriate action, including restitution of the overpayment, will be instituted.
- 5) Assurance of proper compliance will also be achieved via the annual report to The Regents on Executive Compensation of each SMG member because auto allowance will be reported as an element of total compensation.

#### **Timeline for Implementation**

The above processes are now in place, with any refinements to be made as experience dictates.

#### **Periodic Testing Plan**

Actions 3 and 4 above will provide for periodic compliance validation in consultation with Internal Audit and/or the Compliance Office.

#### **Person/Unit Responsible for Implementation and Monitoring:**

Name: Dennis Larsen

Title: Executive Director

Department: Senior Management Compensation, Policy, and Recruiting Unit

## V. Temporary Housing Allowance

The audits and management reviews found some cases in which SMG members were eligible for temporary housing allowances under the University's relocation policy but where exceptions were not approved in writing (per policy) when the individual exceeded the initial 30 days allowed by policy (Business & Finance Manual G 13). The following actions have been taken to ensure continued compliance with the temporary housing policy:

- 1) Development of the template to capture executive compensation items. Verification of the data and its accuracy occurs with the employing location prior to production of the Regents action items.
- 2) The location SMG coordinators will insure that, at the time an offer of employment is being developed which provides for the payment of a temporary housing allowance, it is consistent with policy, defines the duration of the benefit, the dollar maximum per month and the total dollar amount being made available to the candidate. The new SMG member's supervisor will insure that the benefit stops at the end of the approved duration and does not exceed approved dollar amounts. A copy of the written offer letter containing these details will accompany the item presented for approval.
- 3) The location SMG coordinators will annually review their location's SMG payroll to insure that all temporary housing expenses paid to that location's SMG members is in compliance with the temporary housing policy.
- 4) The annual certification/declaration process required of each SMG member serves as a verification tool to ensure that any temporary housing allowance received by an SMG member is compliant with the temporary housing allowance policy.
- 5) Assurance that the annual report to The Regents on the total compensation of each SMG member will include temporary housing payments.

### **Timeline for Implementation**

The above processes are being implemented or are now in place, with any refinements to be made as experience dictates.

### **Periodic Testing Plan**

The actions above will provide for periodic compliance validation in consultation with Internal Audit and/or the Compliance Office.

### **Person/Unit Responsible for Implementation and Monitoring**

Name: Dennis Larsen

Title: Executive Director

Department: Senior Management Compensation, Policy, and Recruiting Unit

## **VI. Senior Management Supplemental Benefit Program**

The audits and management reviews identified cases where SMG members hired after July 1, 1996 received various benefits under the former Senior Management Severance Pay Plan (now the Senior Management Supplemental Benefit Program, or SMSBP) but were either not entitled to the benefit because they also held a tenured academic appointment with the University and/or they did not (as required by policy) receive a written exception from the President to participate in the plan. The following actions have been taken to ensure continued compliance with the SMSBP:

- 1) Development of the template to capture executive compensation items. Verification of the data and its accuracy occurs with the employing location prior to production of the Regents action items.
- 2) The Senior Leadership Information System (SLIS) will capture data entered by the campuses and laboratory for each SMG member's eligibility for and any exceptions granted related to participation in the SMSBP.
- 3) A new, centralized process has been established as part of Retirement Benefits operations at UCOP to oversee the continued accuracy of future dollars accrued on a periodic basis.
- 4) Assurance of proper compliance will also be achieved via the Annual Report to The Regents on Executive Compensation of each SMG member because SMSBP participation will be reported as an element of total compensation.

### **Timeline for Implementation**

The above processes are now in place, with any refinements to be made as experience dictates.

### **Periodic Testing Plan**

Actions 3 and 4 above will provide for periodic compliance validation in consultation with Internal Audit and/or the Compliance Office.

### **Person/Unit Responsible for Implementation and Monitoring:**

Name: Dennis Larsen  
Title: Executive Director  
Department: Senior Management Compensation, Policy, and Recruiting Unit

Name: Kay Miller  
Title: Executive Director  
Department: Client Relations and Diversity

**Attachment 2**

**Summary of Campus Corrective Action Plan (CAP) Progress Reports**

<b>CAP #</b>	<b>CAP Item</b>	<b>Location</b>	<b>Summary of CAP Progress Reports</b>
1	Appropriate follow up process to ensure proper compliance with commitments made in such areas as temporary housing, housing supplements, temporary medical insurance coverage, and paid leaves	UCLA UCOP UCSF	Each location implemented their CAP. Annual management controls and testing to begin in early 2008 as part of the Annual Report to The Regents.
2	Appropriate research regarding the academic appointment status of SMG members for SMSBP and other policies where academic and SMG policies interface	LBNL	This Corrective Action Plan item has been determined to be the result of action taken by UCOP Systemwide. This item is covered in detail in the Universitywide Action Plan.
3	Compliance with appropriate administrative and academic pay rates policy when on paid (administrative or sabbatical) leave	UCB UCSC	Each location has put in place mechanisms to monitor pay rates for administrative or sabbatical leave. Payroll data review to determine compliance is set to begin in August 2007.
4	Proper approval for any proposed decision to purchase an annuity for any employee	UCD	The location has implemented their CAP however no requests for annuities have come forward since implementation.
5	Proper approval for compensation and benefits received while in acting appointments	UCSC UCSD	Each location has implemented their CAP. UCSC is set to begin monthly testing and management controls in August 2007. UCSD has already implemented testing and management controls with successful results.
6	Proper approval for positions created or filled in the SMG program	UCSC	The location has implemented their CAP. Annual management controls and testing to begin in early 2008 as part of the Annual Report to The Regents.
7	Proper approval for stipends that exceed 1 year, greater than 15% or would increase compensation above the Indexed Compensation Level (ICL), set at \$200,000 for FY 2006-2007	UCB UCD UCI UCLA UCSC UCSD	Each location has implemented their CAP except for some communications pieces such as semi-annual notifications due later in the year or updating web based policy materials. These items are due to be implemented in the near term. Management controls and testing plans are due to begin at some locations in August 2007 and at others in early 2008 as part of the Annual Report to The Regents.
8	Proper approval for UC paid travel while on sabbatical	UCB	The location has implemented their CAP. Management controls and testing to begin in August 2007.
9	Proper approval of agreements regarding sabbatical credits from other institutions and/or any accelerated earning of UC sabbatical credits	UCB	The location has implemented their CAP. Management controls and testing is on a "by occurrence" basis and is on-going.



CAP #	CAP Item	Location	Summary of CAP Progress Reports
10	Proper approval of all increases, including incentive awards, which increase an individual's compensation above the Indexed Compensation Level (ICL), set at \$200,000 for FY 2006-2007	UCLA UCOP UCSC UCSD	Each location has implemented their CAP except for some communications pieces such as semi-annual notifications due later in the year or updating web based policy materials. These items are due to be implemented in the near term. Management controls and testing plans are due to begin at some locations in August 2007 and at others in early 2008 as part of the Annual Report to The Regents.
11	Proper approval of all paid leaves, individual bonuses and individual incentive programs	UCSD	The location has implemented their CAP except for updating their web based policy materials. This is due to be implemented in September 2007. Management controls and testing have already been conducted with positive results - no violations to date.
12	Proper approval of all recruitment bonuses, special housing and relocation incentives and related types of payments	UCLA UCR	Each location has implemented their CAP. Management controls and testing is set to begin in early 2008 as part of the Annual Report to The Regents and will involve working with Campus Internal Audit at each location.
13	Proper approval of all separation agreements, severance agreements, employment agreements, retention agreements, termination agreements and "step down" agreements	UCD UCI UCLA UCOP UCR UCSD	Each location has implemented their CAP except that UCI's online system for generating these agreements is set to roll out Phase I on August 31, 2007. Management controls and testing have yet to begin at all locations except UCSD where one violation was discovered, corrected and reported to The Regents at the July 2007 meeting. At UCLA and UCR management controls and testing will be conducted ad hoc. UCD will conduct management controls and testing quarterly and UCOP will conduct theirs annually. UCI plans to use their new online system for Management controls and testing on a "by occurrence" basis.
14	Proper approval of all separation agreements, severance agreements, employment agreements, retention agreements, termination agreements, "step down" agreements and settlement agreements	UCSF	The location has implemented their CAP. Management controls and testing to begin in early 2008 as part of the Annual Report to The Regents.
15	Proper approval of all total compensation items	UCOP	The location has implemented their CAP. Management controls and testing to begin in early 2008 as part of the Annual Report to The Regents.
16	Proper approval of and accuracy in implementing summer research payments, offsets and related arrangements	UCB UCLA UCSB UCSD	Each location has implemented their CAP. Management controls and testing timing varies by location and includes "by occurrence" as well as annual review of these types of transactions.

<b>CAP #</b>	<b>CAP Item</b>	<b>Location</b>	<b>Summary of CAP Progress Reports</b>
17	Proper approval of and disclosure of special MOP arrangements	UCB	The location has implemented a significant portion of their CAP. The final step includes distribution of materials at an annual Chairs and Deans retreat in late August 2007.
18	Proper approval of any exceptions to the SMG relocation policy	UCSD	The location has implemented their CAP. Management controls and testing have been conducted and results have been positive.
19	Proper approval of benefits, as well as other related policies, which are provided to "UC employees residing outside California"	UCOP	The location has implemented their CAP. This item continues to be reviewed annually prior to Open Enrollment in November.
20	Proper approval of exceptions to the housing allowance policy	UCSD	The location has implemented their CAP. Management controls and testing are conducted annually with the next effort scheduled for early 2008.
21	Proper approval of hiring bonuses	LBNL	This Corrective Action Plan item has been determined to be the result of action taken by UCOP Systemwide. This item is covered in detail in the Universitywide Action Plan.
22	Proper approval of individual equity agreements	UCOP	The location has implemented their CAP. However, no individual equity agreements are in place or have come up since implementation.
23	Proper approvals of agreements regarding sabbatical credits from other institutions and/or any accelerated earning of UC sabbatical credits	UCSD	The location has implemented their CAP; however, no agreements for sabbatical credits from other institutions or accelerated credits have come up since implementation.
24	Proper coding of covered compensation for UCRP purposes	UCI UCR	The locations have implemented significant portions of their CAP. Further training delivery will be implemented in September and November of 2007. Both locations anticipate full implementation and review of effectiveness by June 2008. Management controls and testing are currently underway.
25	Proper consultation and approval for special arrangements like those identified for certain physicians and others at the medical center and school of medicine	UCD	The location has implemented their CAP and cancelled all special arrangements. Quarterly management controls and testing will continue and no new special arrangements have been made since the program was terminated.
26	Proper notice, as required, when a future SMG member, in a non-career status, provides employment services in anticipation of becoming a career employee	UCR	The location has implemented their CAP. Management controls and testing have been conducted and results have been positive.

# RE-65

Office of the Secretary

TO THE MEMBERS OF THE SPECIAL COMMITTEE ON  
REGENTS' PROCEDURES:

ACTION ITEM

*For the Meeting of January 18, 2006*

**ESTABLISHMENT OF THE SPECIAL COMMITTEE ON COMPENSATION AND  
SUSPENSION OF RELEVANT BYLAWS PERTAINING TO COMPENSATION  
MATTERS**

The Chairman recommends that the Special Committee on Regents' Procedures recommend to The Regents that:

- A. A Special Committee on Compensation shall be established, effective immediately. The goals of the Special Committee shall be to:
  - Ensure that the University of California's compensation and benefits policies, procedures, programs, and practices are fair, effective, clear, comprehensible, transparent, and accountable and inspire the trust of the University community and the public.
  - Promote and support the excellence of the University through compensation policies, programs, and practices that attract and retain the highest quality faculty and staff.
- B. The charge to the Special Committee shall be to analyze, discuss, review and make recommendations to The Regents on all matters related to the University of California's compensation and benefits policies, procedures, programs, and practices, including all matters requiring Regental action as mandated in the Senior Leadership Compensation Policy adopted by the Regents in November 2005.
- C. The Special Committee shall make an annual report on senior management compensation and on outside professional activities by senior managers, forwarding this report and any resulting conclusions of the Committee.
- D. The Special Committee shall conduct any studies or audits necessary to accomplish these goals.
- E. The term of the Committee shall continue until action is taken by The Regents to discharge it.

- F. In the period during which the Special Committee operates, portions of the following Bylaws shall be suspended insofar as they refer to compensation matters, including employment and benefits:
- Bylaw 12.3.(l), (m), (n), (o), (p), Committee on Finance
  - Bylaw 12.7 (c), Committee on Health Services
- G. In the period during which the Special Committee operates, references to the Committee on Finance shall be understood to refer to the Special Committee on Compensation in the following Standing Orders insofar as they refer to compensation matters, including employment and benefits:
- Standing Order 100.3 (a), (b), and (c)
  - Standing Order 101.2 (a)

### **BACKGROUND**

At the November 2005 meeting, The Regents adopted the recommendation of the Advisory Group on University Compensation to institute procedures for determining and setting compensation levels for senior leadership that are clear, comprehensive, and accountable, and to increase salaries to achieve market comparability for all groups of employees over the next ten years. The establishment of a dedicated committee is intended to address these issues on an ongoing basis.

As with Standing Committees, all members of the Board will be invited to attend the Special Committee's sessions, many of which will be scheduled at regular meetings of the Board. The Special Committee will not have the authority to approve compensation, as this responsibility will remain the sole responsibility of the Board of Regents. The Special Committee will become a Standing Committee once Bylaw 12.8 has been adopted by The Regents.

On December 19, President Dynes sent an open letter to the University community which outlined actions the University is taking to address concerns that have been raised with respect to compensation levels for senior executives. Among these steps, the President reported that Chairman Parsky is recommending that The Regents establish a Standing Committee on Compensation. At the March 2006 meeting, notice will be served in order to amend the Bylaws to add Bylaw 12.8, Committee on Compensation. A draft charge to the new Standing Committee is shown in the attachment. This first draft will be refined by the advice of the independent Task Force on Compensation, Accountability, and Transparency and the Special Committee on Compensation, with the assistance of external consultants who will be staffing the work of the Task Force. It is intended that final action to establish the new Standing Committee be taken by The Regents at the May 2006 meeting.

Office of the President

TO THE MEMBERS OF THE SPECIAL COMMITTEE ON COMPENSATION

**ACTION ITEM**

*For the Meeting of July 20, 2006*

RESTRUCTURING OF THE OFFICE OF THE PRESIDENT, INCLUDING REVIEW OF POSITION DESCRIPTIONS FOR THE UNIVERSITY'S SENIOR BUSINESS, FINANCE AND COMPLIANCE OFFICERS

RECOMMENDATION

The President recommends that the Special Committee on Compensation recommend to The Regents that, as part of the restructuring of the University of California – Office of the President, the following be approved:

- 1.) The following titles for the positions indicated:
  - A. Executive Vice President – Academic and Health Affairs and Provost
  - B. Executive Vice President – Business Operations
  - C. Executive Vice President – Chief Financial Officer
  - D. Executive Vice President – University Affairs
  - E. Vice President – Chief Compliance and Audit Officer

2.) The following position description for the Vice President – Chief Compliance and Audit Officer:

Vice President – Chief Compliance and Audit Officer  
University of California

**Primary Purpose:**

This position directs the University's system wide Compliance and Audit programs applicable to the ten campuses, five medical centers, the national laboratories managed for the Department of Energy , the Office of the President and all related University activities.

**Reports to:**

This position reports directly to The Regents of the University of California and receives administrative supervision from the Executive Vice President – Business Operations.

**Functional Oversight and Management:**

The specific functions managed by this position include:

- Compliance and Ethics Training
- Compliance Standards and Procedures
- External Audit
- Internal Audit
- Investigation
- Monitoring and Communications
- Program Evaluation
- Regental and UC Policy Compliance
- Reporting Mechanisms
- Risk Assessment
- Special Area Compliance (Athletics, Research, Hospital, Environmental Health and Safety)
- Statutory and Regulatory Compliance

**Essential Duties and Responsibilities:**

- Establishes and maintains ongoing ethics and compliance oversight and audit programs for the entire University including Regental and University wide policies.
- Communicates directly with the Board of Regents and the Regents Committee on Audit regarding all elements of meaningful compliance and audit programs, including providing annual reports on compliance with applicable laws, regulations and University policies
- Directs the University's internal and external Audit functions to ensure compliance with University policies and procedures.
- Conducts internal audits and facilitates audits by the University's external auditor to monitor compliance with applicable statutes and policies and to identify for corrective action, instances of non compliance.

