

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.

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

In reviewing this [attached 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