

T A S K F O R C E O N

UC Compensation,  
Accountability,  
and Transparency

REPORT  
April 2006

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## Preamble

The University of California is a public institution and a public trust. Its foundation and future depend on the continuing support of the people of California.

That support will only continue if the people—and their elected representatives—respect and trust those who lead the University system. That support will only continue if the people and their representatives are confident the University’s executive leaders, senior managers, and Regents are doing all they should to ensure the institution is managed effectively and responsibly.

Trust and confidence in the administrative leadership of the University have declined precipitously over the last six months as unsettling and troubling information became known about a number of compensation-related activities and practices.

More specifically, the decline was the result of disclosures by the state’s press and University officials that included cases of:

- Failure to release public compensation information in a clear and timely fashion.
- Inappropriate compensation, benefits, and perquisites for some executives in the University system.
- Inadequate attention to University compensation policies by leaders of the system and its campuses.
- Failure to consistently manage the institution’s practices involving compensation in accord with fundamental, common sense business and management practices.
- Failure to report certain compensation-related information to the Regents as required and failure to comply with policies established by the Regents.

Such inappropriate and improper incidents as these—and the breakdown of effective, responsible administration of compensation-related policies that allowed them to occur—are all the more troubling when the University’s history in this area is taken into account. In the early 1990s, in the wake of public controversy regarding executive compensation at the University, new policies were put in place by the Regents to prevent future problems in this area. At least some of the current problems would not have occurred if those policy reforms had been followed and enforced by the senior administrative leadership of the University system.

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While the nature and scope of compensation-related problems in the University system will not be known conclusively until several current inquiries are completed, it is already clear that the current situation is wholly unacceptable. Necessary steps must be initiated immediately at all levels to remedy the problems. Outdated policies and practices must be replaced. Necessary and appropriate checks and balances must be put in place and rigorously adhered to.

University executives and the Regents share overall responsibility for University policies and adherence thereto. They share responsibility for wise stewardship of University resources and vigorous, vigilant oversight of their use.

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*“[UC] is a public institution and a public trust. Its foundation and future depend on the continuing support of the people of California.”*

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The recent disclosures and the underlying details of those and other cases reviewed by the Task Force on UC Compensation, Accountability, and Transparency lead it to conclude that, at least as regards compensation, neither the executives who lead the University nor the Regents who oversee it have done all they could or should to fulfill their respective or shared responsibilities. Moreover, the current compensation policies and practices of the University are insufficient to achieve the high standards of accountability required by the people of California.

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*“The current situation is wholly unacceptable. Necessary steps must be initiated immediately,...and appropriate checks and balances...put in place and rigorously adhered to.”*

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The Task Force—one of five official inquiries into compensation-related problems in the University system—was appointed in December 2005 by Gerald L. Parsky, chairman of the Regents of the University of California. Its charge was to conduct an independent review of the University’s policies and practices on compensation for faculty and senior managers and on the release of public information regarding compensation and related matters, and to recommend improvements.

The Task Force met 10 times by telephone and in person. It reviewed information, reports, and studies on the policies and practices of the University regarding compensation and the release of public information. It reviewed information on compensation at peer universities. Various University officials were interviewed. At the eighth meeting of the Task Force, its members heard from and questioned the senior executive of the University of California, President Robert C. Dynes. The Task Force was assisted in all its efforts by staff from Deloitte Consulting LLP. Helpful information and background was provided on request by the Office of the President of the University.

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Before proceeding to present its findings and recommendations, the Task Force underscores emphatically the fact that no question has been raised about the academic leadership of the University of California system. Esteem for the University’s students and faculty—and their endeavors—is undiminished. Californians have a justifiably high view of the University as the capstone of public education in the state, as a global leader in education and scholarship, and as the site of cutting-edge research.

The University of California is one of the largest enterprises in the state. It is a vast, complex, and decentralized organization. More than 200,000 students and 120,000 faculty and staff are spread across 10 campuses, five medical centers, and three national laboratories. Its medical centers serve hundreds of thousands of patients and conduct more than three million outpatient visits annually.

If this public institution, so essential to California’s present and future, is to stay strong, it must be carefully managed and operated effectively and efficiently. In this regard, the University of California system should operate in much the same way any other large enterprise must in today’s intensely competitive and demanding environment.

But as the University pursues excellence in its future endeavors, it must not compromise its values or its fundamental missions, which are teaching, public service, and research. As necessary reforms are instituted, great care must be taken to ensure nothing is done that might undermine the quality, the confidence, or the high aspirations of the institution.

It is vitally important to the future of the University, and equally important to the future of the state and its people, that the University invest and spend what is required to maintain its position as one of the best university systems in the world. University compensation policies—and the total compensation packages it offers—must allow it to recruit and retain the faculty, administrators, and staff required to sustain its current standard of excellence.

The clear and unambiguous policy of the University must be to operate in a transparent manner and to make as much information as possible available to the public. Any information that is defined as public by statute or policy should be easily accessible, available in a reasonably short period following a request, and easily understandable to the average citizen. This is an essential component of restoring public confidence in the proper administration of the University system.

Going forward, the senior executives of the University must ensure that neither the appearance nor the reality develop yet again that the resources with which they are entrusted are used in ways that fall short of the public's reasonable expectations or the highest ethical and professional standards.

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Although the charge of the Task Force was to make recommendations regarding the University's policies and practices on compensation and on the release of public information regarding compensation and related matters, the Task Force feels obliged to assert that its recommendations will only be effective if the circumstances leading to the problems it reviewed are adequately and appropriately addressed.

The Task Force believes that the leadership of the University—both its senior executives and the Regents—must accept full responsibility for the problems that occurred and take whatever actions are necessary to ensure full accountability both retrospectively and in the future. To be effective—and accepted by the public whose trust and support are essential—accountability must include consequences, and the consequences must be consequential.

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*“[Full] accountability must include  
consequences, and the consequences must be  
consequential.”*

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# 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.

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.

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**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.

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**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

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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.

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.



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**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.

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**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.

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**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.

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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.

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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.

## Findings and Recommendations

### Disclosure and Transparency

Full, proactive, and timely disclosure of information is central to the University of California's (UC) obligation to the people of California. Without full disclosure, the legitimacy of the University's role as a steward of public resources cannot be assured.

*“The University of California has failed to honor, consistently and comprehensively, its obligation of public accountability.”*

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

For the University to fulfill its responsibilities as a public trust, there must be an institutional commitment to public disclosure. This commitment must be codified in disclosure policies that are clearly and broadly communicated, both internally and externally. Such policies must be implemented with vigor and monitored with care. In doing so, UC has the opportunity to emerge as a national leader.

The Task Force recognizes that the disclosure of compensation information may undercut UC's competitive position in recruiting and retaining top faculty, administrators, and staff. There is also a potential conflict between the public's right to full information and employees' privacy rights. The Regents should address this challenge with policies that balance public access, personal privacy, and organizational competitiveness.

In developing its disclosure policies, the University must clearly define what information will be released to the public and what will remain private or protected to guard the personal privacy rights of its employees, retirees, and vendors/contractors. At present, there is widespread confusion and debate throughout the UC Office of the President as well as campuses, schools, and departments about the appropriate level of disclosure. UC will need to revise employment applications and vendor contracts, where applicable, to obtain informed consent about the release of such information.

#### RECOMMENDATION

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>2</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.

In 1992, following an earlier controversy over executive compensation, the Regents adopted clear and comprehensive policies with respect to full disclosure of executive compensation—both to the Regents and to the public. However, on numerous occasions, the Regents have been provided information that is incomplete and inadequate for decision-making purposes. *Such inadequate disclosure practices create the appearance that UC exalts secrecy over openness and the public’s right to information.* The Regents must have complete information about compensation to perform their responsibilities of governance and oversight. By extension, full disclosure to the public of compensation approved by the Regents is essential to public accountability.

**RECOMMENDATION**

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.