- Directs the development and implementation of communication and reporting mechanisms with executive leadership at the Office of the President and campuses, academic medical centers, and laboratories to ensure appropriate compliance and audit programs are implemented system-wide.
- Develops periodic goals in ethics and compliance on the basis of risk assessment for the UC system generally and for the Office of the President.
- Works with UC location audit and compliance functions to establish periodic goals at each location.

#### **Budget Responsibilities**

- Supervises planning for and monitors annual departmental operating budget of approximately \$XX.

#### **External and Internal Liaison and Adviser**

- Coordinates activities of the offices of Compliance and Audit with the large number of existing functions that are already in place, such as the Office of General Counsel, Risk Management, Controllers, Human Resources (including training), Research Compliance, Environmental Health and Safety, and hospital/health services functions.
- Guides and assists the campuses and other entities in establishing and maintaining appropriate compliance and audit monitoring programs and oversight at the operating unit level.
- Establishes and seeks guidance and input from an Ethics and Compliance Advisory Board that will provide advice and support for the Office Compliance and Audit.
- Works with appropriate UC leadership to develop and implement training in Ethics and Compliance.
- Oversees the review of results of audits conducted at the campuses, medical centers, DOE labs and other entities to monitor the quality of local audit procedures and to detect trends that might require system-wide audits or other interventions.
- Develops and maintains relationships with other entities including institutions of higher education, private and publicly-traded companies to ascertain and evaluate best practices in this field.
- Acts as the University's senior compliance and audit representative with all external groups including legislators, local communities, media and UC alumnae/donors.
- Serves as the senior source of advice, counsel, and support in all areas of compliance and audit for the campuses, medical centers, DOE Laboratories and the University of California Office of the President.

#### **Special Projects/Initiatives Leadership**

- Establishes and implements a plan of action for the Board of Regents itself and for the UC system, to identify existing compliance audit functions and to recommend development of new functions and governance models to improve the governance of the University and compliance with its established policies.

#### **Qualifications:**

1. Minimum Education: Bachelor's Degree or equivalent experience
2. Minimum Experience: 10 Years
3. Preferred Education: CPA designation and/or a law degree

4. The successful candidate must have significant experience in audit and compliance issues in large and complex organizations.
5. Compliance and audit experience in higher education, including academic medicine, is highly desirable.

July 20, 2006





Position Description  
Executive Vice President-Business Operations  
University of California

**Primary Purpose:**

This position directs and oversees system-wide management of the University's business operations at the ten campuses, five academic medical centers, the national laboratories managed for the Department of Energy and University of California, Office of the President (UCOP).

**Reports to:**

The position reports directly to the President of the University of California

**Functional Oversight and Management:**

Provides management and leadership of all functions and departments reporting to this position and the staff assigned to these functions, including functions at the campuses, medical centers and national laboratories:

- Administrative oversight of the Compliance and Audit function
- Department of Energy Laboratory Operations
- Facilities
- Human Resources (including labor relations and collective bargaining, benefit policies and program operations, and MOP policies)
- Information Technology and Information Management
- Policy Standards and Administration
- Procurement
- Public Records Act Requests
- Real Estate
- Research Administration
- Security and Public Safety
- Technology Transfer
- Travel

**Essential Duties and Responsibilities:**Leadership and Management of Policies, Systems, and Procedures

- Directs the development of all business operating and administrative strategies, policies, procedures and practices that provide support for the academic and research mission of the University of California.
- Ensures that all business operating organizations and functions are structured to optimize their effectiveness and provide excellent customer service.
- Oversees the development of programs and working practices that promote a culture in the University that continuously strives for operational and management improvement using state of the art processes and project management tools.

- Directs the development, acquisition and implementation of information technology systems that support the University's Human Resources, Financial and other operational activities.
- Directs the communication and implementation of all administrative policies system-wide.
- Guides and assists the campuses, medical centers and laboratories on the correct use of established policies and procedures.
- Oversees administrative activities of the Office of Compliance and Audit.

#### Budget Responsibilities

- Supervises the planning and monitoring of annual department operating budget of approximately \$XX.

#### Oversight and Management

- Serves as the senior source of advice, counsel and support in all areas of business operations for the campuses, medical centers, DOE Laboratories and the University of California Office of the President.
- Advises The Regents and the President on all aspects of business operations and management including the effect of regulatory changes, and the most effective and efficient use of premises, equipment, administrative systems and people.
- Works with University Affairs to represent the University with all external groups including legislators, local communities, the media, and alumni/donors.
- Represents the University externally through memberships of various organizations and associations.

#### **Qualifications:**

1. Minimum Education: Masters in Business Administration or equivalent.
2. Minimum Experience: 15 years experience in general management in a large complex business, government, or not-for-profit organization.
3. Demonstrated strong leadership abilities
4. Ability to work successfully with broad range of constituents
5. Demonstrated track record of identifying and implementing administrative process changes and improvements

**Monitor Group Report to the Regents:  
University of California Organizational Restructuring Effort**

**Phase I: Organizational Assessment Findings**

In an increasingly constrained funding environment, it is critically important that the University of California operates as efficiently and effectively as possible, investing the maximum possible resources in the University's core mission of teaching, research and public service.

In late April 2007, Monitor Group (Monitor) began an initiative with and on behalf of the University designed to identify concrete opportunities to improve administrative efficiency and effectiveness within the Office of the President (UCOP) and across the University system, and to clarify and refine the governance role of UCOP in relation to the Regents and the campuses. This report summarizes the results of the first phase of that effort, a diagnostic intended to assess the performance of UCOP and to identify the highest priority areas for improvement.

It should be emphasized that this initiative and its findings are focused on administrative functions. There is abundant evidence that the core educational activities of the university — teaching, research, public service, and clinical care — are flourishing.

This document is divided into 6 sections:

- I. Executive Summary
- II. Project Overview
- III. Approach to Organizational Assessment (Phase I of Project)
- IV. Findings from the Organizational Assessment
- V. Implications of the Organizational Assessment
- VI. Next Steps

## **I. EXECUTIVE SUMMARY**

### ***Summary of Findings***

Monitor's assessment revealed a need for operational and structural improvements in Administrative and Finance functions across the entire system. This phase of work has emphasized the role and performance of UCOP, but has also developed high-level assessments of campus-level Administrative functions, and of the governance model of the University as a whole.

#### *UCOP Performance*

Broadly, UCOP does not perform well as a provider of services to, and on behalf of, the system. Structural and cultural issues within UCOP contribute to this. Campus constituents widely expressed three general concerns about their interactions with UCOP:

- *Decision-making processes and the rationale for decisions at UCOP are not transparent;*
- *UCOP acts as gate-keeper rather than as partner, policing instead of enabling campuses;*
- *UCOP tends to impose solutions that do not meet campus needs and that add to their costs.*

These general themes are manifest in a large number of specific managerial and administrative processes that need redesign. Of these, we believe that several require high-priority attention:

- The current method of budgeting, funds distribution, and accountability is inadequate;
- Development and approval of Capital Projects suffers unnecessary delays, costing the University tens of millions of dollars each year;
- The Public Relations efforts of the University have inadequately showcased its contributions to the public and have not been able to shape the public dialogue surrounding higher education
- UCOP's State Government Relations function has adapted poorly to a changing landscape in Sacramento;
- UCOP lacks some basic Human Resources infrastructure, including basic "Performance Management" processes;
- Inadequate IT and information management systems, structures, and processes prevent the University from providing timely and comprehensive reports to its constituents.

Our assessment has identified several factors that underlay these performance issues, including a "siloes" organizational structure, a lack of clarity regarding UCOP's role in specific processes, an often risk-averse and conservative culture, an absence of modern IT systems, and a general lack of confidence in UCOP leadership.

#### *Cost Efficiency within UCOP*

In addition to driving poor internal communication, the silo-ing of functions within UCOP has led to the costly decentralization of basic administrative functions. For example, instead of having a single, centralized IT "help desk" within UCOP, most departments have hired their own IT support people. Many departments also have their own Accounts Payable people. In fact, fully 20% of UCOP's "overhead" function expenses occur outside of the respective function's departments.

We believe, therefore, that addressing the performance effectiveness issues of UCOP will also, in most instances, reduce costs. In some cases this will come from eliminating costly delays by streamlining processes. In others it will come from eliminating unnecessary steps or activities. Many of these cost issues can be addressed immediately; others will require further work on the role and structure of UCOP, which commences with Phase 2 of this effort.

#### *Cost Efficiency at the Campuses*

The overhead costs within UCOP are small relative to those of the overall system. UCOP's administrative spending for both personnel and non-personnel is \$127 million, whereas the combined campus expenditure on administrative personnel alone is estimated to be between \$650 million and \$750 million. It is likely that the University has not fully captured all available opportunities to maximize scale efficiencies or reduce costs through the collaborative sharing of best practices across campuses.

However, finding ways to reduce these costs will require leadership from both UCOP and the campuses, and we believe UCOP will need to demonstrate results with its own restructuring efforts before it can provide the necessary leadership.

## *Implications*

### *The Need for Restructuring Stages*

The persistent underperformance of UCOP on several key dimensions has led to a broad lack of confidence on the part of the Regents and the campuses. As a result, both groups end up working *around* rather than *through* the central management structures of UCOP. The Board of Regents has gradually increased the frequency and depth of its oversight and managerial involvement because it lacks confidence in UCOP. Campuses similarly have developed their own duplicative administrative capabilities and are generally skeptical of any initiatives originating at UCOP. This breakdown has created additional work for administrative staff, both at UCOP and at the campus level, with the net effect of increasing operating costs. More importantly, it has created an additional source of “friction” between UCOP and the campuses that impedes the University’s ability to engage in collaborative efforts to realize scale efficiencies in administrative and financial functions.

Monitor believes that there are a number of major opportunities to improve efficiency and effectiveness, both within UCOP and in the services it provides to campuses, which can be pursued immediately. However, the diagnostic phase of this project has clearly shown that the University will need cooperation across the entire system to realize the most significant efficiency gains, and obtaining that cooperation would be impossible today. In order to enable the University to realize those larger improvements, UCOP must act quickly to restore its credibility and repair the University’s governance model. It can do this in part by streamlining its own operations to demonstrate commitment to a higher standard of operational efficiency. Only then can UCOP tackle cost-cutting and efficiency initiatives involving the campuses, capturing greater savings in the subsequent waves of the restructuring effort. By restoring its credibility, UCOP can help to reduce ad hoc interventions by the Regents both at UCOP and at the campus level, and it can build better collaborations with and across the campuses that will have a broad impact on the administrative and finance functions of the entire University system.

Therefore, we believe that the overall restructuring effort must take place in three “waves”:

- Wave 1: Restore UCOP’s credibility by addressing the most urgent concerns of the University’s stakeholders.*
- Wave 2: Rebuild UCOP as an efficient and high performing organization with a renewed sense of purpose.*
- Wave 3: Capture the scale potential of the University with collaborative initiatives to operate more efficiently in the administrative functions at the campus level, without sacrificing quality.*

We believe that these three Waves of restructuring will take not months but years to complete. However, we also believe that real progress can and should be made on Waves 1 and 2 between now and the middle of 2008, and that the work on these Waves will allow for Wave 3 to be put in motion during 2008.

### *Near-Term Restructuring Initiatives*

Monitor and the UC Restructuring Effort Steering Committee (see Appendix A for membership) evaluated a range of initiatives emerging from the first phase of work that would significantly improve efficiency and/or effectiveness within UCOP and across the system.

After reviewing the Organizational Assessment results and engaging in an extensive discussion, the Steering Committee selected the following projects as the primary focus of the next phase of the effort:

1. Develop a budgeting, accountability and funds distribution process that is transparent and more closely linked to the University's strategy
2. Streamline and improve the capital projects development process to generate substantial savings in reduced financing and delay costs
3. Upgrade the Human Resources capabilities at UCOP to a level commensurate with the University's scope and importance, in order to recruit, develop, and retain the highest quality employees
4. Improve the University's State Government Relations function in order to ensure long-term support for the University and its priorities
5. Identify and design mechanisms to create financial incentives for the Campuses to launch their own cost reduction initiatives

And, as always envisioned in the original design of the restructuring effort:

6. Clarify the role of UCOP in relation to the Regents and the campuses, both in the management of the University overall and in regard to the specific services it provides to the campuses

Together with several smaller potential efficiency gains identified in the diagnostic phase such as the consolidation of retained counsel vendors, these initiatives will lead to near-term cost savings, address specific "pain points" in UCOP's relationship with the campuses and serve to rebuild UCOP's credibility as the administrative "center" of the University. This will position the University to capture even greater savings in subsequent waves of the restructuring effort by enabling UCOP to drive collaboration with and among the campuses.

### ***Closing Comments***

Strong leadership is required to tackle these challenges, and we believe strong leadership will be rewarded with results. In conducting the assessment, Monitor encountered talented and committed people throughout the system who are eager to help improve the operations of their own units and of the University as a whole. In many cases, these talented people are held back by the processes and systems they inherited – solving these underlying problems holds the promise of not only cutting costs and improving efficiency, but also unlocking the talent of the people working across the University. Monitor also encountered a strong and shared sense of urgency – the view that action must be taken now to restore UCOP's credibility and address the administrative challenges the University is facing, in order to preserve and expand upon the University's excellence in teaching and research in the service of California.

## II. PROJECT OVERVIEW

The University of California Organizational Restructuring Effort is a multi-phase change initiative being led by the University of California in conjunction with the Monitor Group, a strategy consulting firm. (See Appendix B for the contractual Statement of Work.)

The objectives of the effort are to:

- Paint a clear picture of the distribution of administrative and finance functions throughout the system and how those services are performing in terms of efficiency, effectiveness and overall support for the University mission
- Redesign the highest priority functions, focused primarily on the administrative and finance areas, in order to maximize their cost effectiveness and/or their service levels
- Clarify the role of the Office of the President relative to the rest of the system and design the structures, processes, policies and decision making approach that will support that role
- Build momentum and capacity in the system to continue an ongoing cycle of improvement

The effort is organized into four contiguous phases.

Phase 1 (April 23, 2007 – July 27, 2007) was an organizational assessment involving cost analysis, interviews and a diagnostic survey to identify and prioritize key organizational effectiveness and efficiency issues both at UCOP and across the system. This report details the findings of this assessment, as well as immediate and long term implications.

Subsequent phases of the project will establish a new understanding of the respective roles and responsibilities of the Office of the President vis-à-vis the campuses and Regents; develop a new organizational structure for the Office of the President in accordance with this new understanding of roles; and pursue the highest priority efficiency and effectiveness opportunities emerging from the organizational assessment.

## III. APPROACH TO ORGANIZATIONAL ASSESSMENT (PHASE I OF PROJECT)

### *Objectives of Organizational Assessment*

The goal of the organizational assessment phase was twofold:

- To assess the distribution of administrative and finance functions throughout the system and to understand how those services are performing in terms of efficiency and effectiveness; specifically, the administrative and finance functions assessed were Audit, Facilities, Finance, Human Resources, Information Technology and Legal
- To assess current performance of services provided by UCOP to the campuses or on behalf of the University (e.g. representing the University to state government) that enable the core mission



## *Approach*

To create a complete and integrated diagnostic, Monitor conducted four kinds of analysis:

- **In-depth interviews** of Regents, UCOP leadership and department heads, Academic Senate leadership, and the leadership team of every campus (~200 individuals in total)
- **A diagnostic survey** to gather broad feedback on UCOP's services and the performance of administrative and finance functions across the University (survey sent to over 1,100 constituents, over 650 of whom responded)
- **Activity-based costing** of six administrative functions within UCOP – Audit, Facilities, Finance, Human Resources, Information Technology and Legal – to develop a clear picture of the organization's expenditure of dollars and personnel resources on these activities
- **Estimation of campus administrative spend** on each of the six administrative functions – Audit, Facilities, Finance, Human Resources, Information Technology and Legal – to provide a rough view of the administrative and finance spending across the system

Monitor evaluated these four sources of data with a focus on identifying:

- *Potential effectiveness gains*: Areas of significant underperformance in terms of service quality from UCOP to its constituents
- *Potential efficiency gains*: Opportunities for cost savings and achieving efficiencies of scale either at UCOP or across the system

Using a blend of qualitative and quantitative data from these sources and its own organizational experience, Monitor identified a number of themes and clear opportunities for improvement. The next section will discuss these findings in detail.

