

**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:
 - Affirmative Action/Equal Employment Opportunity
 - Applicant Tracking/Recruitment Management
 - Benefits Management
 - Certification and Licenses
 - Compensation Management
 - Grievance Tracking
 - HR/Personnel Management
 - Leave Accrual Management
 - Performance Management
 - Position Control Management
 - Salary and Job Codes
 - Salary and Merit History
 - Time and Attendance
 - Training and Development
 - 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.