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*“Full, proactive, and timely disclosure  
of information is central to the  
University of California’s obligation  
to the people of California.”*

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**3. The Task Force finds that UC’s information systems are inadequate and unable to provide full and timely compensation information.**

UC can establish the best disclosure policies and practices but still fail to achieve them without a modern, integrated human-resources information system that enables comprehensive analysis, monitoring, and reporting of compensation information. UC’s antiquated and decentralized human-resources information systems are inadequate to the task.

The problem cannot be overstated. The UC Office of the President and each of the 10 campuses, five medical centers, and three national laboratories all maintain their own systems that do not “talk” to each other. This makes it difficult, time-consuming, and expensive—if not impossible—to provide clear, consistent, and accurate systemwide data. Poor systems also hinder the University’s ability to monitor policy compliance.

For example, the University’s payroll systems contain no universal coding for different types of compensation. Stipends may be coded as “stipends” on one campus and as “by-agreement payments” on another. Therefore, a search for “stipends” alone will yield incomplete data. Similarly, the category known as “by-agreement payments” includes stipends, incentive pay, clinical enterprise bonuses, and others. Verification of the purpose for these payments, as well as their compliance with policy, requires a manual search of campus paper files. In addition, inappropriate coding of compensation items could lead to improper inclusion for retirement and other benefit calculation purposes.

More fundamentally, some relevant information, such as employee salary history, initial appointment date, non-salary compensation, and exceptions to policy are not currently captured systematically. This hinders the ability to audit compliance and prevents quick responses to the media, legislators, and the public. It can take weeks or months to respond to even the most basic public information requests. Two examples help to demonstrate this:

- Eligibility for the senior management deferred compensation (formerly “severance”) program is based in part on an employee’s appointment date, which is not maintained in the payroll record. So staff wishing to audit this program for appropriateness of payment must manually match payment information in one file with appointment data contained in a separate file.
- When the media asks whether a particular element of an employee’s hiring package represents an exception to policy, UC Office of the President staff must first determine which policies apply and then gather information manually from paper files in multiple locations. They then must determine whether an exception to policy was made, and if so, whether it was properly justified. Finally, they must decide whether the exception was approved and disclosed properly. This lengthy process seriously undermines UC’s public accountability.

**RECOMMENDATION**

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.

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*“UC’s antiquated and decentralized human-resources information systems are inadequate.”*

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4. **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, 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).

**“Annual Reports Checklist.”** The Secretary to the Regents should establish an “Annual Reports Checklist” to ensure compliance with reporting requirements to the Regents and the Legislature.

**Regular review of policies.** The Regents' Compensation Committee should direct a periodic review of policies and practices in the area of compensation to ensure that they are simple, clear, comprehensible, and functional.

**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.

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*“Confusion over policy has contributed to an impression that rules and regulations are being deliberately manipulated. [UC] must provide clear, simple, and easily accessible explanations of [its] compensation policies and practices.”*

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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.

#### 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 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.

Confusion over policy has contributed to an impression that rules and regulations are being deliberately manipulated. The University must provide clear, simple, and easily accessible explanations of UC’s compensation policies and practices.

A step in the right direction would be the creation of a proactive, regularly maintained Web site that is designed to provide easy-to-find information and explanations regarding UC compensation and benefits.

#### RECOMMENDATION

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.**

The Regents' Principles for Review of Executive Compensation clearly define "total compensation" as "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..."<sup>3</sup>

The Task Force supports this definition and recommends that some specific elements of compensation receive further attention. For example, the Regents' Compensation Committee needs to decide whether "any other form of compensation" should include such items as: 1) performance-based incentive payments; 2) the value of University-provided housing for the President and the chancellors; 3) reimbursed expenses that are treated as taxable income; 4) the cost to UC of providing health insurance, net of employee contributions; 5) royalty payments from patents; or 6) the value of University-provided housing loans. In examining these and other elements, the Compensation Committee should consider leading standards and practices, such as those established by the federal Securities and Exchange Commission (SEC) for private corporations.

Policy statements should include glossaries of compensation terms that allow the Regents, employees, and the public to understand the meaning of terms such as "stipend," "relocation allowance," or "moving expenses."

**RECOMMENDATION**

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.

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**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.**

The UC Office of the President has not dedicated a position to dealing with Public Records Act (PRA) requests. This has led to confusion and delays, and has contributed to the impression that UC is not responsive to public requests for information.

Campuses each have PRA coordinators; so should the Office of the President. The position should ensure consistency and coordination among the campus PRA coordinators on systemwide issues, and be responsible not only for responding to information requests, but also for addressing proactively any emerging issues that may raise public concerns.

**RECOMMENDATION**

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

The Task Force heard from Regents, administrators, and faculty about the University of California’s unique management challenges.

These challenges result from UC’s size and complexity, including the breadth of its operations—from teaching and research on its 10 campuses, to providing health care and medical education at its five medical centers, to conducting research at its three national laboratories. Further complicating UC governance is that it is formally shared among the Board of Regents, the administration, and the faculty, with considerable authority for day-to-day operations delegated from the UC Regents to the President and to the campus chancellors, medical center directors, and national laboratory directors.

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*“UC’s compliance with compensation policy is wholly inadequate and, in a number of cases, has failed or been circumvented.”*

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While the Task Force recognizes that innovation requires a certain amount of flexibility for senior managers at the Office of the President as well as at the campus level, the need for local flexibility cannot be allowed to excuse or mask a failure to comply with existing policies and rules. Moreover, the University draws much of its strength from the fact that it is a single organization. Consistency in the application, interpretation, and enforcement of policy is a fundamental requirement.

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**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.**

The Office of the President has failed to comply with the Regents’ compensation policy and failed to enforce compliance by the campuses. This failure has undermined the University’s credibility and appropriately led to demands for greater accountability.

The Task Force believes that the recently created Regents’ Compensation Committee should have primary responsibility for setting compensation policies and providing necessary oversight to ensure compliance. The President should designate a senior official to serve as liaison to the Regents’ Compensation Committee, and establish a compensation oversight committee to support the senior official. Such a joint Regents-administrative oversight structure would improve the interpretation and enforcement of policy and accountability for compensation practices.

In addition, the Task Force believes the Regents have taken a good first step by announcing the creation of a new Compliance Officer position. The Task Force supports the idea of a position whose sole responsibility is to monitor policy compliance and whose independence is reinforced by a direct reporting line to the Board.

These oversight mechanisms should also help to address another problem: the failure to ensure that University policies and principles survive leadership changes in management and on the Board of Regents. Ignorance of policy cannot be used to excuse noncompliance with policy.

## RECOMMENDATION

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.**

The Task Force found, in many cases, that University policies are either silent or ambiguous about the respective responsibilities of the Regents, the President, and the chancellors with regard to compensation decisions; authorities that have been or should be delegated and to whom; and the controls in place to monitor and oversee this delegation and exercise of authority. In other cases, existing authority structures are unwieldy and ineffective.

This delegation is explained as decentralization that is necessary from an academic perspective: the essential work of the University, after all, is conducted not at the Office of the President, but at the campuses, the medical centers, and the national laboratories. Local decision-making is essential in an institution as vast as the University of California. While some degree of decentralization is appropriate, controls and guidelines must be in place to ensure that delegations are appropriate and fully documented and that all necessary approvals have been obtained.

## RECOMMENDATION

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.

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**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.**

Most Regents’ policies do not specify a process for the granting of exceptions, yet the President and the chancellors regularly grant exceptions to policy. In some cases, exceptions have been documented, justified, and reported to the appropriate levels of authority. But in others, exceptions appear to have been made somewhat casually, without written justification or reporting to a higher level of authority. The Task Force understands that there are legitimate reasons to grant exceptions to compensation policies, particularly for recruitment or retention purposes. In these cases, the University should establish explicit exception mechanisms. On the other hand, some policies may be inviolate.

The University should make clear when “exceptions” may be granted and by whom. We observed numerous examples of apparent policy violations (for example, relocation allowances for individuals who appear to be ineligible for such allowances) that were explained away by UC administration not as violations but as “exceptions” to policy.