## **IV. FINDINGS FROM THE ORGANIZATIONAL ASSESSMENT**

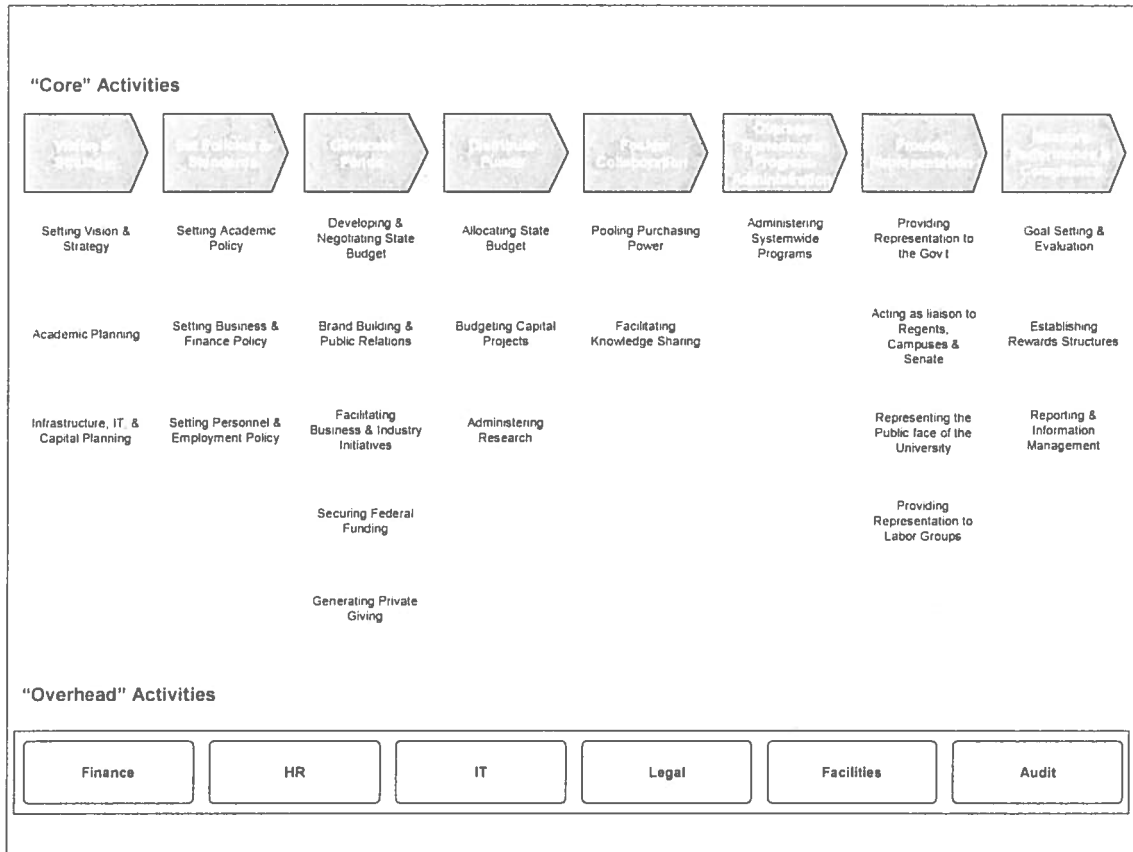
### *Context*

The scope of the Organizational Assessment was system-wide, including UCOP, the campuses, and the relationships between UCOP, the campuses, and the Regents. A greater emphasis was placed on UCOP during this first phase of work for two reasons; first, by design, because a key part of the overall project was always intended to be a refinement of the role and structure for UCOP. Additionally, however, it became clear through the course of Phase 1 that UCOP's relatively poor performance on several dimensions of service to the campuses makes it difficult to also assess the performance of individual campuses. Thus the bulk of our findings address performance at UCOP. A fuller understanding of the relative performances of individual campuses will have to wait until later stages of the restructuring effort. (See the discussion of the required "Waves" of restructuring, below.)

### *Performance Effectiveness of UCOP*

In order to assess the performance of UCOP, the Monitor team first developed a categorization of management and administrative activities performed by the Office of the President. Activities

were grouped according to their purpose, as opposed to their departmental locations. This categorization represents a ‘new’ view of activities within UCOP (it is different from the Organizational Structure-based view typically used), and it allows for both performance assessment and activity-based cost analysis, addressed below. The activity categories are shown in Figure 1.



**Figure 1: Monitor categorized UCOP's administrative activities by purpose, not by department**

*To organize our process of identifying and assessing UCOP's services, Monitor identified seven "Core Activities" specific to the mission of the University, and six "Overhead Activities" that any organization needs. This enabled us to focus primarily on "outputs" and to consider organizational factors in a "results context."*

For the purposes of our assessment, we divided the activities of UCOP first into two broad categories, shown in the Figure above as "Core" and "Overhead." "Core" activities are those that are specific to the functioning of a University. They include, at a high level, direction-setting functions (like Academic Planning), policy and compliance functions, centralized budgeting and fund distributions, public and governmental relations, and so on. "Overhead" activities are those that would be performed by any large organization. These include the functions listed on the chart: Finance, HR, IT, Legal, Facilities Management, and Audit.<sup>1</sup>

In performing these functions, UCOP plays a variety of different roles. In some areas, UCOP must act as a policy setting, compliance and oversight body. In others it is a service provider,

<sup>1</sup> In terms of dollars, the total expenditures of UCOP operations, including all activities, in 2005-2006 was \$416M. Of that, roughly \$289M was spent on "Core" activities, and roughly \$127M on "Overhead".

performing functions centrally on behalf of the system. In still others, it makes investment decisions among the campuses.

To evaluate the effectiveness of UCOP, we looked at both the “outputs” of UCOP’s activities (i.e., how are they performing) and the underlying organizational factors driving that performance.

There are several clear themes regarding UCOP’s “outputs”:

- *UCOP’s processes are slow and ineffective.* A frequent complaint we heard during our assessment, from individuals both outside and inside UCOP, was that relatively simple processes take far too long to complete. For example, it can take months to hire someone at UCOP (or into the University), no matter what their level. For senior academic or administrative hiring, this puts the University at a competitive disadvantage. From the point of view of campus management, virtually any process that has to go through UCOP slows to an unacceptable pace;
- *UCOP’s decision-making processes and the rationale for decisions are not transparent.* UCOP typically does not explain to campuses how decisions are made (who the decision-maker is, what the process and criteria are), so campuses do not know how to get resolution or influence outcomes and Regents often feel compelled to intervene from the top of the organization on specific issues;
- *UCOP acts as gate-keeper rather than as partner, policing instead of enabling campuses.* Many functions within UCOP approach their interactions with the campuses with a conservative ‘rule-enforcement’ mentality when, in many instances, other approaches would be more appropriate (e.g., a coordination and best-practice sharing role, or a customer service approach aimed at providing scale-efficient administrative support);
- *UCOP tends to impose solutions that do not meet campus needs and that add to their costs.* UCOP provides services, programs and systems to campuses without seeking to understand their needs and passes through the costs to the campuses.

### ***Specific High-Priority Areas for Improving UCOP Performance***

The performance levels vary across the different functions within UCOP, though none of them would be considered highly effective. In fact, UCOP is seen by all constituents as broadly underperforming across almost all of its major areas of responsibility. This is especially true of the “Core” services, which arguably comprise the most important part of UCOP’s role for the University. We believe several of these require a high priority of attention:

- **Current method of budgeting, funds distribution, and accountability**

The process for budgeting and the distribution of funds is inadequate for an organization of this size. The logic underlying allocations is poorly understood and needs to be revisited to ensure its alignment with the University’s strategic direction.

- **Development and approval of Capital Projects**

Unnecessary delays in Capital Projects development cost the University tens of millions of dollars in cost escalation and delay program implementation (sometimes for years), frustrating key campus administrative and faculty leaders

- **Public Relations**

The Public Relations efforts of the University have inadequately showcased its contributions to the public and have not been able to shape the public dialogue surrounding higher education

- **State Government Relations**

UCOP's State Government Relations function has adapted poorly to a changing landscape in Sacramento. The University has lost the confidence of key legislative constituents because it is perceived as being uncooperative and failing to keep the Legislature informed proactively.

The "Overhead" functions, while still not seen as performing well, are considered to be, on average, performing better than the "Core" functions. In our broad survey of the system, for example, most of UCOP's Overhead functions received ratings in the "Average" range. There are, however, some specific areas of under-performance that should receive prioritized attention.

- **Human Resources management**

UCOP lacks some elements of basic Human Resources infrastructure, including basic "Performance Management" processes (for recruiting, developing, and retaining high performing employees, and for identifying and managing under-performing employees). These processes need to be put in place with or without supporting IT infrastructure.

- **IT**

The University needs to provide timely and comprehensive reports to its constituents but does not have the systems, structures or processes in place to perform this responsibility adequately. Addressing this issue needs to start with an assessment of the University's information needs, but may ultimately involve significant investment in systems across the University.

### ***Factors Underlying UCOP's Performance***

In looking at the underlying organizational factors driving this performance, Monitor identified several structural, cultural, system-related and leadership issues.

#### ***Structural issues:***

- *A "siloed" organization structure that leads to poor communication and duplicated costs:* Each structural unit within UCOP (University Affairs, Business Operations, Academic and Health Affairs, and all of their sub-units) has developed over time many of its own internal administrative functions. Communication between counterparts across silos is ad hoc. While there is some collaboration, it tends to be sporadic, and opportunities for economies of scope and scale are often missed.<sup>2</sup>
- *Lack of clarity regarding UCOP's appropriate functional role:* As mentioned above, for any given University function, there are any number of roles UCOP could play: ensuring compliance; providing investment funds; sharing best practices; convening venues for cross-campus collaboration; etc. These roles are often not clearly defined within the Core

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<sup>2</sup> For the cost implications of this duplication, see below.

activity areas, and the “default” mode of operating tends to be “ensuring compliance” even in functions where there is no formal policy with which to comply.<sup>3</sup>

- *Underdeveloped processes in important areas:* UCOP has weak or non-existent processes in basic internal managerial functions. Although there is a Performance Management structure at UCOP, there is no system for enforcing compliance or managing personnel based on performance. There is no formal process for internal planning and budgeting, and processes that exist do not allow for clear trade-offs to be made in terms of dollar or personnel resources. There is no succession plan, or process for succession planning, within UCOP.

#### ***Cultural issues:***

- UCOP has a culture that is generally risk-averse and conservative. There is a perception among UCOP personnel that risk-taking will not be rewarded. Further, there is poor delegation within UCOP, with many decisions having to go up to the top of operating silos before action is taken. In part because of the lack of Performance Management processes (as mentioned above), there is a low degree of accountability evident in the culture at UCOP.

#### ***Systems issues:***

- One of the main contributing factors to a lack of sound managerial processes within UCOP is the absence of modern IT systems. The financial software in use cannot internally perform calculations, for example. There is no HR information system in place. Most software is out of date. Many systems in use at UCOP are incompatible with each other, and with systems in place at the various campuses. All of this hampers UCOP’s ability to operate efficiently and effectively, and exacerbates the challenges of communication across the organization.

#### ***Leadership Issues:***

- The credibility of UCOP’s leadership was widely reported to be very low, across virtually the entire range of our interviews.

We believe that both the specific performance issues that we have identified, and their underlying causes, must be addressed. Further, fixing them will be fundamental to the overall operation of the University, because the performance issues at UCOP lead many to believe that the Office of the President currently adds limited value to the system, while imposing significant costs. As a result, both the Regents and the Campuses end up working *around* rather than *through* the central management structures of UCOP at times. The Board of Regents has gradually increased the frequency and depth of its oversight and managerial involvement because it lacks confidence in UCOP. This has led to an increasing number of ad hoc interventions in decision-making by the Regents, both at UCOP and at the campus level. Campuses similarly have developed their own duplicative administrative capabilities and are generally skeptical of any initiatives originating at UCOP. This breakdown has created additional work for administrative staff, both at UCOP and at the campus level, with the net effect of increasing operating costs. More importantly, it has created an additional source of “friction” between UCOP and the campuses that impedes the

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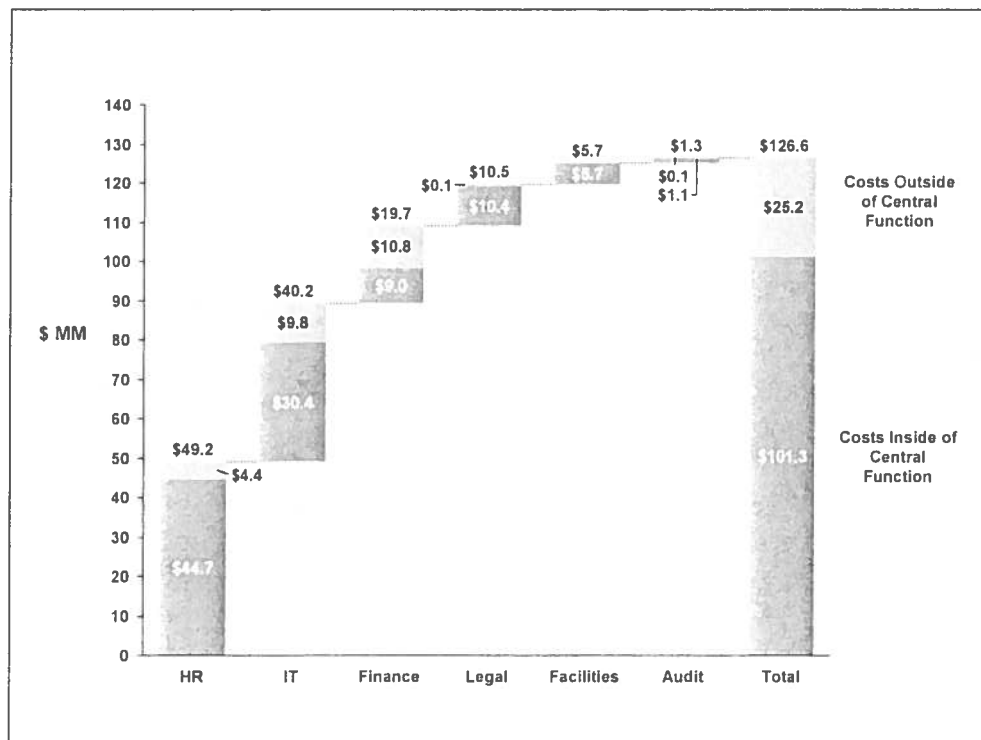
<sup>3</sup> It is worth noting that for some functions the role of UCOP has been clarified, and to great effect. An example of this is the Office of Technology Transfer, which in the recent past has deliberately moved from a working mode of ‘compliance’ to one of ‘service center’, improving overall results for the University, and improving satisfaction at the campuses.

University's ability to engage in collaborative efforts and realize scale efficiencies in administrative and financial functions.

### *Cost Efficiency within UCOP*

In many organizations, there is an inherent trade-off between increasing effectiveness and lowering costs. However, fixing the performance effectiveness issues of UCOP will also, in most cases, reduce costs. In some cases this will come from eliminating costly delays by streamlining processes. In others it will come from eliminating unnecessary steps or activities. And in still others it will come from eliminating duplication (such as the "shadow" organizations created by the campuses and the Regents as "workarounds" to UCOP processes).

In addition, the silo-ing of operations within UCOP has led to the costly decentralization of functions. For example, instead of having a single, centralized IT "help desk" within UCOP, most departments have hired their own IT support people. Many departments also have their own Accounts Payable people. In fact, fully 20% of UCOP's "Overhead" function expenses occur outside of the respective centralized functional departments. Figure 2 shows the distribution of UCOP's "Overhead" spend inside the functional departments (such as a payroll person working in the Finance department) and outside of the central departments (e.g., an employee conducting Finance activities within Academic Affairs). The numbers suggest there are significant economies of scale to be gained within UCOP's administration through further centralization of these "Overhead" functions back into the centralized IT, Finance, and HR departments.



**Figure 2: UCOP "Overhead" spending occurs both inside and outside central functions**

*UCOP's ability to manage costs by centralizing "overhead" work has eroded; many departments have their own IT, Finance, and other "overhead" staff. Shown here in light blue bars, this administrative work being handled separately "outside of central function" represents a significant duplication of cost.*

Finally, opportunities exist to lower costs through better purchasing. Within UCOP, there is a clear opportunity to lower costs in outsourced services (particularly legal counsel and executive recruiting) by negotiating higher volume contracts with a smaller number of vendors. We also believe the Strategic Sourcing program that is already underway can be expanded to cover other 'commodity' products.