The Task Force is unimpressed by the distinctions. At minimum, a reasonable person might conclude that an “exception” to policy that is neither documented, justified, nor reported to and/or approved by higher levels of authority, constitutes a violation.

**RECOMMENDATION**

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.

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**4. The Task Force finds few, if any, consequences for violating policy.**

An even greater concern to the Task Force is that University policy fails to specify consequences for violations or to contain adequate enforcement mechanisms. At the least, the Task Force believes violations should have consequences, ranging from negative impacts on an employee’s performance review to outright dismissal.

**RECOMMENDATION**

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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*“There are legitimate reasons to grant exceptions...[but] an exception...that is neither documented, justified, [reported or approved] constitutes a violation.”*

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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.**

The Task Force identified weaknesses in UC’s compensation policies that limit the University’s ability to ensure compliance. Compensation policies are out of date. Many of them duplicate and/or conflict with one another. For example, various aspects of compensation are addressed—not always consistently—in Regents’ policy, in Presidential policy, and in faculty policies. The University should immediately revise its policies to eliminate conflicts among the various policies.

**RECOMMENDATION**

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

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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.**

At present, the Regents approve compensation levels for more than 2,000 employees. The Regents should retain authority for approving compensation for the University’s most senior positions, but the number of these decisions cannot be so large as to preclude thoughtful and thorough consideration of each decision.

The Task Force believes that approval by the Regents of compensation for the top 32 positions—a Board action recently adopted on an interim basis—is too limited to allow for appropriate Board-level oversight and accountability. In weighing these factors, the Task Force believes that the Regents should 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 (who occupy highly visible positions and are often among the most highly compensated), and the top five most highly compensated positions at each UC location. This group comprises 264 individuals.

**RECOMMENDATION**

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 group comprises 264 individuals.

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*“University policy fails to specify consequences for violations or to contain adequate enforcement mechanisms.”*

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

The University's whistleblower and anti-retaliation policies are well-established and its processes provide multiple avenues (including an independently operated hotline) for reporting complaints and policy violations. It has recently created a new Statement of Ethical Values and Standards of Ethical Conduct and is currently developing a Web-based training program to disseminate the values and standards broadly.<sup>4</sup> These programs are essential to the promotion of a culture of ethical behavior and an environment where employees feel free to report any concerns without fear of retribution.

However, few of the issues recently covered by the media surfaced from employees through University "hotlines" for reporting malfeasance.

**RECOMMENDATION**

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

Time and again, the Task Force heard about compensation practices that did not comport with University compensation policies. Further, we found an absence of checks and balances to monitor practices for policy compliance.

The pressure on department chairs, deans, provosts, chancellors, and the President is intensifying to recruit and retain outstanding faculty, administrators, and staff in an increasingly competitive environment at a time when the University's financial resources are severely limited by constraints on state spending. In this environment, policies and guidelines must be carefully crafted, transparent, well-understood, and rigorously implemented.

The Task Force was unable to review all the University's compensation policies. But a few areas deserve immediate attention.

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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.

It is common at UC and other universities for senior administrators and faculty to engage in a variety of outside professional activities, from serving on corporate boards or national commissions to consulting. The Task Force recognizes that these pursuits add value to the University and to the individual. In fact, existing UC Regents' policy encourages UC's senior executives to serve on non-profit boards and public commissions, as well as civic and community boards. These activities are often an extension of senior executives' academic work and university leadership; they provide opportunities for senior leaders to engage with and serve their local communities; they extend UC's influence, reach, and usefulness to national and international arenas; and they are consistent with the practices at other public and private universities.

Notwithstanding these benefits, the Task Force strongly believes that UC senior executives' service on *externally compensated* boards should be limited based on a standard of reasonableness. Such service must not represent a conflict of commitment, thereby detracting from one's University duties. Nor should it create a conflict of interest.

Furthermore, UC practices should be in accordance with leading standards prescribed for private corporations. Some recent cases at UC stand in stark contrast to emerging best practices in the private sector, as well as raise questions about conflict of commitment.

Institutional Shareholder Services (ISS), a leading company that advises investors on board issues, recently recommended that corporate executives should be limited to serving on three outside boards and CEOs should serve on no more than two.<sup>5</sup> Moreover, in the three years since the Sarbanes-Oxley Act took effect, the national trend among CEOs seems to be going towards reducing board service, not increasing it.<sup>6</sup>

Further, UC leadership should be guided by common sense about whether paid service on multiple boards draws attention away from an individual's University responsibilities.

#### RECOMMENDATION

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.

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**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.**

Policies governing outside professional activities for faculty and senior managers conflict in terms of how much time may be devoted to such activities, and approval and reporting requirements. This is a particular problem for senior managers who also hold faculty appointments, such as the chancellors. For these employees, both sets of conflicting policies currently apply.

The Task Force believes this must be remedied at once. For example, faculty policy permits full-time faculty members to engage in externally compensated activities for up to 39 days per academic year. But senior manager policy requires senior managers to use vacation time for these activities. The maximum vacation that any senior manager can accrue is 24 days per calendar year. So which policy prevails for a senior manager who is also a faculty member—24 days or 39 days? Again, the appearance is that UC executives can simply choose the most advantageous policy—or in this case, multiple policies—to follow.

**RECOMMENDATION**

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.

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**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.**

The practice at UC is for chancellors and other top administrators to take a one-year paid leave, at their administrative rate of pay, upon stepping down from office. Even though this type of leave—called an “administrative leave in lieu of sabbatical”—is allowed under policy, the arrangements and their terms have not been consistently disclosed to the Regents and the public, nor have these arrangements always adhered to the letter or the spirit of policy.

The Task Force is concerned about the following practices:

- The practice of “honoring” faculty sabbatical credits earned at a prior institution, as has been the case with some recent chancellor appointments;
- Paying year-long “administrative leaves in lieu of sabbatical” at the higher administrative salary rather than at the faculty salary;
- Waiving the requirement to return to performing faculty duties upon completion of the leave; and
- Making a lump-sum payment at the commencement of employment to compensate for forfeited sabbatical leave accrued at a prior institution. *The Task Force is not aware of such a practice at any other institution.*

In an attempt to understand the policy rationales for these actions, the Task Force reviewed Regents’ policies, presidential policies, and faculty policies. We found that policies



governing leaves for senior managers who also hold faculty appointments are particularly unclear and can be easily misinterpreted—and thus, easily manipulated to provide the desired outcome.

The Task Force finds this unacceptable because:

- The purpose of sabbatical leave is to enable faculty members, and senior managers returning to the faculty, to engage in extensive research and study, “to become more effective teachers and scholars and to enhance their services to the University.”<sup>7</sup> *This is not accomplished unless there is a return to university service after the leave.*
- Sabbatical leaves are granted for the benefit of the University, not for the benefit of the individual. This argues against the recent practice of honoring sabbatical credits accrued at another institution. Even more dramatically, *it illustrates that making a lump-sum payment at the start of employment for sabbatical credits earned at a prior institution contradicts the sabbatical policy rationale.* Such a payment is clearly a benefit to the individual and not to the institution, and it does not comport with the return-to-university-service requirement.

The Task Force found no evidence that other institutions honor sabbatical credits earned at a prior institution when recruiting senior administrators.

Under policy, designated administrators with faculty appointments—chancellors, provosts, deans, and others—who have served at least five years in their administrative positions and have accrued the required faculty sabbatical leave credits are allowed to take “administrative leave in lieu of sabbatical,” immediately following their administrative service, up to a maximum of one year, *at their higher administrative salaries*, as long as they follow the return-to-UC-service requirement.

*The Task Force supports the general policy of providing for a sabbatical-like leave for departing senior administrators to enable them to re-engage in academic pursuits, but it takes exception to the rate of pay. While the higher administrative rate of pay may be appropriate for deans on administrative leave in lieu of sabbatical (many of whom return to their dean positions following the leave), it is not appropriate for higher-level administrators. If the higher rate of pay is intended as a reward for serving as a senior manager or as a recruitment incentive at the time of hire, then the University should acknowledge this publicly and explicitly, and call it a signing bonus rather than granting it as a form of sabbatical leave.*

#### RECOMMENDATION

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.

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*“Sabbatical leaves are granted for the benefit of the University, not for the benefit of the individual.”*

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## Competitive Compensation

The State of California is, by most measures, a nation-state. Its economy is the eighth-largest in the world. Its population is projected to reach 50 million by 2025. California is world-renowned for its leadership in industries built on scientific research and technological innovation. This leadership results from California's longstanding commitment to higher education and scientific research.

Other states now recognize what California realized long ago: that economic prosperity and social well-being in a global knowledge-based economy require public investment in knowledge resources. That is, regions must create and sustain a highly educated and innovative work force, supported through policies and investments in cutting-edge technology, a knowledge infrastructure, and human capital development. Key in this effort is the presence of world-class research universities.

Throughout the past century, the people of California have benefited immensely from just such investments in building what many believe today to be the finest public university system in the world. Clearly the future of the state will depend even more on sustaining the global leadership of this remarkable institution, and this, in turn, will depend upon attracting and retaining top faculty talent in an ever more competitive global marketplace.

For UC to best serve the people of California, the Task Force believes that the University must remain in the top tier of the world's research universities. To maintain this level of distinction, it must be able to provide its faculty, administrators, and staff a level of compensation that is competitive with that offered by universities in its peer group.<sup>8</sup>

In November 2005, the UC Regents recognized this principle by adopting a statement of compensation philosophy to guide compensation decisions by the University:

*The quality of academic, management, and staff personnel is essential to maintain the excellence 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.*<sup>9</sup>

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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.

It is vitally important to the future of the University, the state, and its people that the University invest and spend what is required to maintain its position as one of the best university systems in the world. University compensation policies and packages must allow UC to recruit and retain the faculty, administrators, and staff required to sustain its current standard of excellence.

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*“For UC to best serve the people of California,...the University must remain in the top tier of the world's research universities.”*

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**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.**

The quality of a university is determined primarily by the ability of its faculty, administrators, and staff, all of whom are central to the University's success. The Task Force cannot emphasize strongly enough just how competitive the current faculty recruiting (and retention) environment has become, and how intense the pressure has become on department chairs, deans, and senior officers to maintain the quality of faculty, administrative, and staff leadership.

Leading public research universities face extraordinary challenges today when attracting the best employees. For example, the competition for top faculty among leading research universities has become what economists would call a "winner-take-all" market. In recruiting for all categories of employees, UC is at a distinct disadvantage relative to comparable private universities, which have seen their endowments soar after many years of extraordinary fundraising success and strong stock market performance. UC, by contrast, has suffered from shrinking state budgets that have restricted the University's resources and flexibility.

**RECOMMENDATION**

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.**

Recent studies have confirmed that while total compensation programs at the University have eroded somewhat, they continue to be comparable to those of the leading public universities in America. However, the bias within UC compensation programs toward benefits rather than cash compensation has led to salaries that are no longer competitive for some employee groups, particularly when other factors such as the cost of living are considered.

The Task Force observed that the composition of UC’s compensation program is weighted toward health and retirement benefits. In every employee category, UC cash compensation is significantly below the median level of the comparison group. This can put UC at a disadvantage because, while UC’s retirement and health benefits are generous, many younger employees place a significantly greater value on cash compensation than on health or retirement benefits that will not be of value for several decades. The same is true for those employees who do not expect to remain employed by the University for their entire careers, and therefore may never realize the value of these benefits. For employees who join UC late in their careers, UC’s benefits package may be of little value because these employees will not serve long enough to earn significant benefits. Additionally, median compensation figures do not take into account the differences in California’s cost of living—and especially the very high housing costs in most of the regions where UC campuses are located—relative to the cost of living for comparable universities.

Because of the premium employees place on cash compensation (an area in which UC is well below market) and the exorbitant cost of housing in California, UC compensation, arguably, may be below market for many employees.

The Task Force understands that the issues to be examined in reviewing the balance of cash compensation versus health and retirement benefits are very complicated and may differ among employee groups. In addition, the Task Force recognizes that for represented employees, these important issues are subject to the collective bargaining process.

**RECOMMENDATION**

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.

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

The financial challenges faced by the University put it at a distinct competitive disadvantage in recruiting and retaining faculty, senior leaders, and staff. This challenge is exacerbated by the location of the UC campuses in some of the most expensive communities in America, characterized by unusually high housing costs (or considerable commuting distances from affordable housing).

The rising wealth of its peer universities and the escalating price of housing in UC campus communities make it essential that the University benchmark its compensation on a regular basis to ensure competitive compensation. Independent benchmarking data, like that used in the California Postsecondary Education Commission's and other independent market studies, is crucial to analyzing the competitiveness of UC compensation relative to its peers, particularly the top-tier public and private universities with which UC most often competes for talent.

**RECOMMENDATION**

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.**

Competitive compensation is critical to sustaining the University's excellence and contributions to California. In view of the intensely competitive marketplace for faculty, staff, and administrative leadership, the University must establish strong oversight of its compensation so that it does not find itself in this situation again. In January 2006, the Regents established a Compensation Committee to oversee these issues. The Task Force acknowledges and supports this move.

In the coming months and years, the Compensation Committee must address a number of critical questions. For example,

- How, in today's extremely competitive market and given its lower overall resources, compared especially with its private competitors, can the University compensate employees at the levels needed to maintain its quality and ensure its continued ability to contribute to the overall economic and social health of the State of California?
- How should the University's compensation practices best balance the need to respond to the demands of the market, recognize individual merit, and provide equity among employees?
- Are faculty and other salary scales out-of-step with today's market and, if so, has this misalignment contributed to increases in the number of "exceptions" to policy?
- Can and should compensation packages be simplified (for example, by combining one-time cash payments and special allowances for housing, transportation, etc. into a signing bonus at the time of appointment in cases where base pay is inappropriately low)?

**RECOMMENDATION**

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 with better-funded institutions for employees and the sometimes competing demands of market, merit, and equity.

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*“Competitive compensation is critical to sustaining the University’s excellence and contributions to California.”*

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## Conclusion

The Task Force believes it essential that the University's leadership carefully craft its compensation policies and practices, rigorously implement and enforce them, and hold senior leaders accountable.

*UC needs a sea change* in current policies and practices, as well as in a University culture long accustomed to using exceptions to work around inadequate or obsolete policies rather than establishing and ensuring compliance with clear guidelines. To institutionalize and sustain the Task Force's recommendations, the University must focus simultaneously on disclosure and transparency, governance and accountability, and competitive compensation.

***The Task Force challenges the University to hold itself accountable to the public that supports it.*** In approaching the tasks laid out in this report—which will require several years to complete if done well—the University must articulate its goals publicly, embark on a process that is appropriately open, and communicate the results to the public, the Governor and the Legislature, internal stakeholders, and other interested parties. Anything short of this will further erode the public trust and confidence necessary to sustain the University.

Additionally, as a final step in this accountability process, ***the Task Force urges the Regents to authorize, in three years, a similarly constituted, independent body to review and report back on the University's progress in these areas.***

In closing, we state unequivocally that the Task Force takes this strong stance, expressed with a tone of urgency, *to protect the institution that is the crown jewel* in California's higher education system and the envy of every state as well as countless nations. The University of California is not only the finest public university in the world; *it is a vital positive force in the everyday lives of the people of California.* Indeed, the State of California has benefited enormously from its investment in the University.

It is clear that preserving the quality of the University of California requires compensation policies, programs, and practices capable of attracting and retaining top academic, administrative, and staff talent in an ever more competitive global marketplace. The leadership of the University must meet its obligations of stewardship for the considerable investments of past generations of Californians to build such a remarkable institution, while accepting the responsibilities to preserve and enhance this quality for future generations.