### *Cost Efficiency at the Campuses*

The "Overhead" costs within UCOP are small relative to those of the overall system. UCOP's administrative spending for both personnel and non-personnel is \$127 million, whereas the combined campus expenditure on administrative personnel alone is estimated to be between \$650 million and \$750 million. It is likely that the University has not fully captured all available opportunities to maximize scale efficiencies or reduce costs through the collaborative sharing of best practices across campuses.

Capturing those efficiency gains will require effective leadership from the center and from the campuses. Currently, system-wide efficiency initiatives require upfront investments of people and dollars that campuses do not have the incentives or budgetary flexibility to fund on their own. It is also difficult and time-consuming for single campuses to seek out and identify "best practices" occurring on other campuses.

Administrative scale efficiencies across the system have been successfully realized only on an ad hoc basis, driven by the entrepreneurial initiative of specific leaders. To manage an increasingly constrained funding environment, the University must be more proactive and systematic in seeking out and capturing savings across the entire organization and reinvesting them in the core mission.

However, UCOP's waning credibility has made it difficult to provide leadership for administrative change from the center. For example, when UCOP has led past initiatives on behalf of the system, such as the design and implementation of a Learning Management System, campuses have been dissatisfied with their level of involvement in the design of the solution, and with the requirements placed upon them to cover the cost of the investment. Similarly, UCOP's low credibility makes it very difficult to understand and assess the performance of campus level administrative practices, either in terms of cost or effectiveness; because UCOP's decision-making is not transparent, there is no incentive for campuses to be transparent. UCOP will need to rebuild its own credibility on cost issues – by reducing its own internal administrative costs – before it will be able to lead a shared effort for improved efficiencies across the system.

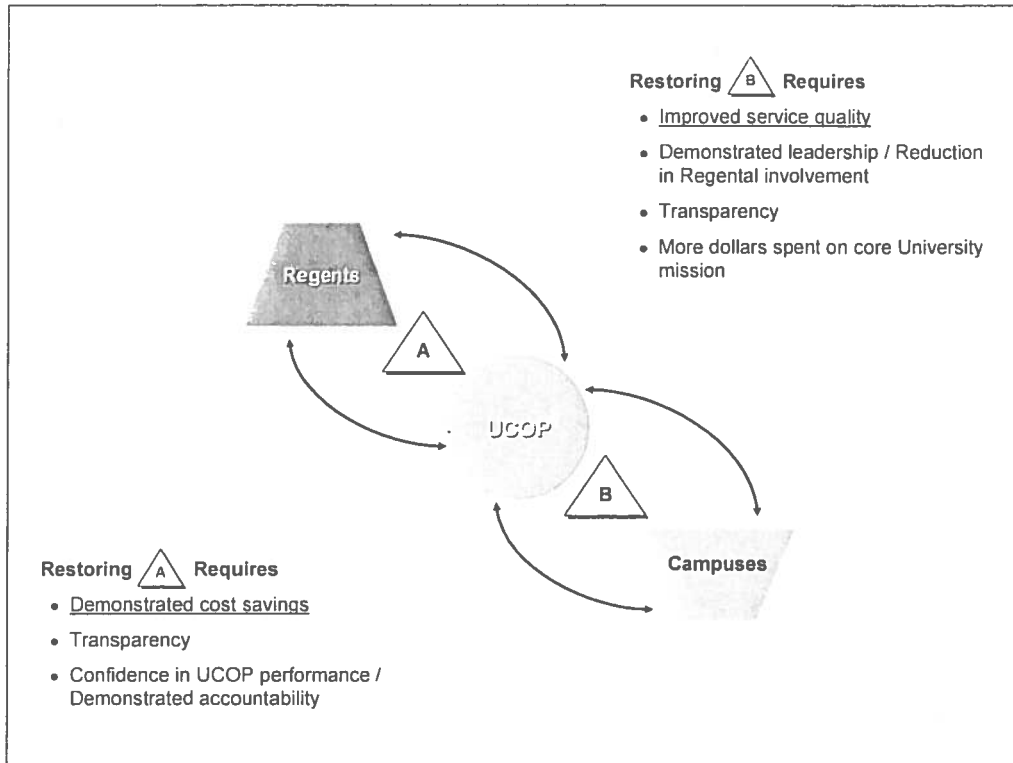
## **V. IMPLICATIONS OF THE ORGANIZATIONAL ASSESSMENT**

### *The Need for Restructuring Stages*

Our first phase assessment, taken as a whole, shows that the successful restructuring of the University will require attention to, and effective execution against, a myriad of issues. These issues cannot all be resolved simultaneously, but instead must be tackled in "waves" of restructuring initiatives.

This is because UCOP's credibility with key constituents – particularly the campuses and the Regents – has been severely hampered over time. A high priority, then, is restoring the credibility of UCOP as a management unit within the University of California system. Without this credibility, UCOP cannot lead the system to the greater levels of administrative performance and

efficiency originally envisioned as the outcome of this effort. Restoring UCOP's credibility will require addressing the specific concerns of the Regents and the Campuses, and also the broad concerns of the University's constituents, as shown in Figure 3.

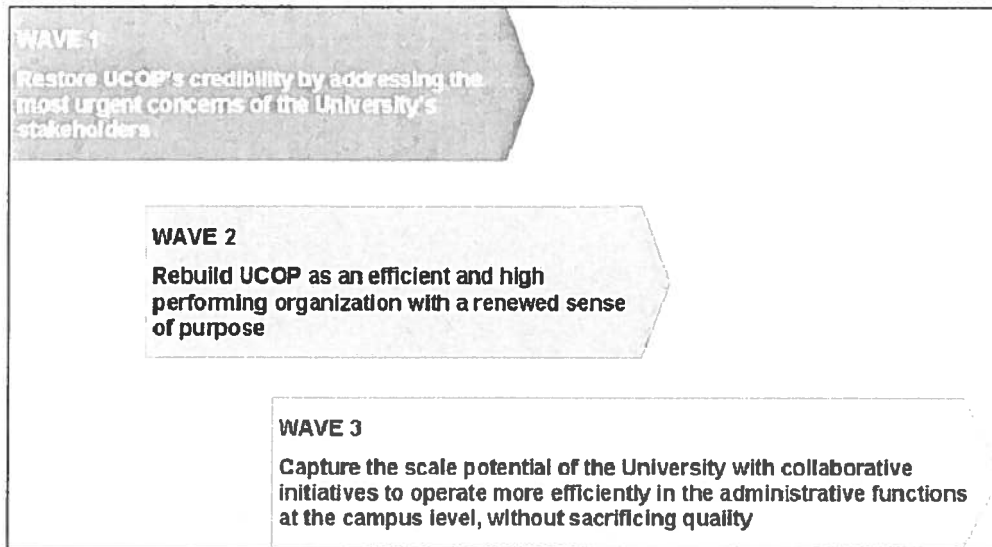


**Figure 3: Restoring UCOP Credibility through Cost Savings and Improved Service**

*UCOP's lacks credibility, particularly with the campuses and the Regents. Repairing these two relationships will require significant cost savings and service improvements, as well as meeting all constituencies' needs for more transparency and stronger leadership. In Phase 1, Monitor and the Steering Committee prioritized projects that deliver savings and improvement.*

Therefore, we believe that the overall restructuring effort must be undertaken in three "waves":





**Figure 4: Three "Waves" of restructuring effort are required**

*Because UCOP's credibility needs to be restored in order for it to provide leadership for cross-system restructuring efforts, the restructuring effort must happen in three "waves", with the first two waves focused on UCOP. All three waves can begin immediately, but the broad efforts of Wave 3 will likely only be fully underway by 2008.*

- Wave 1: *Restore UCOP's credibility by addressing the most urgent concerns of the University's stakeholders.* In this wave, the University will redesign a discrete set of the most problematic functional processes. The two major stakeholders in UCOP's performance, the Board of Regents and the campuses, will respond to outcomes that speak directly to their concerns. In order for UCOP to build its credibility with the Board of Regents, we believe major cost savings led by UCOP will be essential. Campuses, on the other hand, will require significant improvement in the quality of the services provided by UCOP. Therefore, the portfolio of initiatives launched in the first "wave" of the Organizational Restructuring Effort must combine projects that will generate both types of outcomes.
- Wave 2: *Rebuild UCOP as an efficient and high performing organization with a renewed sense of purpose.* The first "wave" of restructuring will redesign a handful of UCOP's processes. In the second "wave," the rest of UCOP will be restructured. UCOP's roles in the various managerial functions will be clarified and refined and its organization structure aligned with these refined roles. Silo-ing will be minimized, processes streamlined, unnecessary or duplicative activities eliminated, missing critical processes created, and a culture of accountability and customer service created. As with Wave 1, Wave 2 will result in both performance improvements and cost savings.
- Wave 3: *Capture the scale potential of the University with collaborative initiatives to operate more efficiently in the administrative functions at the campus level, without sacrificing quality.* Since the bulk of the administrative costs reside at the campus level, we expect this to represent at least half of the cost savings potential of the restructuring. However, it cannot be successfully addressed in the short term for two reasons. First, the breadth of issues with UCOP's administrative performance makes it impossible to get a true picture of the performance levels at the campuses. Second, the "crisis of confidence" in UCOP

means that UCOP currently has insufficient credibility with the campuses to collaborate in the leadership of campus-level improvements. Thus, UCOP's credibility must be restored before a major shared push can be mounted at the campus level. However, history has shown that campus-led administrative collaborations can be successful. Therefore, Wave 3 can overlap Waves 1 and 2 if it begins with an incentive program to encourage the campuses to pursue collaborations at their own initiative.

We believe that these three waves of restructuring will take not months but years to complete. However, we also believe that real progress can and should be made on Waves 1 and 2 between now and the middle of 2008, and that the work on these waves will allow for Wave 3 to be put in motion during 2008.

### ***Near-Term Restructuring Initiatives***

In late July, Monitor presented its findings to the UC Restructuring Project Steering Committee and facilitated the selection of a set of initiatives from among the key issues identified in the Organizational Assessment. The committee selected initiatives to form a 'portfolio' that aims to meet two broad objectives:

- Generate credibility for UCOP with the campuses and the Regents
  - Demonstrate competence, consistency and leadership
  - Address most pressing issues for each stakeholder group and for the University as a whole
  - Tackle underlying structural factors (ineffective decision-making, underdeveloped processes and systems, etc.) which have impeded UCOP's organizational effectiveness
- Create substantial savings in UCOP and the University's operations

After reviewing the Organizational Assessment results and engaging in an extensive discussion, the UC Restructuring Project Steering Committee selected the following projects as the primary focus of the next phase of the effort:

1. Develop a budgeting, accountability and funds distribution process that is transparent and more closely linked to the University's strategy
2. Streamline and improve the capital projects development process to generate substantial savings in reduced financing and delay costs
3. Upgrade the Human Resources capabilities at UCOP to a level commensurate with the University's scope and importance, in order to recruit, develop, and retain the highest quality employees
4. Improve the University's State Government Relations function in order to ensure long-term support for the University and its priorities
5. Identify and design mechanisms to create financial incentives for the Campuses to launch their own cost reduction initiatives

And, as always envisioned in the original design of the restructuring effort:

6. Clarify the role of UCOP in relation to the Regents and the campuses, both in the management of the University overall and in regard to the specific services it provides to the campuses

Other critical issues, such as the state of the University's IT systems and pursuing campus administrative scale efficiencies more broadly, will be pursued in subsequent "waves" of the restructuring program.

In addition, the University will work with Monitor to prioritize, design and sequence work on a set of important, but smaller near-term opportunities for effectiveness and efficiency gains within UCOP. Based on the overall capacity of the organization, work will begin immediately on capturing savings and improving performance in these areas:

- Consolidate administrative functions within UCOP to realize economies of scale. Potential areas include IT support within UCOP, finance activities, communications, and human resources
- Negotiate more favorable contracts on certain outsourced activities by centralizing activity with a smaller set of vendors. Potential areas include retained counsel and executive recruiting
- Improve the performance of the Short Term Investment Pool to realize greater returns
- Implement a more systematic and transparent budgeting process within UCOP to drive greater accountability for the efficiency and effectiveness of each unit and to enable the shifting of resources to strategic priorities

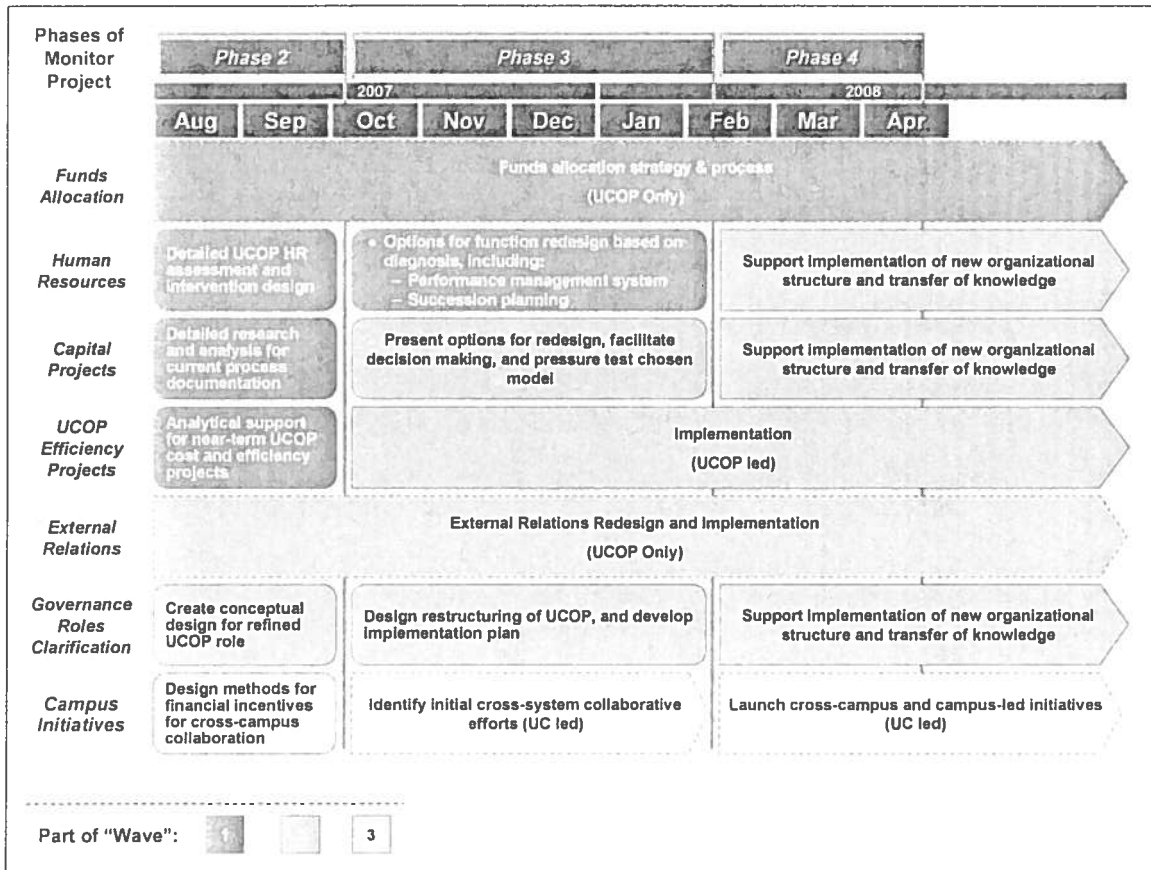
This combination of Wave 1 initiatives seeks to achieve several goals. It aims to reestablish UCOP credibility with the Regents by reducing costs: the Capital Project effort should reduce Capital costs by (conservatively) tens of millions annually; the cost cutting initiatives within UCOP should produce \$10-20 million of operating cost savings on an annualized basis. It also aims to build credibility with the campuses: increased transparency in budgeting processes and improvements in how UCOP represents the system to key Government constituencies will both benefit the campuses in the short- and long-term. Finally, it begins to address the underlying issues within UCOP, both by addressing near-term HR management issues, and by beginning the process of redesigning the role and structure of UCOP, which will be completed during Wave 2.

Obviously this is a long list of initiatives, and undertaking and completing them will require resources from within UCOP and across the University. Monitor will continue to play a role in many, but not all, of the initiatives currently being launched, as shown in Figure 5.

## VI. NEXT STEPS

The next phase of work is already underway, and cross-functional working groups consisting of campus, UCOP and, where appropriate, Regent representatives, are being constituted to address each of the key initiatives. These groups will design a working process, establish milestones, initiate the work, and report back to the UC Restructuring Project Steering Committee on a regular basis.