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*“UC needs a sea change in... University culture.... The Task Force takes this strong stance... to protect the institution that is the crown jewel in California's higher education system and the envy of every state...”*

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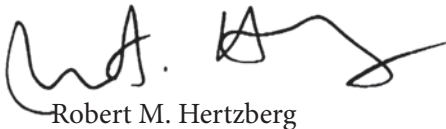
## Letter from Task Force Members

We, the members of the Task Force on UC Compensation, Accountability, and Transparency, declare that this report represents our best understanding, analysis, and guidance concerning the issues around UC compensation policies and practices. The issues raised in this report are substantive and demand diligent efforts at reform and rectification. We intend our recommendations to inform these efforts.

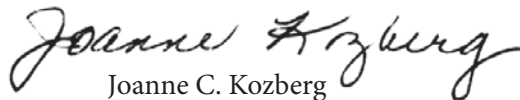
The extensive deliberations of the Task Force were based on information provided by a number of internal and external sources. Our recommendations were arrived at after considering all available information and by rigorously examining the practices, policies, and processes that have guided past compensation decision-making. We acknowledge that issues could arise in the future that might well affect our conclusions and recommendations.

We hereby submit this report.

Sincerely,



Robert M. Hertzberg  
Co-Chair



Joanne C. Kozberg  
Co-Chair



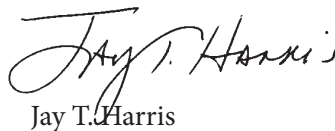
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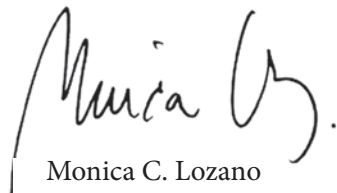
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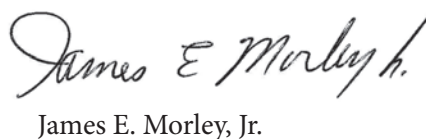
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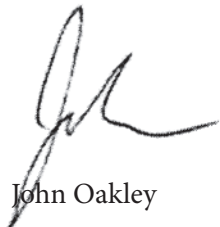
Jay T. Harris



Monica C. Lozano



James E. Morley, Jr.



John Oakley

## Task Force Members

### **Robert M. Hertzberg, Co-Chair**

Hertzberg is former Speaker of the California State Assembly from 2000-2002. He is currently a Partner at global law firm Mayer, Brown, Rowe & Maw, LLP.

### **Joanne C. Kozberg, Co-Chair**

Kozberg is a Partner at California Strategies, LLC, a public affairs consulting firm. She formerly served as President and Chief Operating Officer of the Music Center of Los Angeles County and as California's Secretary of State and Consumer Services. She is also a member of the UC Board of Regents.

### **Dede Alpert**

Alpert is the Special Advisor in Public Policy and Strategic Planning at Nielsen, Merksamer, Parrinello, Mueller & Naylor, LLP. She served in the California State Assembly for three terms and in the State Senate for two terms. In the Legislature, Alpert chaired the Education Committee of both houses in addition to many other committees.

### **James J. Duderstadt**

Duderstadt is President Emeritus and University Professor of Science and Engineering at the University of Michigan, where he serves as Director of the Millennium Project and also directs the University's program in Science, Technology, and Public Policy. 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**

Hagopian is Managing Partner of Apple Oaks Partners, LLC, a private investment company. In 1972, he co-founded Brentwood Associates, a high-technology venture capital and private equities firm. Hagopian 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**

Harris is 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 also serves as the founding director of The Center for the Study of Journalism and Democracy at USC.

### **Monica C. Lozano**

Lozano is Publisher and Chief Executive Officer of La Opinión, the largest Spanish-language daily newspaper in the U.S., as well as Senior Vice President of ImpreMedia, LLC. She serves on numerous corporate and non-profit boards, and is a former member of the California State Board of Education. She is also a member of the UC Board of Regents.

### **James E. (Jay) Morley, Jr.**

Morley has served for the past 10 years as President and CEO of the National Association of College and University Business Officers (NACUBO), a Washington, D.C.-based organization dedicated to higher education administrative and financial issues. He is former Senior Vice President at Cornell University.

### **John Oakley**

Oakley is Chair of the UC systemwide Academic Senate, which represents the faculty in the shared governance of the University. Oakley is Professor of Law at the University of California, Davis, where he has been on the faculty since 1975. He is also an Associate in the Department of Philosophy at UC Davis.





# THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

1111 Franklin Street, 12th Floor  
Oakland, CA 94607-5200

December 19, 2005

Ms. Dede Alpert

Dear Ms. Alpert:

Thank you for agreeing to serve on the Task Force on University Compensation that will be co-chaired by former Speaker Robert Hertzberg and Regent Joanne Kozberg. I greatly appreciate your investment of personal time in helping the University address critical issues of public accountability and institutional competitiveness as expressed through our compensation program.

The Task Force shall advise the Chairman of The Regents on how to improve the University of California's policies and practices governing the compensation of faculty and senior managers and the disclosure of such compensation to The Regents and the public. In order to accomplish this task, please:

1. Review the current Regents' compensation policies and practices for faculty and senior managers, and recommend appropriate changes, and
2. 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 the law.

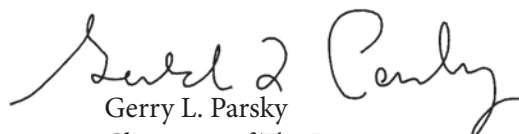
In doing so, please review the compensation policies and practices, as well as disclosure policies and practices, for faculty and senior managers at other universities.

As you carry out these tasks, please bear in mind that California's economic competitiveness and social well being, as well as the educational attainment and upward social mobility of its residents, is dependent on the University's academic excellence and student access. This, in turn, is dependent in some measure on achieving The Regents' goal of providing competitive compensation for its faculty and administrative employees.

I ask that you report the recommendations of the Task Force to me by March 1, 2006, and provide The Regents with an interim report at the January Regents' meeting. The report of the Task Force will be released to the public.

My office will be in touch with you shortly to schedule the first meeting of the Task Force. In the meantime, please let me know if you have any questions.

Sincerely,

  
Gerry L. Parsky  
Chairman of The Regents

## REGENTS' POLICIES

### PRINCIPLES FOR REVIEW OF EXECUTIVE COMPENSATION

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.

**SAMPLE APPOINTMENT COMPENSATION DISCLOSURE FORM**

**COMPENSATION FOR THE APPOINTMENT OF [INDIVIDUAL'S NAME]  
AS [POSITION] OF [UC LOCATION]**

As [position] of [UC location], [individual's name] will receive a salary of \$260,000. (This is the same salary as his predecessor, [predecessor's name], as well as the salary for [same/comparable position at different UC location]). [Individual's name] currently receives a salary of \$234,000, representing an increase of \$26,000.

[Individual's name] will continue to participate in the University of California Senior Management Group which includes the Senior Management Supplemental Benefit Plan in which he is eligible to receive 5 percent of his base salary in supplemental contribution to his retirement plan. [Individual's name] will also receive a car allowance of \$743 per month. This brings his total ongoing compensation to \$281,916. There is no one-time compensation (e.g., signing bonus, relocation, other one-time expenses).