Figure 5 shows how the remaining phases of the Monitor project, and the high priority areas selected by the Steering Committee, are tied to the three waves of restructuring. As always envisioned in the project design, restructuring work will continue beyond the final phase of the Monitor project.



**Figure 5: Remaining phases of the restructuring project, and their context within Waves 1-3**

*The four phases of the Monitor project continue as planned, with Phase 2 now underway. The project Steering Committee has also identified several other priority areas of work that are underway independent of Monitor support. All three "waves" of restructuring are beginning to be addressed in the remaining project scope.*

## **APPENDIX A: Steering Committee Membership**

Richard Blum, Chair, Board of Regents

Regent Leslie Schilling

President Robert Dynes

Chief Operating Officer and Provost Rory Hume

Executive Vice President Katie Lapp

Executive Vice President Bruce Darling

UC Davis Chancellor Larry Vanderhoef

Acting UCLA Chancellor Norm Abrams

Academic Senate Chair John Oakley

Academic Senate Vice Chair Michael Brown

## APPENDIX B: Contractual Statement of Work

### I. NATURE AND PLACE(S) OF SERVICE

A. The Provider shall furnish to the University the following described services:

#### PHASE I

- Organizational assessment of the University's finance and administrative functions:
  - Validate and size the current University Value System in terms of headcount and cost
  - Map and size current UCOP role/activities in terms of headcount and cost
  - Conduct stakeholder interviews
  - Conduct diagnostic survey
  - Create constituency map
  - Apply agreed-upon criteria to identify "quick hits"
- Facilitate development of a Preliminary Restructuring Roadmap:
  - Identify options for a preliminary prioritization and sequencing of administrative functions into stages for restructuring (3-4 functional areas will be addressed in each stage)
  - Facilitate the decision process for choosing among the options

#### PHASE II

- Work with the University to identify University individuals to "own" and immediately begin pursuing the "quick hits"
- Facilitate development of a "governance contract" outlining the respective roles of UCOP and the campuses around the administrative functions:
  - Identify options for the role, purposes and key accountabilities of UCOP and for the allocation of decision rights between UCOP and the campuses in order to most effectively and efficiently enable the University to deliver on its mission, and outline pros and cons of the options. Use examples of approaches / models used elsewhere
  - Facilitate the decision process for choosing among the options
- Conduct more in-depth research and analysis of the 5-8 functional areas identified as highest priority in Phase I in order to more fully identify root causes of operating ineffectiveness, assess savings potentials, and prioritize and sequence them into amore detailed Restructuring Roadmap

#### PHASE III

- Facilitate the design of a new organization structure for UCOP:
  - Using the "governance contract" and examples from other organizations as inputs, identify options for a new organization structure for UCOP (reporting relationships at L3, determination of which functions/activities will lie within the responsibility of each L3 individual, allocation of decision rights across UCOP functions, identification of new activities to be added and existing activities to be eliminated, system and capability gaps to be filled), and outline pros and cons of each.
- Facilitate the redesign the Restructuring Roadmap's State I functions:
  - Identify options of redesigning each Stage I function using the "governance contract" and diagnostic as inputs, and outline the pros and cons of each. The redesigns will include, among other things, identification of the most appropriate organizational model and locations(s), allocation of decision rights between UCOP and the campuses, definition of key performance metrics to track performance

over time, and implications for the relocation , in addition and/or elimination of activities

- Facilitate the decision process for choosing among the options
- Pressure test the chosen model in reality-based scenarios

#### PHASE IV

- Support the implementation of the State I of the Restructuring Roadmap Function:
  - Provide project management support and guidance
  - Develop options of implementation and communication plans and facilitate the decision process for choosing among the options.
- Knowledge transfer:
  - Design and implement a capability transfer program for the University to redesign the functions identified in subsequent stages of the Restructuring Roadmap

## APPENDIX C: Organizational Assessment Methodology

**In-Depth Interviews:** In-depth interviews were conducted with Regents, UCOP leadership and department heads, Academic Senate leadership, and the leadership team of every campus. These conversations served as the richest and most integrated source of data. These interviews drove initial hypotheses about highest priority issues and enabled a comprehensive view of administrative and finance functions from multiple perspectives to complete comprehensive system view. In total, Monitor spoke with ~200 individuals across the UC system.

**Diagnostic Survey:** Monitor customized ORGANIZATIONScan™, its web-based diagnostic survey platform to gather broad feedback on the current performance of administrative and finance functions across the University. The survey went to over 1,100 constituents who represented both providers of campus and UCOP administrative services and their “customers”, ranging from Chancellors to Regents to Deans to student leaders. Engaging such a broad base allowed Monitor to efficiently view performance from a number of unique perspectives. The 650+ responses to the survey were interpreted in conjunction with interview and other data, and used to help drive overall analysis, but not aimed at statistically proving or disproving generated hypotheses.

**Activity Based Costing:** An extensive Activity Based Costing analysis was conducted on six administrative functions within UCOP—Audit, Facilities, Finance, HR, IT, and Legal—providing a clear picture of the organization’s expenditure of dollars and personnel resources on these activities. Identifying true expenditures allows an organization to rebalance its effort towards the highest value activities and highlights opportunities for efficiency gains within the administrative functions.

**Campus Administrative Estimations:** Because detailed spending data was not readily available, Monitor approximated the annual spend at each of the ten campuses on the core administrative functions: Audit, Facilities, Finance, HR, IT and Legal. To do this, Monitor developed an estimation approach that leveraged corporate system staffing lists, and vetted it with administrators at two campuses. The resulting estimates provide a broad strokes picture of the distribution of administrative and finance spending across the system.



COMPENSATION FOR THE APPOINTMENT OF

Salary Grade - Minimum \$ Midpoint \$ Maximum \$

Page 1 of 2

ITEM	RECEIVING		AMOUNT	EXCEPTION TO POLICY	APPROVAL REQUIRED
	YES	NO			
<b>SALARY AND OTHER CASH PAYMENTS</b>					
· Annual Base Salary					
· Health Sciences Compensation Plan					
· Additional Salary (Stipend, add-ons, etc.)					
· Clinical Enterprise Management Recognition Plan					
· Any other bonuses/Incentives					
· Annual Incentive Plan (Treasurer's Office only )					
· Senior Management Supplemental Benefit Program – eligible to receive 5% as contribution to retirement plan for total annual amount at current base salary					
<b>BENEFITS AND PERQUISITES</b>					
· Standard Benefits Package (Health, UCRP, Vision, Dental, etc.)					
· Automobile Allowance or					
· Leased Automobile					
· Senior Manager Life Insurance					
· Executive Business Travel Insurance					
· Exec. Salary Continuation for Disability					
· Mortgage Origination Program (MOP) Loan					
· Supplemental Home Loan Program (SHLP)					
· University-provided Housing (President/Chancellors)					
· Educational Expenses					
· Other Perqs - please list below					
<b>ONE-TIME PAYMENTS/REIMBURSEMENTS</b>					
· Payment in Lieu of Sabbatical Pay					
· Relocation Allowance					
· Temporary Housing Allowance					
· Payment in lieu of Vacation Pay					
· Moving Expenses/Movement of Household Goods					
· Other Payments - please list below - Two coach-fare housing-hunting trips					

COMPENSATION FOR THE APPOINTMENT OF *name*  
*location*

Salary Grade - Minimum \$                      Midpoint \$                      Maximum \$

Page 2 of 2

ITEM	RECEIVING		AMOUNT	EXCEPTION TO POLICY	APPROVAL REQUIRED
	YES	NO			
<b>FUTURE BENEFITS</b>					
· Post-retirement Employment Agreements					
· Consultant/Independent Contractor Compensation Agreement					
· Severance/Separation Agreement					
· Sabbatical/Administrative Leave					
· Special Health Benefits or Other Benefits					
· Other Benefits - please list below					
<b>OTHER</b>					
· Administrative Fund Allocation*					
· Corporate Board Service					
· Other (Specify)					
<b>TOTAL ANNUAL EMPLOYEE COMPENSATION</b>					Regents
including, if applicable, Salary, Perquisites, One-time Payments, Future Benefits, and Other)					

[Please note that all payments, reimbursements, special benefits, etc. should be listed on this form in order to be authorized by the President and The Regents. This information will be released to the Public]

The only compensation permitted is what is listed on the summary page that accompanied.



OFFICE OF THE PRESIDENT

Robert C. Dynes  
President

JUL - 6 2006

1111 Franklin Street  
Oakland, California 94607-5200  
Phone: (510) 987-9074  
Fax: (510) 987-9086  
<http://www.ucop.edu>

June 30, 2006

Ms. Elaine M. Howle  
State Auditor  
Bureau of State Audits  
555 Capital Mall, Suite 300  
Sacramento, California 95814

cc: HKV

Dear Ms. Howle:

This letter constitutes the University of California's 60-day response to the Bureau of State Audits (BSA) report of May 2, 2006, entitled *University of California: Stricter Oversight and Greater Transparency Are Needed to Improve Its Compensation Practices*. As stated in my April 21, 2006, response to the BSA audit, the University is firmly committed to improving our compensation and disclosure practices.

As you know, the BSA audit recommendations were among a series of recommendations received from multiple audit and assessment activities carried out in recent months. Consistent with my commitment in my letter of April 21, the BSA recommendations are being addressed in an integrated fashion, taken with the other recommendations. I will first make some comments on the overall efforts and then comment briefly on the progress made specifically on the BSA recommendations.

On May 5, 2006, I established the charge and membership of the President's Implementation Committee. This Committee comprises a steering committee and five workgroups with specific charges in the areas of: Information Systems, Disclosure and Transparency, Governance and Accountability, Policies and Practices, and Competitive Compensation. The steering committee and workgroups have become quickly engaged in their tasks, and aggressive timelines have been established for the most critical actions needed to restore confidence in the University's compensation practices and transparency. The Regents are providing oversight and ensuring accountability for all of these efforts.

While not specifically covered by the BSA recommendations, I can tell you that the foundational task of reorganizing the University of California, Office of the President (UCOP) is proceeding rapidly towards the recruitment of initial holders of the newly

created positions of Chief Operating Officer, Chief Financial Officer, and Chief Compliance Officer. These positions are expected to help establish the infrastructure that will ensure sustainable change in the culture of compliance.

Following are specific comments related to the work of the Implementation Committee, work groups, and various UCOP staff regarding individual BSA recommendations.

**BSA**—"To improve its ability to monitor campus compliance, the president's office needs to issue clear directives prescribing consistent use of the CPS. These directives should include a requirement that campuses consistently classify compensation into standard categories that best describe the compensation provided to employees. Also, the president's office should standardize the categories that can be included in retirement-covered compensation and restrict the use of classifications that are too vague to allow the president's office to ensure that the compensation complies with university policy."

These recommendations are being addressed on multiple fronts. The Payroll Coordination Unit is working with the campuses on the consistent use of Description of Service (DOS) codes. As an initial step, the campuses have been informed that they can no longer establish their own new Payroll Personnel System (PPS) DOS codes but must request Payroll Coordination at UCOP to create the code so that consistency and linkage to the central Corporate Personnel System (CPS) can be assured. Most importantly, a data warehouse repository is being developed at UCOP for Senior Management Group (SMG) compensation data fed from the payroll system. The Senior Management Compensation Information System is on target for the fall of 2006, under the leadership of the Information Systems work group. Following its initial release, this system will be enhanced to include collection of additional electronic data, tracking of requests for approval and the development of online statements for the annual SMG certification requirement. It is the first phase of a much larger effort to address UC's human resources information system requirements.

**BSA**—"The president's office should consider developing additional automated controls and edits within the CPS, such as only allowing the entry of information considered valid for the field in question or ensuring that expenditures are charged to the proper fund, to help avoid the possibility of errors."

The CPS accumulates data derived from the PPS system as operated by the locations. As such, it is capable of certain completeness and accuracy checks, but is not capable of monitoring and editing data at the point of entry. Additional analysis of data within the CPS can be performed, and such solutions will be pursued; however, the creation of data integrity tools within the data warehouse, coupled with increased discipline at the point of entry, will be our primary means of improving data quality.

Ms. Elaine M. Howle  
June 30, 2006  
Page 3

Training will reinforce the need for accuracy and appropriateness of classification of transactions at the point of entry.

**BSA**—"To preserve the integrity of the compensation policies it issues, the president's office needs to limit the number of exceptions to policy it allows. This objective could be accomplished by the regents requiring the university to track and annually report exceptions to compensation policy that the president, provost, vice chancellor of academic affairs, campus chancellors, and other university officials grant during a fiscal year and provide justification for each exception."

It is expected that relevant policies will be revised to a) define what constitutes an exception, b) make clear the manner in which exceptions may be considered and approved, c) establish clear authority and guidelines for granting exceptions, and d) provide the mechanism for reporting exceptions on a regular basis to the appropriate level of authority.

**BSA**—"To preserve the integrity of the compensation policies it issues, the president's office needs to improve its oversight of campuses' compliance with those policies. One mechanism it should use to improve oversight is to annually identify unauthorized exceptions to policy, such as housing and relocation allowances paid above allowable limits and auto allowances being granted to individuals who do not qualify."

The Chief Compliance Officer will be responsible for establishing additional monitoring and oversight activities to ensure compliance with policies.

**BSA**—"The president's office should determine if it is appropriate to require repayment of university funds for the instances we identified in which a university employee received compensation in violation of university policy, and if so, develop a repayment plan with each employee."

All of these individual circumstances will be resolved. Human Resources, at the President's Office, is responsible for recommending to The Regents both curative and corrective measures for all compensation provided that was not in accordance with policy or was not properly approved. These recommendations will be made at upcoming Regents' meetings, beginning in July, in accordance with Guidelines approved by me at the May Board of Regents' meeting.

**BSA**—"To eliminate inappropriate compensation included in employees' retirement earnings, the president's office should remove the amounts we identified from the employees' retirement earnings and establish a mechanism to detect, on at least an annual basis, compensation that campuses have incorrectly classified as retirement covered."

Ms. Elaine M. Howle  
June 30, 2006  
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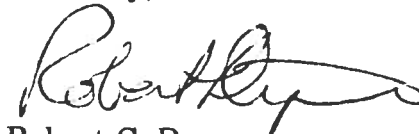
This recommendation is addressed on several fronts. As I have stated above, Human Resources is responsible for all curative and corrective actions. Any inappropriately covered compensation will be resolved as appropriate according to the individual circumstances. In addition, new compliance and monitoring activities will be developed, and additional training and discipline at the campus PPS level will address this risk.

**BSA**—"To increase transparency as it relates to the compensation of highly paid university employees, the regents should require the president's office to disclose all forms of compensation for university officers and for all employees whose compensation exceeds an established threshold. This disclosure should occur when the regents approve the employees' salaries and at least annually in a report to the regents. If the president's office continues to submit its annual report on compensation to the regents, it should ensure that it is accurate and timely."

The University has established the use of a compensation checklist which will ensure that comprehensive and consistent data is provided to The Regents before seeking their approval. A preliminary draft policy on public disclosure of compensation information is under review. The creation of the Senior Management Compensation Information System will provide for improved completeness and accuracy of the annual compensation reports, and there will be greater scrutiny of the data before its release.

We appreciate the BSA's continued interest in these matters so that the Legislature and public can be assured that the University continues to honor our commitment for improvement in these areas. Please let me know if there are any questions about this interim report. I am confident that our report at 180 days will demonstrate substantial if not virtual completion of the actions necessary to implement the BSA recommendations.

Sincerely,



Robert C. Dynes

cc: Chancellors  
Senior Vice President Darling  
Vice President Hershman  
Assistant Vice President Arditti  
Auditor Reed





OFFICE OF THE PRESIDENT

Richard C. Dreyfus  
President1275 Franklin Street  
Oakland, California 94607-8200  
Phone: 510/987-6074  
Fax: 510/987-6086  
<http://www.ucop.edu>

November 3, 2006

Ms. Elaine M. Howle  
State Auditor  
Bureau of State Audits  
555 Capital Mall, Suite 300  
Sacramento, California 95814

Dear Ms. Howle:

This letter constitutes the University of California's six-month response to the Bureau of State Audits (BSA) report of May 2, 2006 entitled, *University of California: Stricter Oversight and Greater Transparency Are Needed to Improve Its Compensation Practices*. The University has remained committed to the reforms promised by The Regents and the administration to the legislature and the public. The progress reported in this letter reflects the fact that our commitment to strengthening the University's policies, practices, and transparency has remained among the highest of priorities for the University.

As previously reported to you, the BSA recommendations are being addressed in concert with a series of recommendations that ensued from multiple audit and assessment activities. On May 5, 2006, I established the charge and membership of the President's Implementation Committee assigned to oversee the implementation of all corrective actions. This Committee comprises a steering committee and five workgroups with specific charges in the areas of: Information Systems, Disclosure and Transparency, Governance and Accountability, Policies and Practices, and Competitive Compensation. Regular progress reports have been made to The Regents, who remain actively engaged in direction setting and oversight. Attachment 1 to this letter provides the September 2006 report to The Regents on *University Actions in Response to Recommendations of the Task Force on UC Compensation, Accountability, and Transparency and Internal and External Audit Reports* (including BSA).

The following are specific comments related to the work of the Implementation Committee, its work groups and UCOP staff regarding individual BSA recommendations.



*BSA—“To improve its ability to monitor campus compliance, the president’s office needs to issue clear directives prescribing consistent use of the CPS. These directives should include a requirement that campuses consistently classify compensation into standard categories that best describe the compensation provided to employees. Also, the president’s office should standardize the categories that can be included in retirement-covered compensation and restrict the use of classifications that are too vague to allow the president’s office to ensure that the compensation complies with university policy.”*

The Financial Management unit in the Office of the President is leading a project designed to clarify and ensure the proper use of transaction codes in CPS to promote accuracy, clarity, and consistency of underlying information. Draft revised guidelines have been issued and campuses are in the process of investigating the types of transactions that are locally coded to the categories of greatest concern. As a result of this effort, categories such as the “By Agreement” category may be completely eliminated and, if not, their use will be significantly restricted to well defined purposes. Once guidance providing greater clarity about the intended use of categories is in place, appropriate edits and analysis tools can be used to screen for anomalies which can be flagged for greater scrutiny and reclassification if necessary.

*BSA—“The president’s office should consider developing additional automated controls and edits within the CPS, such as only allowing the entry of information considered valid for the field in question or ensuring that expenditures are charged to the proper fund, to help avoid the possibility of errors.”*

As discussed more fully in the attached report to The Regents, the Senior Leadership Information System is under development and will be fully operational by December 2006 and, therefore, will be in use for the preparation of the next annual report on compensation. The new system will make senior leadership group compensation/remuneration data available for querying and reporting and will employ consistent, standard data definitions for greater accuracy and consistency. Because the system will import data from relevant UC systems, the efforts underway in the first recommendation above that address the point of entry controls are vitally important in combination with the new system.

*BSA—“To preserve the integrity of the compensation policies it issues, the president’s office needs to limit the number of exceptions to policy it allows. This objective could be accomplished by the regents requiring the university to track and annually report exceptions to compensation policy that the president, provost, vice chancellor of academic affairs, campus chancellors, and other university officials grant during a fiscal year and provide justification for each exception.”*

As also reported to The Regents in Attachment 1, an interim Presidential policy on exceptions has been adopted pending the completion of the comprehensive review and reform of compensation policies. The Presidential policy requires documentation of the basis and rationale for exceptions. The policy further requires reporting of exceptions to the newly created position of Senior Vice President--Chief Compliance and Audit Officer, who is charged with evaluating the exceptions to determine that they have been made in accord with the intent of the compensation policies and public policy generally. Exceptions that do not meet these standards or indicate a need for consideration of policy amendment, will be reported by the Senior Vice President--Chief Compliance and Audit Officer to the President and to The Regents.

*BSA—“To preserve the integrity of the compensation policies it issues, the president’s office needs to improve its oversight of campuses’ compliance with those policies. One mechanism it should use to improve oversight is to annually identify unauthorized exceptions to policy, such as housing and relocation allowances paid above allowable limits and auto allowances being granted to individuals who do not qualify.”*

Under the new process that is being used for seeking approval of compensation by The Regents, any item that is an exception to policy is clearly identified as such to The Regents and the public. In addition to the policy on exceptions described above, the Senior Vice President--Chief Compliance and Audit Officer will be responsible for developing additional monitoring and oversight activities. In addition, the comprehensive review and reform of compensation policies will result in policies that are clearer, unambiguous in defining exceptions to the policies and explicit in terms of the authorities and processes for seeking exceptional approval.

*BSA—“The president’s office should determine if it is appropriate to require repayment of university funds for the instances we identified in which a university employee received compensation in violation of university policy, and if so, develop a repayment plan with each employee.”*

All of the exceptions identified by the BSA have been resolved with Regental action or notification. In a few instances involving faculty members who are not members of senior management and whose compensation is covered and administered under policies in the Academic Personnel Manual, The Regents deferred review of the exceptions to the appropriate academic administrators. Final resolutions for these exceptions are pending.

The Regents thoroughly evaluated each of the exceptions reported in the various audits that resulted in payment of cash compensation, perquisites, or accrual of future benefits in excess of policy limits and which had not been approved by The

Ms. Elaine M. Howle

November 3, 2006

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Regents. At their May meeting, The Regents approved *Guidelines for Resolution of Compensation and Personnel Issues Resulting from the Findings of Audits and Management Reviews* (Attachment 2). At the July and September meetings of The Regents Compensation Committee, all of the recommended corrective actions were considered and acted upon, including the decision to defer to academic administrators on treatment of exceptions for faculty who are not members of senior management. In many cases, the matters arose from improper application of policy or failure on the part of University officials to seek Regental approval for compensation that was believed to be justified. The Regents gave retroactive approval to matters they believe would have been approved had they come before them for advance approval or where retroactive approval was otherwise appropriate under the circumstances. The actions taken by The Regents are publicly disclosed on our website at <http://www.universityofcalifornia.edu/regents/aar/aar.html>.

The Regents received notice of certain other benefits provided to senior managers within the provisions of existing policy, primarily automobile allowances granted to the Chancellors, through the *Annual Report on Compensation for Fiscal Year 2004-2005* presented at the March meeting. These items, which were identified as exceptions in the BSA audit, required no further Regental action.

**BSA—***“To eliminate inappropriate compensation included in employees’ retirement earnings, the president’s office should remove the amounts we identified from the employees’ retirement earnings and establish a mechanism to detect, on at least an annual basis, compensation that campuses have incorrectly classified as retirement covered.”*

All instances of compensation elements that were incorrectly coded as elements of covered compensation for retirement plan purposes have been corrected. The additional guidance on use of transaction codes within the payroll and personnel system, clarification on the classification of housing allowance payments, and analysis capabilities of the new Senior Leadership Information System (and eventually the broader system) will all reduce the risk of future errors of this type. In addition, an audit function that has been added to the Retirement Plan administration group will continue to investigate areas of concern, including issues like those raised by the BSA. Finally, the review conducted before an individual’s retirement assists in preventing the payment of excessive benefits.

**BSA—***“To increase transparency as it relates to the compensation of highly paid university employees, the regents should require the president’s office to disclose all forms of compensation for university officers and for all employees whose compensation exceeds an established threshold. This disclosure should occur when the regents*

Ms. Elaine M. Howle  
November 3, 2006  
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*approve the employees' salaries and at least annually in a report to the regents. If the president's office continues to submit its annual report on compensation to the regents, it should ensure that it is accurate and timely."*

Attachment 1 contains a description of the University's disclosure and transparency commitments and practices. As part of that Attachment, please find two additional documents titled *Policy on Public Disclosure of Compensation Information* and *Guidelines for Reporting Compensation Information*. We have previously reported to you the adoption of a compensation checklist that is in use to ensure the completeness of disclosures to The Regents and that is also used as a basis for public disclosure.

Use of the new Senior Leadership Information System will substantially improve the accuracy of the reported information in annual reports and additional quality controls will be instituted before to release of the data.

While there is still much to be completed, real reforms are well underway as the reported actions indicate. I am also mindful of the fact that, for systems and controls to be fully effective, the environment in which they operate must reflect the highest standards of ethical behavior. To that end, I am pleased to advise you that this month we will launch a Web-based Ethics Briefing program designed to reinforce for all University of California employees the principles and expectations within the University's Statement of Ethical Values and Standards of Ethical Conduct.

If you would like additional information about any of the elements of this six-month response, please do not hesitate to get in touch with me.

Sincerely,



Robert C. Dynes

#### Attachments

cc: Chancellors  
Executive Vice President Darling  
Vice President Hershman  
Assistant Vice President Arditti  
University Auditor Reed

Office of the President

TO THE MEMBERS OF THE COMMITTEE ON COMPENSATION:

**DISCUSSION ITEM**

*For Meeting of September 21, 2006*

**UNIVERSITY ACTIONS IN RESPONSE TO RECOMMENDATIONS OF THE TASK FORCE ON UC COMPENSATION, ACCOUNTABILITY, AND TRANSPARENCY AND INTERNAL AND EXTERNAL AUDIT REPORTS**

At the May and July Board meetings, The Regents concurred with the recommendations of the Task Force on UC Compensation, Accountability, and Transparency and of the three audit reports – an external audit conducted by PricewaterhouseCoopers (PwC), the report of the Bureau of State Audits, and the University Auditor's report. Since the release of the Task Force report in April, the President's Implementation Committee, appointed by President Dynes to implement these recommendations and consisting of high-level campus, medical center, and Office of the President representatives, has been addressing the issues of disclosure and transparency, accountability and governance, information systems, policies and practices, and competitive compensation.

**ACTIONS TAKEN OR TO BE RECOMMENDED**

As a result of the work of the President's Implementation Committee, the following actions have been taken or will be recommended for The Regents' approval:

**DISCLOSURE AND TRANSPARENCY.** President Dynes has taken or will recommend the following actions to ensure full, proactive, and timely disclosure of information to The Regents, the legislature, the media, and the public.

- A new definition of "total compensation" for approval, disclosure, and reporting purposes is recommended to make clear which elements comprise total compensation and for use throughout the University system for consistency and transparency. In November, the President will recommend relevant changes to the Regents' Principles for Review of Executive Compensation (Principles), Bylaws, and Standing Orders, for action at the January 2007 meeting.
- A new compensation disclosure policy is being adopted to set forth information related to compensation that is disclosable and information that is not. The University of California, as a public institution, recognizes its unique obligation to maintain the public

trust. This obligation includes being open and transparent about the way it spends taxpayer money, including to compensate its employees.

To that end, the University is committed to making information about employee compensation available to the public. This information is routinely made available upon action by the Board of Regents and through annual reports to The Regents, the legislature, and the public. In addition, it is made available upon request by individuals and the media.

At the same time, UC's commitment to transparency must be delicately balanced against the University's competing obligation to protect the personal privacy of its employees, as well as the continuing need to compete with other institutions, including private universities, for the best faculty, staff, and administrators.

In recognition of both the right of public access to records and the protection of personal privacy, a Presidential policy on public disclosure of compensation information is being adopted. (See Attachment 1, presented here as information only as it does not require Regental approval.)

- Guidelines for reporting compensation, with a goal toward transparency and open communication, are not only required, but essential. These guidelines provide direction for annual electronic reporting of executive compensation, regular review of compensation policies and practices, and regular reporting on compensation actions taken at and between Regents meetings. (See Attachment 2, presented here as information only as it does not require Regental approval.)

**GOVERNANCE AND ACCOUNTABILITY.** President Dynes has taken or will recommend the following actions to improve management and ensure consistency in the application, interpretation, and enforcement of policy. Further work in this area will continue as part of the overall policy reform efforts.

- A Presidential policy on exceptions is being adopted, providing as follows:
  1. When exceptions to policies are made, they shall be documented, including the reasons for the exception.
  2. Exceptions to policy shall be reported on a regular basis to the Vice President – Chief Compliance and Audit Officer.
  3. The Vice President – Chief Compliance and Audit Officer shall review exceptions that have been made to policies to confirm that they have been made in accord with the intent of the policies and public policy generally. Exceptions to policy that the Vice President – Chief Compliance and Audit Officer determines do not meet these standards shall be reported by the Vice President to the President and to the Board of Regents. In addition, if exceptions to a policy are being made on a regular basis, that fact shall be reported by the Vice President to the President and to the Board of

Regents, to permit, among other things, consideration of possible amendments to the policy.

This policy is effective immediately until the comprehensive review and reform of compensation policies—including exceptions to policies—is completed. In addition, the interim policy enacted by President Dynes in February 2006 that any exceptions to employment-related policies for senior managers will require approval by the President, in consultation with The Regents, will continue to be in effect until the comprehensive policy review and reform is complete. (This action does not require Regental approval and is presented here as information only.)

- A statement of consequences for serious violations of compensation policies should be added to the 1993 Principles for Review of Executive Compensation, as follows:

“Any serious violation of these principles or any University policy relating to compensation may, depending upon the facts and circumstances, result in adverse employment action, including without limitation, censure, counseling, suspension, loss of pay and/or dismissal from the employ of the University. The Vice President - Chief Compliance and Audit Officer shall provide an annual summary to the Board with respect to findings of serious wrongdoing, including the status of personnel actions proposed or taken.”

The President will recommend this amendment to the Principles in November, which will require Regental approval.

- With respect to the Task Force’s recommendation on the group of named senior officials for whom The Regents should retain direct authority to approve compensation, The Regents requested further study of the recommendation that includes the “top five most highly compensated positions at each UC location” (refer to RE-74n from May 2006). The President recommends that he report annually on compensation of the top five most highly compensated positions at each UC location, but that The Regents not approve this compensation in advance.

There are many reasons for not including these positions at this time. Many of these positions will be within the group of University Officers and professional school deans already proposed to be within The Regents’ direct authority. Furthermore, the positions and their compensation are variable, so the top five most highly compensated positions at any given time usually cannot be identified *in advance* of Regental approval of appointments, since their compensation often depends on performance (e.g., athletic coaches, clinical personnel, and other participants in incentive-based programs). In addition, at the campus medical centers, practicing clinicians may earn substantial additional compensation based on productivity and clinical revenue as determined by the University’s Health Sciences Compensation Plan (HSCP); however, because this compensation is paid in conformance with the HSCP as approved by The Regents,

COMMITTEE ON  
COMPENSATION  
September 21, 2006

- 4 -

submitting these compensation packages for additional approval achieves no real purpose. However, the President recommends that the University report on these individuals' compensation annually.

The group of positions that the President will recommend that The Regents retain direct authority to approve compensation for consists of the following: the President, Executive Vice Presidents, Senior Vice Presidents, other Vice Presidents, Associate Vice Presidents, Assistant Vice Presidents, University Auditor, Principal Officers of The Regents, Chancellors, Vice Chancellors, Directors and Deputy Directors of the Ernest Orlando Lawrence Berkeley National Laboratory and the Ernest Orlando Lawrence Livermore National Laboratory, Medical Center CEOs, and professional school deans.

At the November meeting, proposed modifications to the Bylaws and Standing Orders to reflect this change will be brought forward for Board action in January 2007.

- Revise various Bylaws and Standing Orders to clarify and simplify the authority and responsibilities of The Regents and the President with respect to making compensation decisions; to consolidate compensation-related responsibilities into a single locus; and to incorporate the new definition of total compensation. In addition, some technical amendments will be proposed (e.g., to update references to new administrative titles, delete references to the Los Alamos National Laboratories where appropriate).

Proposed revisions to the Bylaws and Standing Orders will be brought forward in November, for Board action in January 2007.

- Appoint the new Executive Vice President – Business Operations to serve as the liaison to the Committee on Compensation. In the interim, Executive Vice President Darling, in his current role overseeing compensation and human resources, will continue to serve as the liaison. (This does not require Regental action.)

**HUMAN RESOURCES INFORMATION SYSTEM.** The launch of the first phase of a new, modern, comprehensive human resources information system (HRIS) to capture, track, monitor, and allow analysis of senior manager compensation data is underway. As the Task Force report and audits noted, it is not possible to achieve the University's goals in compensation disclosure, transparency, and accountability without "a modern, comprehensive, integrated human resources information system" that enables compensation data to be captured, examined, and analyzed for disclosure, reporting, tracking, and monitoring purposes. In April, President Dynes committed funding for the first phase of the new HRIS, focused on capturing and tracking senior management compensation data.

Launch of Phase I: The Senior Leadership Information System (SLIS). The SLIS is being developed as a web-based, comprehensive repository of demographic, compensation, and remuneration data for members of the Senior Leadership Compensation Group. The system will import data from relevant UC systems and make



information available for querying and reporting, employ consistent, standard data definitions for greater information accuracy, and reduce opportunities for entering erroneous or incomplete information. Following the release of the system to campus and Office of the President senior management group coordinators in October, enhancements will be developed to streamline the approvals process, flag exceptions, and provide access to and generate supporting documents.

The SLIS will be fully operational by December 2006, in time for the next annual executive compensation reporting cycle beginning in early 2007.