<p><b>TOTAL EMPLOYEE COMPENSATION</b> Including, if applicable, salary, perquisites, future benefits, other (DETAILS ATTACHED)</p>	<p><b>\$281,916</b></p>
<p><b>TOTAL ONE-TIME COMPENSATION</b> Including relocation and other one-time expenses (DETAILS ATTACHED)</p>	<p><b>0</b></p>
<p><b>EXCEPTIONS TO POLICY</b> <input type="checkbox"/> YES <input checked="" type="checkbox"/> NO</p>	<p><b>Explanation of exceptions</b> <b>N/A</b></p>

\_\_\_\_\_  
Signatory

Title

THESE PAGES WILL BE MADE AVAILABLE TO THE PUBLIC  
UPON APPROVAL BY THE REGENTS

ITEM	ELIGIBILITY		AMOUNT	EXCEPTION TO POLICY
<b>SALARY</b>				
Base salary	YES		\$260,000 per year	NO
Additional salary (Stipend, etc.)		NO		-
<b>PERQUISITES</b>				
Leased automobile		NO		NO
Automobile allowance	YES		\$743 per month	NO
Senior Manager Life Insurance	YES		As a member of the SMG, this benefit is automatically included	NO
Executive Business Travel Insurance	YES		As a member of the SMG, this benefit is automatically included	NO
Mortgage Origination Program (MOP) loan		NO		-
Supplemental Home Loan Program (SHLP)		NO		-
University-provided housing		NO		-
Educational expenses		NO		-
<b>ONE-TIME PAYMENTS</b>				
Incentive and other performance payments If yes, specify type of payment: _____		NO		-
Relocation allowance		NO		-
Temporary Housing Allowance		NO		-
Moving Expenses		NO		-
<b>FUTURE BENEFITS</b>				
Senior Manager Severance Pay Plan (SMSPP)	YES		Eligible to receive 5% of base salary in supplemental contribution to retirement plan, for total of \$18,485 per year at current base salary	NO
Post-retirement employment	YES			NO
Consultant/independent contractor compensation		NO		-
Sabbatical		NO		-
Specialized Health Benefit		NO		-
Specialized Retirement Benefit		NO		-
<b>OTHER</b>				
Administrative fund allocation		NO		-
Other If yes, specify type of payment: _____		NO		
<b>STANDARD BENEFITS</b>				
Incentive Award Opportunity	YES			<i>Note: These standard benefits are available to all University of California employees, and therefore not subject to Regents' approval.</i>
Health and welfare benefits (including medical, dental, vision; life and basic disability insurance)	YES			
Legal coverage, supplemental life/disability insurance, AD&D, healthcare and dependent care pretax reimbursement accounts	YES			
Retirement benefits from UCRP	YES			
Vacation accrual based on length of service (18-24 days)	YES			
Sick leave	YES			
13 paid holidays a year	YES			
Two-thirds reduction in registration and educational fees (for employees who qualify for admission to UC)	YES			

**Task Force on Compensation, Accountability & Transparency**

Research Documents prepared by Deloitte Consulting LLP  
Summary as of April 5, 2006

<b>Doc. #</b>	<b>Description</b>	<b>Page</b>
1.	Compensation Disclosure and Oversight of Positions.....	35
2.	Observations Regarding Proposed Compensation Disclosure Form...	37
3.	Overview of Outside Board Positions.....	41
4.	Overview of Sabbatical or Academic Leave Policies.....	43
5.	HR Benchmarking Assessment.....	45

Prepared by Deloitte Consulting, LLP

**UC Board of Regents  
Compensation Disclosure and Oversight of Positions  
4/4/06**

The UC Board of Regents needs to define the scope of positions for oversight and disclosure. This group should include the current 32 positions plus some combination of the highest position levels/titles and the highest compensated at each campus, medical center and laboratory. The goal is to increase the size of the group to a reasonable level to ensure comprehensive review and oversight by The Board.

Deloitte Consulting LLP was asked to review payroll data and UC organizational structure to identify key positions for Regental oversight. All data sources were provided by UCOP. Each individual is counted only one time, although they may qualify for more than one category (e.g., a Chancellor would fall into categories A, B, and C but is only counted once in Category A).

**The breakdown for UC positions by title and pay level is as follows:**

(Note: the numbers do not reflect any overlap – see Definitions for details)

Categories	Total
<b>A. Top 32</b>	<b>32</b>
<b>B. Top 5 Highest Paid at each Campus, Medical Center and Laboratory</b>	<b>52</b>
<b>C. Top 5 Campus Positions</b>	<b>56</b>
<b>D. Additional Vice Chancellors</b>	<b>27</b>
<b>E. Top 5 Medical Center Positions</b>	<b>25</b>
<b>F. Top 3 Laboratory Positions</b>	<b>6</b>
<b>G. Professional School Deans</b>	<b>22</b>
<b>H. Senior Management (SMG) Group Deans</b>	<b>67</b>

**Suggested Combinations**

The following outlines the suggested combinations of employees to balance The Regents' responsibility of compensation oversight with a reasonable number of positions.

Combinations	Total
<b>1. Top 32 + Top 5 Highest Paid + Top Campus, Medical Center and Laboratory Positions (A+B+C+E+F)</b>	<b>171</b>
<b>2. Top 32 + Top 5 Highest Paid + Top Campus, Medical Center and Laboratory Positions + Additional Vice Chancellors (A+B+C+D+E+F)</b>	<b>197</b>
<b>3. Top 32 + Top 5 Highest Paid + Top Campus, Medical Center and Laboratory Positions + All Vice Chancellors + Professional School Deans (A+B+C+D+E+F+G)</b>	<b>264</b>
<b>4. Top 32 + Top 5 Highest Paid + Top Campus, Medical Center and Laboratory Positions + All Vice Chancellors + Professional School Deans + All SMG Deans (A+B+C+D+E+F+G+H)</b>	<b>286</b>

**Deloitte Recommendation:**

Deloitte recommends adopting either Combination #1 or #2. These groups allow The Regents to maintain a reasonable number of employees for effective and comprehensive review and oversight. Combination #2 includes all Vice Chancellors.

*Alternatively, if The Regents want to limit the number of highest paid positions to the Top 3 by location, this would reduce the total number of positions to: **Combination #1 = 142; Combination #2 = 168**. This total would be consistent with the 122 to 150 position range previously discussed by the Task Force.*

Definitions	Total
<b>A. Top 32</b> – The Top 32 University Positions as defined by The Board of Regents	32
<b>B. Top 5 Highest Paid</b> – The top 5 highest paid positions at each location, defined by total cash compensation. This is net of Chancellors, Laboratory Directors, and Medical Center Directors already included in the Top 32.	52
<b>C. Top 5 Campus Positions</b> – The top 5 positions by title at each campus by title plus any special positions identified by The Regents. (E.g., Certain Vice Chancellors with administrative or fund-raising responsibilities.) This is net of any positions already included in the Top 32 and Top 5 Highest Paid.	56
<b>D. Additional Vice Chancellors</b> – All Vice Chancellors, net of those included in the Top 5 Campus Positions.	27
<b>E. Top 5 Medical Center Positions</b> – The top 5 positions by title at each medical center. This is net of any positions already included in the Top 32 and Top 5 Highest Paid.	25
<b>F. Top 3 Laboratory Positions</b> – The top 3 positions by title at each Laboratory. This is net of any positions already included in the Top 32 and Top 5 Highest Paid.	6
<b>G. Professional School Deans</b> – Deans of certain professional schools such as the Haas School of Business, not included in any other categories	22
<b>H. Senior Management (SMG) Group Deans</b> – as defined by UCOP	67

Prepared by Deloitte Consulting, LLP  
4/4/2006

## **University of California** **Observations Regarding Proposed Compensation Disclosure Form**

### **Proposed Disclosure Form**

The University of California has proposed a format for reporting an individual's compensation to the Board of Regents, and ultimately the public, which is attached. Currently, there is no reporting format in place that captures all the elements of compensation and/or plan participation. The proposed reporting form is clearly a step in the right direction, as it consolidates all elements of pay and plan participation in one place.

### **Observations**

Deloitte Consulting LLP has reviewed the form and has a number of recommendations.