Future system developments. In recognition of long-term under-investment in UC-wide systems supporting human resources and payroll functions, the University is developing a multi-year plan to significantly enhance information systems, manage core HR data and processes (e.g., recruitment, compensation), provide requisite data and information to employees and managers, assess the effectiveness of the University's human resources programs, and increase workforce value through employee development and performance management.

**COMPENSATION POLICIES AND PRACTICES.** In order to address many of the issues identified by the Task Force and audits, a complete rethinking of University compensation policies, practices, and procedures is required. The success of these reforms—as well as assurance that University policies and practices survive leadership changes systemwide—will depend on a new, comprehensive policy framework. It must be guided by the principles of public accountability and disclosure, effective governance and oversight, individual and institutional accountability, and institutional competitiveness.

Comprehensive policy review and framework. As requested by The Regents in May (refer to RE-74a(3)), the Office of the President is completing a competitive bidding process for an external consultant to assist in the development of the comprehensive policy framework and the development of new and revised policies and procedures in compensation, benefits, and related areas. It is anticipated that the conceptual basis for this new policy framework will be brought to The Regents for discussion at the January 2007 meeting, along with a timeline for completion of the policy review.

In the longer term, in developing a new comprehensive policy framework, the University will also undertake an evaluation of all faculty and staff compensation policies and procedures, in consultation with the affected employee groups.

Specific policies identified by the Task Force. The Task Force report identified as a priority the need for policies to guide campuses in two specific areas: (1) outside professional activities; and (2) rate of pay for administrative leave in lieu of sabbatical. A workgroup of the President's Implementation Committee is developing policy modifications to address both of these issues.

- **Outside Professional Activities.** In May, The Regents concurred in principle with the Task Force recommendation to limit the number of externally compensated professional activities and board service for senior managers and resolve conflicts in policy for senior managers (see RE-74p and RE-74q) but requested further analysis to ensure that any policy revisions were clear, consistent, and sound.

Among the proposed modifications are:

- Consolidation of existing policies and guidelines governing outside professional activities for senior managers into one coherent policy;
  - Strengthening of pre-approval and reporting requirements;
  - Clarifying which policies (e.g., academic, administrative) govern which positions (e.g., University Officers, non-faculty senior managers, senior managers with faculty appointments, academic appointees, members of the Health Sciences Compensation Plan, etc.); and
  - Clarifying how deans will be treated for the purposes of outside activities, consistent with the policies and practices of peer institutions.
- **Administrative and Sabbatical Leave.** The Regents also requested the University to further study its policies and practices on administrative leaves in lieu of sabbaticals for senior managers who also hold academic appointments, including the rate of pay for these leaves and the University's practice of honoring sabbatical credits earned at other institutions (refer to RE-74r from May 2006). Policy revisions must balance the need to compete in a market that generally grants such leaves with the need to be accountable and transparent to the legislature and the public for UC's compensation practices.

Among the proposed modifications are:

- Clarifying and consolidating various academic and administrative policies on sabbatical leave, administrative leave, and administrative leave in lieu of sabbatical;
- Clarifying eligibility criteria for accruing and taking sabbatical leave, in accordance with policy, for taking administrative leaves at full or partial pay (in which case, the commensurate amount of accrued sabbatical leave would be forfeited), and for taking administrative leave as credit for sabbatical credit accrued at a prior institution; and
- Stating explicitly that no cash payments may be made in lieu of administrative leave.

Both sets of proposed policy changes will undergo extensive campus review and comment, in accordance with longstanding University procedures. These policies also are subject to the review by the Academic Senate. Once the consultation process is complete, the proposed policies will be presented to The Regents for review, comment, and, where appropriate, approval.

**COMMITTEE ON  
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**COMPETITIVE COMPENSATION.** The Task Force noted that, in order for UC to serve the people of California, it is essential that the University "remain in the top tier of the world's research universities...[and]...provide its faculty, administrators, and staff a level of compensation that is competitive with that offered by universities in its peer group." (Task Force report, p. 24.) Inherently, work in this area is of an ongoing nature and requires a long-term perspective.

A workgroup of the President's Implementation Committee is currently developing principles for compensation benchmarking. The workgroup recommends that benchmarking be conducted systemwide for faculty, senior managers, and staff, but that it be conducted separately for each of these groups. Also under discussion is a possible recommendation that UC use the institutions where it gains and/or loses the most faculty and the most senior managers (respectively) as the appropriate institutions for benchmarking. Such origin/separation data is available for faculty but less available for senior managers. The group is likely to recommend that origin/separation data be collected for senior managers and included in the Human Resources Information System currently being developed.

Other issues under consideration include: the appropriate balance of compensation between salary and non-salary forms of compensation; the impact of greater transparency on competitiveness; the need to acquire additional resources to be competitive; and non-salary hindrances to competitiveness at UC (e.g., housing, cost of living).

Regular reports to The Regents will be made on the ongoing efforts to maintain competitive compensation.

**TRAVEL AND ENTERTAINMENT EXPENSES.** In addition to compensation issues, the PricewaterhouseCoopers audit and University Auditor's review also identified issues related to travel and entertainment expenses. In response, the Office of the President requested and has received comprehensive action plans and implementation timetables from all UC locations for addressing the three primary areas identified in the audits: 1) provision of training for those personnel who approve travel and entertainment expenses, including guidance on permitted expenses and documentation requirements; 2) enforcement of clear and appropriate approval procedures and documentation requirements; and 3) ongoing monitoring and oversight to ensure adherence to policies and procedures. Implementation of these efforts have already begun at all UC locations, with anticipated systemwide completion in early 2007.

**BACKGROUND**

The Task Force on UC Compensation, Accountability, and Transparency (Task Force) was appointed in December 2005 by Chairman Parsky to conduct an independent review of UC's policies and practices on executive compensation and on the release of public information about compensation and related matters. The Task Force was co-chaired by Regent Kozberg and former Assembly Speaker Robert Hertzberg and included distinguished state and national figures from government, education, business, and the media as members. The Task Force presented its

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final report of findings and recommendations in April. The report focused on four key areas related to UC compensation: disclosure and transparency; governance and accountability; policies and practices; and competitive compensation.

In addition, in April, at Chairman Parsky's request, PricewaterhouseCoopers (PwC) released the findings and recommendations from an independent audit of compensation and employment arrangements of the University's top 32 management positions over a 10-year period. A week later, the Bureau of State Audits (BSA) issued its own audit of UC senior management compensation practices, focusing on 100 highly compensated faculty and administrative positions at the campuses and the Office of the President. In May, the University Auditor also presented the findings and recommendations of UC's internal audit of compensation for those top officials not already reviewed by PwC. Both the University Auditor's report and PwC's audit also examined travel and entertainment expenses for select UC management positions.

Taken together, the Task Force review and the three audits represent the most thorough and rigorous review of UC executive compensation ever conducted. At the May and July 2006 meetings of The Regents, the Board concurred with the recommendations from these reports and directed that their recommendations be examined and presented for Board action, as necessary, following appropriate modification.

**PRESIDENT'S IMPLEMENTATION COMMITTEE**

Immediately following the release of the Task Force report, President Dynes appointed a high-level Implementation Committee, composed of a Steering Committee and several workgroups, made up of campus, medical center, and Office of the President personnel, to begin the work of effecting changes in policy and practices. The Implementation Steering Committee was chaired by Provost Rory Hume and composed of the following members: Chancellors Michael Bishop and Michael Drake, Executive Vice Chancellors Virginia Hinshaw and Ellen Wartella, Vice Chancellor Sam Morabito, Executive Vice President Bruce Darling, Vice President Anne Broome, and Faculty Representative John Oakley. Supporting the Steering Committee were workgroups made up of campus, medical center, and Office of the President staff to address the five main areas of the Task Force recommendations: Disclosure and Transparency; Governance and Accountability; Information Systems; Policies and Practices; and Competitive Compensation. Following The Regents' adoption of the recommendations from the three audits in July, the Implementation Committee's scope expanded to also include implementation of the audit recommendations.

The work of the President's Implementation Committee will soon transition to the Advisory Committee, to be composed of campus and Office of the President representatives, to assist and advise in the development of new compensation policies and procedures.

(Attachments: One)

UNIVERSITY OF CALIFORNIA  
POLICY ON PUBLIC DISCLOSURE OF COMPENSATION INFORMATION  
(for information only)

September 2006

The University of California, as a public institution, recognizes its unique obligation to maintain the public trust. This obligation includes being open and transparent about the way it spends public funds, including to compensate its employees.

To that end, the University is committed to making information about employee compensation available to the public. This information is routinely made available upon action by the Board of Regents and through annual reports to the Regents, the legislature and the public. In addition, it is made available upon request by individuals and the media.

At the same time, UC's commitment to transparency must be delicately balanced against the University's competing obligation to protect the personal privacy of its employees, as well as the continuing need to compete with other institutions, including private universities, for the best faculty, staff and administrators.

Both the right of public access to records and the protection of personal privacy are reflected in the California Constitution, and in state law. (Article I, Section 1 and 3 of the California Constitution; California Public Records Act; California Information Practices Act).

The Public Records Act specifically states that "every employment contract" entered into by a public agency is disclosable. Although the University does not typically enter into written "contracts" with its employees, basic terms and conditions of employment that would otherwise typically be contained in an employment contract are disclosable to the public.

For that reason, the basic terms and conditions of employment of any University employee will be disclosed to the public upon request, except where disclosure would constitute "an unwarranted invasion of personal privacy" as defined by the California Public Records Act. This "unwarranted invasion of personal privacy" is the standard for determining whether the information should be disclosed to the public, for any categories of employment and compensation information not reflected below.

Therefore, University policy requires that the following employment and compensation information about university employees to be released upon request:

- Name
- Date of hire and date of separation
- Position title
- Salary
- Organizational unit
- Job description
- Full-time or part-time and appointment type

The following salary and other cash payment information will also be released upon request:

- Annual base salary
- Stipends
- Bonus compensation

- Incentive compensation (including Clinical Enterprise Management Recognition Plan, Health Sciences Plan, Treasurer's Annual Incentive Plan, etc.)
- "By-agreement" payments
- Senior Management Supplemental Benefit Program participation
- Automobile allowance or leased automobile

Information about the following benefits and perquisites will also be made available upon request:

- Eligibility for standard benefits package
- Vacation accrual or award outside of normal program/policy
- Senior Manager Life Insurance
- Executive Business Travel Insurance
- Executive Salary Continuation for Disability
- University home loan amount, interest rate, length of term
- University-provided housing
- Relocation allowance
- Temporary housing allowance
- Moving expenses
- Exceptional educational expenses
- Exceptional vacation allowance
- Payment in lieu of vacation and/or sabbatical pay
- Post-retirement employment agreements
- Consultant/independent contractor compensation agreements
- Severance/separation agreements
- Sabbatical/administrative leave in lieu of sabbatical accrual
- Special health benefits

In addition, the following terms and conditions are considered public information and will be made available upon request:

- Offer letter reflecting final terms and conditions of employment, with personal information (home address, etc.) redacted
- Separation or settlement agreement, with information that may state or imply performance issues redacted
- Post-retirement employment agreement
- Consultant/independent contractor compensation
- Eligibility for special health benefits program
- Sabbatical or administrative leave
- Administrative fund allocation
- Corporate board service
- Employment of family or other personal relationships that are explicitly part of any formal or informal employment agreement

The University considers the following compensation and employment information about its employees to be private, and will not be disclosed to the public:

- Home telephone number and home address
- Spouse's or other relatives' names
- Birth date
- Social security number

- Citizenship
- Tax withholdings
- Health care records
- Evaluation of performance
- Individual elections related to health and welfare benefits
- University home loan property address, value of property, loan application details
- Individual elections related to retirement or investment programs
- Student employee information protected under FERPA

These requirements will be prominently posted on the University's web site and employees will be clearly informed of this policy at the outset of their employment.

UNIVERSITY OF CALIFORNIA  
GUIDELINES FOR REPORTING COMPENSATION INFORMATION  
(for information only)

September 2006

*The University should establish clear protocols, procedures and forms that allow for full and timely compensation reporting. . . . (Final Report of the Task Force on UC Compensation, Accountability and Transparency, p. 14)*

Transparency and open communication on executive compensation are necessary and essential for a public institution. The Work Group on Disclosure and Transparency – formed as part of the President's Implementation Committee – has sought to develop recommendations that will make the reporting of compensation information simple, reliable, understandable, and accessible.

Regular reports on total compensation for UC employees and executives

In addition to other reports the University is obligated to provide The Regents and the public on executive compensation, corporate board service, and other forms of compensation, the Work Group recommends:

1. The University of California shall provide an electronic annual report of UC employee compensation including, but not limited to:
  - Name
  - Date of hire/separation
  - Position title and organizational unit assignment
  - Base salary
  - Status of appointment (full time, part time, contract, etc)
2. The University of California shall develop an automatic computer program that has uniform established criteria for use by all campuses, where the information required for the annual report is developed only in that format. The information from all the campuses shall be sent electronically to the Office of the President for downloading and annual report compilation. The Senior Leadership Information System, which will be fully operational in December 2006, will be an important source of information for the annual report of senior leaders' total compensation.
3. The annual report shall include a section solely on executive compensation, which shall include total compensation.
4. The University shall also provide quarterly reports of recent hires of executives and staff earning the amount that currently requires Regental approval; separations; and Regental approval of raises.
5. The University shall provide its reports and updates to the legislature in both print and electronic versions.

Regular review of compensation policies and practices

The Work Group further recommends the following:

1. All new employees as part of their orientation shall be informed about UC's compensation policies, particularly in regard to what aspects of an employee's compensation package are publicly disclosable (see "Proposed Policy on Public Disclosure"). It is recommended that all managers be provided an overview seminar on compensation



policies, procedures, and rules of disclosure

2. Any changes in policies and procedures shall be broadly and promptly communicated to appropriate UC employees.

Regular reports on compensation actions taken by The Regents at Board meetings, as well as compensation actions taken between Board meetings.

The Work Group also recommends that the University shall post all compensation actions immediately following action by the Board of Regents at regularly-scheduled board meetings and within one week of actions taken between meetings (interim actions). The mode of reporting shall be through the standardized template that has been developed to report total compensation.

## ATTACHMENT 2

### GUIDELINES FOR RESOLUTION OF COMPENSATION AND PERSONNEL ISSUES RESULTING FROM THE FINDINGS OF AUDITS AND MANAGEMENT REVIEWS

Unless otherwise specifically addressed and resolved by The Regents in a matter relating to a named individual and circumstance, the following Guidelines shall be applied to curative actions resulting from the three audit reports, internal management reviews, and related disclosures.

#### A. CURRENT EMPLOYEES

1. UNINTENTIONAL ERRORS

Unintentional administrative errors (i.e., overpayments, payroll coding errors, mis-classifications, etc.) will be corrected as soon as reasonably possible, including agreements for repayments to the University, if appropriate. Such repayment, where feasible and appropriate to do so, may be accomplished by offsetting from amounts due the employee from future payments.

2. WRITTEN AGREEMENTS MADE AT TIME OF HIRING

All payments due employees in accordance with written "Offer Letters and/or Hiring Agreements" which contain elements which are not consistent with University, Senior Management, and/or Academic Personnel policies (or where no policy addresses the matter) will be submitted to The Regents for action. Generally, the recommendation would be to honor the written agreements unless those items are specifically modified or eliminated by way of a written agreement between the University and the employee, or there were a violation of State or federal law involved, in which case immediately appropriate actions would be taken to remedy the situation.

3. NO WRITTEN AGREEMENT

In instances where there was no written agreement and the elements that required Regental approval were appropriate and reasonable and in all likelihood would have been approved, the recommendation would be to submit the elements for approval by The Regents. In evaluating these cases, consideration will be given to recommending continuation of the compensation payment if the employee was made a commitment by a University employee and the employee had no knowledge or reasonable ability to determine that such a commitment required Regental action.

4. PAYMENTS MADE THAT ARE INCONSISTENT WITH AGREEMENTS MADE AT THE TIME OF HIRING AND ARE NOT IN ACCORDANCE WITH POLICY

In instances where payments were made that were not in accordance with policy and were inconsistent with the terms of the agreements made at the time of hiring or were not a part of the employment offer, each case will be analyzed and will be referred to the Office of the General Counsel to determine the legal implications. Appropriate action will be submitted to The Regents. Whenever appropriate and legally feasible, payments will be suspended on an interim basis until Regental action. In evaluating these cases, consideration will be given to recommending continuation of the compensation payment if the employee was made a commitment by a University employee, and the employee had no knowledge or reasonable ability to determine that such a commitment required Regental action.

**B. FORMER EMPLOYEES**

Elements of any former employee's employment arrangement which are not consistent with University, Senior Management, and/or Academic Personnel policies generally will not be acted upon if the employee is not returning to the University (such as from an administrative sabbatical to teach), but in all cases the situation will be noted in the former employee's personnel file. If the employee is returning, the matter will be handled in accordance with the guidelines for Current Employees above.

**C. CORRECTIVE ACTION FOR ADMINISTRATORS**

1. A review shall be undertaken to determine what corrective action shall be taken for any administrator who acted beyond his/her authority and/or approved elements of compensation in violation of University, Senior Management, and/or Academic Personnel policies. Remedies may include, but are not limited to, issuance of a letter to be placed in the administrator's personnel file, consideration in the performance review and related salary actions for the administrator, reassignment of the administrator to another position, or removal/termination, depending upon the severity of the case.
2. Such violations and corrective action shall be reported to The Regents. In such instance where the position reports to The Regents, a recommendation shall be made to The Regents for action.

**D. APPLICATION OF GUIDELINES**

All cases being reviewed under these Guidelines must be evaluated for consistency in both application of the Guidelines and treatment among similarly situated employees throughout the University.





OFFICE OF THE PRESIDENT

Robert C. Dynes  
President

MAY - 8 2007

1111 Franklin Street  
Oakland, California 94607-5200  
Phone: (510) 987-9074  
Fax: (510) 987-9086  
<http://www.ucop.edu>

May 2, 2007

Ms. Elaine M. Howle  
State Auditor  
Bureau of State Audits  
555 Capital Mall, Suite 300  
Sacramento, California 95814

Dear Ms. Howle:

This letter constitutes the University of California's one-year response to the Bureau of State Audits (BSA) report of May 2, 2006 entitled *University of California: Stricter Oversight and Greater Transparency Are Needed to Improve Its Compensation Practices*. The University has continued to make very good progress on all of our compensation reforms and our corrective actions are being completed as committed to you and to others.

As previously reported to you, the BSA recommendations are being addressed in concert with a series of recommendations that ensued from multiple audit and assessment activities. At this stage, most of the recommendations are either completed or are nearing completion and are being managed by those with the ongoing operational responsibility for the implemented improvements.

Following are specific comments regarding the actions taken in response to the BSA recommendations.

**BSA**—*"To improve its ability to monitor campus compliance, the president's office needs to issue clear directives prescribing consistent use of the CPS. These directives should include a requirement that campuses consistently classify compensation into standard categories that best describe the compensation provided to employees. Also, the president's office should standardize the categories that can be included in retirement-covered compensation and restrict the use of classifications that are too vague to allow the president's office to ensure that the compensation complies with university policy."*

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The Financial Management unit in the Office of the President has been involved in a process of evaluating the compensation codes to ensure that transaction codes are clear, accurate and consistent. As part of that process, they are reviewing the Description of Service (DOS) codes used by campuses in the Payroll/Personnel System (PPS) and those codes used centrally in the Corporate Personnel System (CPS). Standard definitions for CPS DOS codes are being established. In addition, the mapping of specific PPS DOS codes used by campuses to CPS codes is being reviewed in consultation with campuses. The number of PPS DOS codes is very large and therefore the most problematic codes have been addressed first, such as the "by agreement," "stipend," and "health sciences" codes. By August 2007, the programming for consolidation and standardization of these codes is expected to be released to the campuses. To alleviate the proliferation of such divergent capabilities going forward, the assignment of new PPS codes has been transferred from the campuses to the Office of the President.

*BSA—“The president’s office should consider developing additional automated controls and edits within the CPS, such as only allowing the entry of information considered valid for the field in question or ensuring that expenditures are charged to the proper fund, to help avoid the possibility of errors.”*

As the mapping, programming, and installation is completed for each group of DOS codes, work will begin on developing enhanced edits and management reports. The existing edit reports covering pay transactions will be reviewed for improvements consistent with the new mapping scheme. In addition, the severity levels associated with edits (e.g., warning, fatal, etc.) will be reviewed, including assessment of the authority currently given to campuses to set severity levels.

A database created to support a new Senior Leadership Information System was completed since our six-month report and was used to produce the most recent annual compensation reports. Work is continuing on enhanced query and reporting capabilities for this system. However, as this system uses data from a variety of sources the effort to improve the accuracy and consistency of data at the point of entry remains paramount.

*BSA—“To preserve the integrity of the compensation policies it issues, the president’s office needs to limit the number of exceptions to policy it allows. This objective could be accomplished by the regents requiring the university to track and annually report exceptions to compensation policy that the president, provost, vice chancellor of academic affairs, campus chancellors, and other university officials grant during a fiscal year and provide justification for each exception.”*

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As previously reported, an interim Presidential policy on exceptions has been adopted pending the completion of the comprehensive review and reform of compensation policies. The Presidential policy requires documentation of the basis and rationale for the exception. If there are any exceptions to policy in the terms or conditions of employment of new members of the Senior Leadership Compensation Group, they are clearly spelled out in approval requests provided to The Regents and in disclosure documents. Monitoring and annual reporting procedures in support of the interim policy are awaiting development upon completion of the recruitment for the newly created position of Senior Vice President--Chief Compliance and Audit Officer. Although recruitment for the position was undertaken promptly, it has proven to be a difficult search. The search committee will soon be interviewing final candidates.

*BSA—“To preserve the integrity of the compensation policies it issues, the president’s office needs to improve its oversight of campuses’ compliance with those policies. One mechanism it should use to improve oversight is to annually identify unauthorized exceptions to policy, such as housing and relocation allowances paid above allowable limits and auto allowances being granted to individuals who do not qualify.”*

As stated above, exceptions to policy for members of the Senior Leadership Compensation Group require Regental approval. That authority no longer rests with the campuses or the Office of the President. The Office of the President has become much more active in providing guidelines to and oversight of the process for preparing annual reports of executive compensation to The Regents and the public. This involvement has surfaced arrangements that may be exceptional in nature and created an opportunity for the Office of the President to provide guidance consistent with new policies and practices. The improved clarity and consistency of record keeping referred to above will ensure visibility of transactions that may be exceptional in nature. Additionally, the Senior Vice President--Chief Compliance and Audit Officer will develop additional monitoring and oversight activities.

*BSA—“The president’s office should determine if it is appropriate to require repayment of university funds for the instances we identified in which a university employee received compensation in violation of university policy, and if so, develop a repayment plan with each employee.”*

The circumstances surrounding all payments questioned in the BSA audit have been reviewed and corrective action has been taken, principally through Regental approval of the exception to policy. A small number of matters were referred to the Office of the General Counsel or back to the campuses for disposition in circumstances for which it was determined that Regental approval was not the appropriate response. These matters are in the process of being reported back to the Office of the President and

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Regents, as necessary, and have been reduced to a small number of relatively minor issues. All approved Regental actions are available on the University's Web site.

The Regents thoroughly evaluated each of the exceptions reported in the various audits that resulted in payment of cash compensation, perquisites, or accrual of future benefits in excess of policy limits and which had not been approved by The Regents. Retroactive approval was given for matters The Regents believe would have been approved had they come before them in a timely manner or where retroactive approval was otherwise appropriate under the circumstances.

**BSA—***“To eliminate inappropriate compensation included in employees' retirement earnings, the president's office should remove the amounts we identified from the employees' retirement earnings and establish a mechanism to detect, on at least an annual basis, compensation that campuses have incorrectly classified as retirement covered.”*

As reported in our six-month response, all identified instances of compensation elements that were incorrectly coded as elements of covered compensation for retirement plan purposes have been corrected. The additional guidance on use of transaction codes within PPS, clarification on the classification of housing allowance payments, and analysis capabilities under development for the new Senior Leadership Information System (and eventually a potentially broader human resources system) will all reduce the risk of future errors of this type. In addition, an audit function that has been added to the Retirement Plan administration group will continue to investigate areas of concern, including issues like those raised by the BSA. This unit will soon commence a program of quarterly random audits designed to identify instances in which incorrect compensation has been included in retirement earnings. Finally, the review conducted prior to an individual's retirement is intended to prevent the payment of incorrect benefits. The Human Resources and Benefits Department is working with Internal Audit to provide for future scheduled audits of Retirement Plan data and controls, including the newly instituted controls.

**BSA—***“To increase transparency as it relates to the compensation of highly paid university employees, the regents should require the president's office to disclose all forms of compensation for university officers and for all employees whose compensation exceeds an established threshold. This disclosure should occur when the regents approve the employees' salaries and at least annually in a report to the regents. If the president's office continues to submit its annual report on compensation to the regents, it should ensure that it is accurate and timely.”*



Ms. Elaine M. Howle  
May 2, 2007  
Page 5

We have previously reported to you the adoption of a compensation checklist which ensures the completeness and accuracy of information disclosed to The Regents when requesting their approval of compensation actions and have provided to you copies of the *Policy on Public Disclosure of Compensation Information* and *Guidelines for Reporting Compensation Information*. In March, the first annual report produced from the new Senior Leadership Information System was provided to The Regents and the public covering certain "named positions" and the complete annual report covering all members of the Senior Leadership Compensation Group will be provided to The Regents and made public. To ensure the accuracy of these initial reports, Internal Auditors at each location audited the data and the location administrators were required to certify the accuracy of their data.

We have realized from the outset that many of the corrective actions would not be "quick fixes." For example, The University has embarked on a comprehensive, thorough, far-reaching review and overhaul of compensation and related policies for senior executives. The goal is to develop policies that are clear, consistent, transparent, easily understood, and to provide guidance on exceptions that will limit their frequency and subject them to appropriate controls (e.g. authority to approve). This process will also address any conflicts between policies for senior executives and policies for academics, including bringing clarity to those policies for senior executives that also hold academic appointments. This is not an easy or quick undertaking since existing University policies were often developed ad hoc and were often implemented with overlapping or conflicting provisions. This effort will also include a process by which policies are reviewed and updated on a regular basis. We are on target to complete this project by the end of this calendar year. There is still work to be done. However, we feel confident that the efforts demonstrate our commitment to effective and lasting change in the compensation practices and transparency of the University.

If you would like additional information about any of the elements of this response, please do not hesitate to get in touch with me.

Sincerely,

  
Robert C. Dyne

cc: Chancellors  
Executive Vice President Bruce B. Darling  
Executive Vice President Katherine N. Lapp  
Vice President Lawrence C. Hershman  
Assistant Vice President Stephen A. Arditti  
University Auditor Patrick V. Reed

**UNIVERSITY OF CALIFORNIA**

**OFFICE OF THE UNIVERSITY AUDITOR**

**REPORT ON STATUS OF IMPLEMENTATION  
OF THE EXECUTIVE COMPENSATION  
RECOMMENDATIONS**

**July 2007**

# Executive Compensation Follow-Up Report

## Sources of Recommendations

- April 2006 Task Force  
*UC Compensation, Accountability, & Transparency*
- April 2006 PricewaterhouseCoopers  
*Compensation for Top 32 management positions*
- May 2006 Bureau of State Audits  
*Compensation Practices*
- May 2006 PricewaterhouseCoopers  
*Travel & Entertainment Expenses & Other Payments*
- May 2006 UC Internal Audit  
*Senior Management Compensation*
- July 2006 UC Internal Audit  
*Travel & Entertainment for SMG Members*

# Executive Compensation Follow-Up Report

## Summary of Planned Actions Approved by The Regents

RE-74	May 2006	Actions in Response to Task Force Recommendations	<i>Documenting actions related to 22 recommendations in the areas of Disclosure &amp; Transparency, Governance &amp; Accountability, Specific Policies &amp; Practices, and Competitive Compensation</i>
RE-76	July 2006	Regental Plan for Reforms in Response to Internal and External Audit Reports	<i>Documenting actions related to 19 recommendations</i>

# Executive Compensation Follow-Up Report

## *Implementation Approach:*

- *President's Implementation Task Force*

### *Five Workgroups under Steering Committee:*

- *Governance & Accountability*
- *Information Systems*
- *Policies & Practices*
- *Disclosure & Transparency*
- *Competitive Compensation*

- *Advisory Committee*
- *Policy Project Steering Committee*

# Executive Compensation Follow-Up Report

## *Prior Status Reports or Actions Approved by The Regents \** :

September 2006--Committee on Compensation

University actions in response to recommendations of the Task Force and Internal and External Audit Reports

*Reporting actions taken or to be recommended for The Regents' approval*

January 2007—Approval of Definition of Total Compensation for Annual Report Purposes

May 2007 --Regents' Compensation Web site

*Actions taken to reform UC's compensation policies & practices*

- *Excludes Regents' Items dealing with corrective actions at the Individual or supervisor level.*

# Executive Compensation Follow-Up Report

## *Audit Methodology*

- Tested completeness & accuracy of the March 2007 Annual Report on Total Compensation for Senior Managers (Named Positions)
- Tested completeness & accuracy of the May 2007 Annual Report on Total Compensation for Senior Managers (SLCG over \$200,000 & selected others)
- Interviewed Committee/Workgroup heads, project managers, senior management, and others
- Compared actions committed to with actions taken to date
- Reviewed selected actions taken:
  - Interim or revised policies
  - Disclosure template and practices
  - Plan for Compensation Policy Review Project

# Executive Compensation Follow-Up Report

## ***Completed Actions:***

### Disclosure and Transparency

- Annual Reports in March and May 2007
- Disclosure standards
- Appointed an interim Public Information Practices Coordinator
- Website for compensation information

### Accountability and Governance

- Regents' Committee on Compensation
- Established new leadership positions

### Policy Reforms

- Review of policy framework started with consultant
- Review of 80 policies started with consultant
- Interim/revised policies for certain high priority areas, e.g. sabbatical issues, outside professional activities

continued on next slide



# Executive Compensation Follow-Up Report

## *Completed Actions (continued) :*

### Policy Compliance, Monitoring, Oversight

- Interim policy requiring high-level approval for exceptions
- Improved controls over Chancellors' and President's residence expenses
- Action plans from locations to strengthen oversight of travel & entertainment

### Human Resources Information System (HRIS)

- Senior Leadership Information System (SLIS)
- Human Resources Information System Strategy Next Steps report

# Executive Compensation Follow-Up Report

## ***In Process Actions:***

- Compensation Policy Review, including Policy Implementation & Training  
*(Additional audit work included in 2007-08 Audit Plan regarding implementation of new/revised policies)*
- Enhancements to SLIS and annual reporting process
- Development of HRIS
- Project to Improve Payroll Data Quality
- Monitoring and Exceptional Reporting Matters  
(expected to be completed through the establishment of the Compliance Function)
- Monitor Project (certain impacts)

# Executive Compensation Follow-Up Report

## *In Process Actions:*

- Compensation Policy Review, including Policy Implementation & Training  
*(Additional audit work included in 2007-08 Audit Plan regarding implementation of new/revised policies)*
- Enhancements to SLIS and annual reporting process
- **Development of HRIS**
- **Project to Improve Payroll Data Quality**
- **Monitoring and Exceptional Reporting Matters**  
(expected to be completed through the establishment of the Compliance Function)
- Monitor Project (certain impacts)

*Items in yellow are in need of additional attention. See Next Steps on a subsequent page.*

# Executive Compensation Follow-Up Report

## *Actions Not Started or with Unclear Process for Completion:*

- Payroll Analytical Capabilities in Corporate Personnel System (CPS)
- Certain Decisions regarding the Scope & Functioning of the Compliance Function
- Alignment of Standing Orders of The Regents and Delegations of Authority with compensation reforms
- Competitive Compensation Strategy

# Executive Compensation Follow-Up Report

## ***Elements Required for Successful Completion:***

- *Leadership (clear direction and alignment with original commitments)*
- *Funding (for HRIS and perhaps certain compliance activities)*
- *Project Management (to provide continuity of effort and accountability)*

# Executive Compensation Follow-Up Report

## *Next Steps:*

- Regents have recommitted intent to implement all recommendations;
- EVP Lapp is assessing HRIS funding strategy options and plan for commencing development phase;
- EVP Lapp, HR and Corporate Accounting have re-energized and refocused the project on payroll data integrity and analytical capabilities ;
- Compliance function expected to become operational in the early fall 2007;
- Internal Audit is scheduled to audit the outcome of the Policy Revision Project, including implementation effectiveness in the first half of calendar 2008;
- Internal Audit will continue follow up on other matters, e.g. alignment of Standing Orders.