1. Leading Disclosure Practices – New SEC Rules
2. Leading Disclosure Practices – Other Universities
3. Proposed Disclosure Compared to Leading Practices
4. Disclosure of Expense Reimbursement for Senior Management

#### **1. Leading Disclosure Practices – New SEC Rules**

The Securities and Exchange Commission (SEC) recently proposed a number of changes to the reporting of executive compensation after more than a year of studying how to improve shareholders and other interested parties' understanding of the company's compensation practices. The most significant proposals are discussed below:

- **Compensation Discussion and Analysis (CD&A):** Companies will now be required to disclose, in narrative form, a detailed explanation of the company's pay practices. The SEC will require disclosure of the pay philosophy, the reasons for different compensation programs, the peer group (or groups) used to establish pay levels, performance measures considered in paying incentives or setting compensation levels, etc. Essentially, the SEC wants an explanation of "How Much", "How Provided" and "Why." The new CD&A replaces the current compensation committee report, which has become a boilerplate discussion that conveys very little insight into the company's pay decisions.
- **Summary Compensation Table (SCT):** The SEC indicates in the proposing release that there has been significant demand from investors to have "one number" for total compensation. Thus, the new SCT includes a "Total Compensation" Column, and perhaps more importantly, requires the inclusion of several elements of compensation that were either not disclosed or were not monetized. For example, Total Compensation will now include the grant date value of stock options, interest on deferred compensation, the increase in the present value of an executive's defined benefit pension plan, perquisites if such amounts exceed \$ 10,000 in the aggregate (previously, amounts below 10% of base salary or \$ 50,000 did not need to be disclosed) and dividends on restricted stock.



- **Wealth Accumulation Tables:** The SEC has also proposed disclosure of amounts held at year-end or potentially payable to executives in the future. As proposed, deferred compensation balances, the present value of pension plans at retirement and severance payments upon termination of employment must all be disclosed under the new SEC reporting requirements.

## **2. Leading Disclosure Practices – Other Universities**

We have also reviewed the disclosure policies and practices at 4 private universities and 7 public universities.

- **Private Universities:** Based on our research, we found that most private universities have designated compensation committees. These committees disclose compensation information based on existing requirements based on their Form 990 (non-profit) filing requirements. However, the Grassley Report goes beyond the Form 990 disclosures and recommends that the IRS “...revise the Forms 990 and 990-PF to require that a charitable organization disclose the full compensation paid to its chief executive officer and other officers.”<sup>1</sup> The goal is to provide greater transparency and to identify the practices of organizations that may be providing excessive compensation.
- **Public Universities:** Public universities who are required to comply with a state public disclosure act requirements primarily disclose and publish base salary information once a year. Most public universities do not have a specifically designated compensation committee of the board who is responsible for reporting or disclosing compensation information. Compensation reporting and disclosure is typically one of the other functions performed by the audit committee or full board.

Only one of the comparator universities disclosed compensation information proactively in a press release. Overall, among the universities reviewed, we did not identify any proactive compensation disclosure approaches that we would consider a leading practice.

## **3. Proposed Disclosure Compared to Leading Practices**

We have the following observations regarding how the proposed disclosure format compares to “Leading Practices”:

- **Competitive reference point(s):** The proposed reporting form has a column where the Regent’s will be informed if the base salary is an “Exception to Policy.” We assume a “No” response means the proposed salary is within the salary band assigned to that position.

We examined historical Senior Management Advisory Committee meeting and staff notes, Presidential salary actions and approval authority requests. It appears that the University conducts competitive market comparisons when recruiting/appointing specific executive positions or when facing an executive

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<sup>1</sup> Panel on the Nonprofit Sector, Strengthening Transparency, Governance, Accountability of Charitable Organizations, a final report to Congress and the Nonprofit Sector, June 2005, p. 67.

retention situation. It is less clear if the practice of reviewing comparative market data occurs on a regular basis. We believe it is a leading practice for the Regents (or whoever has the responsibility for approving pay) to review a comparison of the proposed pay level to market data on an annual basis. The market comparison should benchmark to the 25<sup>th</sup>, 50<sup>th</sup> and 75<sup>th</sup> percentile data. This data is essential for the Regents to exercise their fiduciary responsibility to monitor compensation levels. [It is possible this data is currently being provided to the Regents, and we believe it would be a very helpful addendum to the disclosure form. We do not recommend, however, that this addendum be disclosed to the public, only that it be part of the internal reporting package.]

- **Multi-year data:** The current reporting format focuses on one year of data. Due to the detailed nature of this information, we understand the desire to streamline the disclosure form. Based on our experience, however, we believe it is exceedingly important that the Regents have a detailed compensation history before approving a specific pay package. Thus, we would recommend, if it is not currently being provided to the Regents, that they receive at least three years of historical salary, incentive and deferred compensation data as part of the compensation approval process. This historical information would be another addendum to the proposed disclosure form.
- **Monetization of all material amounts:** We believe that the current disclosure form would be greatly enhanced if the incentive award opportunity and increase in retirement benefits from UCRP were monetized and disclosed. We would also recommend that all other material amounts be monetized and shown on the form. We note that the proposed disclosure form reports a monthly car allowance of \$743, which we believe is appropriate. However, it is very possible that the increase in the present value of the retirement plan as well as other arrangements could be significantly more valuable than the car allowance, and such amounts should be disclosed.
- **Total Compensation:** We also recommend that a Total Compensation line be added to the bottom of the Detailed Form. This will provide a comparable point-of-reference that facilitates compensation discussions. The proposed SEC rules would define “total compensation” to include salary, bonus, incentive plan compensation and all other compensation. “All other compensation” includes earnings on deferred compensation, increases in pension value, perquisites and other personal benefits, amounts paid or accrued in connection with any termination of employment, annual contributions or other allocations to vested and unvested defined contribution plans, the dollar value of any insurance premiums paid with respect to life insurance for the benefit of an executive, and “gross-ups” or other amounts reimbursed during the fiscal year for the payment of taxes.<sup>2</sup>
- **Wealth Accumulation:** We recommend that the end of year deferred compensation balance, present value of the UCRP retirement benefit and potential payments under any severance arrangement also be disclosed to the

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<sup>2</sup> Securities and Exchange Commission, 17 CFR PARTS 228, 229, 239, 240, 245, 249 AND 274, RELEASE NOS. 33-8655; 34-53185; IC-27218; FILE NO. S7-03-06, RIN 3235-AI80, Proposed Changes to Disclosure Requirements Concerning Executive Compensation and Related Party disclosure, pages. 26 - 52

Regents. These amounts represent significant obligations of the University, thus it is important that the Regents be fully informed about the value or potential value of these arrangements. Severance, in particular, has been an area of intense media scrutiny, and such arrangements need to be fully disclosed, internally as well as externally.

#### **4. Disclosure of Reimbursable Expenses for Senior Management**

First, the criteria for determining whether expenses are reimbursable are typically covered under Travel and Expense (T&E) policies.

Whether reimbursable expenses should be disclosed is a separate issue. We recommend that reimbursable expenses should be disclosed if they are treated as taxable income to a recipient senior manager/executive.

Reimbursable expenses not considered "ordinary and necessary" business expenses are deemed a perquisite or of personal benefit to the individual. This applies without regard to whether the expense may be provided for a business reason or for the convenience of UC, unless it is generally available on a non-discriminatory basis to ALL UC employees.

Additionally, reimbursable expenses not integrally and directly related to performing one's job are typically treated as taxable income to the senior manager/executive. Applying this test, any reimbursed expenses treated as taxable income should be disclosed. Examples would include reimbursed housing and other living expenses (including relocation assistance), club memberships not used exclusively for business and entertainment purposes, personal financial or tax advice, personal travel using vehicles owned or leased by UC, personal use of other property owned or leased by UC, etc.<sup>3</sup>

Further, we recommend the disclosure of non-taxable reimbursable expenses that exceed a threshold to be set forth in a policy statement to be reviewed on a regular basis by the to-be-appointed Compensation Disclosure Officer.

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<sup>3</sup> Securities and Exchange Commission, 17 CFR PARTS 228, 229, 239, 240, 245, 249 AND 274, RELEASE NOS. 33-8655; 34-53185; IC-27218; FILE NO. S7-03-06, RIN 3235-AI80, Proposed Changes to Disclosure Requirements Concerning Executive Compensation and Related Party disclosure, pages. 46 - 48

**Summary Recommendations**

- Monetize material items, such as incentive award opportunity and increase in retirement benefits from UCRP
- Add a Total Compensation line to bottom of detailed form
- Include severance benefits, bringing awareness to their existence and potential amount
- Disclose other wealth accumulation data such as pension present value
- Use two addendums when approving pay – multi-year data and competitive data
- Disclose all reimbursed expenses that are treated as taxable income and disclose non-taxable reimbursable expenses that exceed a threshold.

Prepared by Deloitte Consulting, LLP  
3/21/2006

## **Overview of Outside Board Positions**

2/20/06

### **University of California Policy Summary**

1. The University of California has two policies regarding outside board service for administrators and one policy for faculty:
  - a. **Administrators** - *Regental Policy*: Outside Professional Activities for the President, Principal Officers of The Regents and Officers of The Regents (3/17/1995) and *Presidential Policy*: Guidelines for the Policy on Outside Professional Activities for University Officers & Designated Staff (9/1/2000). Both policies stipulate that any outside activities should benefit the state, nation and public at large. They also state the following:
    - i. Any activities undertaken by the Principal Officers of Board, Officers of the Regents, the President, or Senior Managers must be approved in writing by a direct supervisor, or in the case of The Board of Regents the Chairman.
    - ii. University of California does not place any limitations on compensation or income that can be earned by the executive level group. However, they require all compensated and uncompensated participation to be reported and approved annually by the appropriate level.
    - iii. An individual must use vacation hours, if their outside activities interrupt their regular work time.
  - b. **Faculty** - Academic Personnel Manual Section 025 (APM-025) (7/1/2001) provides a mechanism to ensure activities outside the University do not interfere with fulfillment of faculty responsibilities. It states the following:
    - i. Serving on the board of directors of an outside entity is categorized as an activity that is unlikely to raise issues of conflict of commitment. It is "ordinarily accepted as a regularly performed compensated outside professional activities." Consequently, they are usually allowed without prior approval.
    - ii. Outside board service is allowed for a maximum of 39 days during an academic year appointment during the fall and spring semesters, and 48 days during a full year appointment. No limit is placed on outside service during summer months for academic year appointments or during vacation leave.
2. Designated officers of the University are required to file annually a Statement of Economic Interests (Form 700 or Form 700-U) in accordance with reporting requirements of the Political Reform Act and the Fair Political Practices Commission. As part of this report, they must disclose income from service on outside boards.

### **Comparator Universities (7 responses to-date)**

#### ***Public Universities***

1. At most public universities, no formal policies exist regarding outside Board positions; however, most rely on Conflict of Interest disclosures to identify any outside activities.
2. Several public universities rely on the approval process (by supervisor) with respect to outside activities. For example, there are no restrictions to the number of positions, however, must be disclosed and approved by the appropriate supervisor.
3. For some public universities, there are no restrictions or approval required for Board of Regents. For non-Board employees, supervisor approval is required.
4. One public university does not allow officers to serve on compensated Boards.
5. State law requires one public university to impose an earnings cap if individuals earn outside income within another state government agency.
6. One public university requires compensation received for outside service during normal work hours must be remitted back to the university, unless the individual is on vacation or leave.

#### ***Private Universities***

1. Among private universities, there are limitations based on time commitment.
2. Similar to public universities, outside Board positions must be disclosed and approved by the supervisor for most employees and are subject to Conflict of Interest policies.
3. One private university will not allow individuals to spend more than 20% of their time to outside interests. This university also establishes some constraint on the amount of outside income that can be earned.
4. Another private university focuses on the level of commitment required. An individual's involvement in outside activities is determined on a case-by-case basis. No restrictions for Board members on number of activities or outside income.

#### **External Resources**

1. The Institutional Shareholder Services' report stated that executives should be limited to 3 outside Board positions. However, if the individual is a CEO, they should be limited to 2 outside Boards.
2. The Conference Board survey, Director Compensation and Board Practices in 2005, indicated that 26% of 425 companies in the manufacturing, financial and service industries place limitations on outside directorships.
3. Other research indicates that several large organizations, such as Sears and Allied Capital, limit the number of outside directorships; these can range from 2 to 5.
4. Wall Street Journal reported that in 1997 S&P 500 CEOs served on an average of 2 boards. Today, that number has dropped to less than one (0.9%).

Prepared by Deloitte Consulting, LLP  
2/20/2006

**University of California**  
**Overview of Sabbatical or Academic Leave Policies**

3/27/06

**University of California Policy Summary**

1. UC allows Senior Managers, who hold academic titles that enable them to qualify for accrual of sabbatical leave credit, continue to accrue credit while serving in an administrative role. Sabbatical leave taken by an eligible Senior Manager must be approved by the Chancellor. Professional leave may be approved for Senior Managers who accrue sabbatical credit only in lieu of taking sabbatical leave.
2. Sabbatical compensation shall be based on the administrative salary of the Senior Manager unless some of the sabbatical leave credit was accrued as an academic appointee, in which case an appropriate fraction of the sabbatical compensation shall be based on the salary of the academic appointment. Currently, there is no official process or policy which governs approval of exceptions.

**Comparator Universities (7 responses to-date)**

As of March 27, 2006, we received responses from 7 universities, however not all 7 universities responded to all questions. The responses by topic are as follows:

- a. *General*: Public Universities - 3 Responses; Private Universities - 2 Responses
- b. *Sabbatical Pay Determination for Faculty to Administrative Role*: Public Universities - 3 Responses; Private Universities - 2 Responses
- c. *Payment of Sabbatical Accrued at Other Universities*: Public Universities- 1 response; Private Universities - 3 Responses

**Public Universities**

1. ***General***
  - a. At most public universities, formal policies regarding sabbatical leaves for administrators do not exist.
  - b. At one public university the sabbatical or academic leave policy applies to all faculty members who have at least 7 years of service with the University. The leave must be approved / recommended by: the faculty member's department chair, the dean, the President and the Regents of the University.
2. ***Sabbatical Pay Determination for Faculty to Administrative Role***
  - a. One public university does not provide sabbaticals to administrators. However, if an administrator is transitioning from an administrative role to a faculty role, he or she will be allowed one academic semester to prepare to teach. Additionally, the employee will be required to submit a report of work accomplished during their transition period.
  - b. Another public university removes all sabbatical privileges once a faculty member assumes an administrative role.

**3. *Payment of Sabbatical Accrued at Other Universities –***

- a. One public university does not pay sabbaticals that were accrued at other institutions. Other public university respondents did not respond to this question.

**Private Universities**

**1. *General***

- a. Several private universities do not have official policies regarding sabbaticals and academic leaves.
- b. One private university allows individual to negotiate the terms of their sabbatical. However, most administrators with tenured faculty appointments, who have served a full term of at least 5 years, and are returning to faculty, will receive a one-year leave.

**2. *Sabbatical Pay Determination for Faculty to Administrative Role***

- a. One private university offers administrative stipends for employees that transfer from a faculty to an administrative role with approval from the Executive Compensation Committee.
- b. Another private university considers all tenured employees faculty, even if he/she takes on an administrative role. By adding an administrative component to the faculty role, the employee will receive an administrative supplement on top of their faculty salary. The administrative supplement vests 10% per year. Therefore if an employee works in an administrative role for 10 years, and then decides to return to faculty, he/she will take the entire (100%) of the administrative supplement with them and will be paid at their vested salary rate. This salary rate will also apply to any sabbatical or paid leave.

**3. *Payment of Sabbatical Accrued at Other Universities***

- a. Two private universities do not allow the payment of a sabbatical accrued at another academic institution, nor would they offer a sign-on bonus to compensate for accrued sabbaticals.
- b. One private university indicated that they have seen credit given toward a sabbatical earned at another institution. This happened in few cases when a recruit was on leave at the time of hire, and the new institution paid the “penalty” owed since the employee was not planning to return post leave. This university has offered credit toward eligibility for their dependent tuition plan, but never cash.
- c. Another private university does not have a formal sabbatical policy or a policy to buy-out sabbaticals.

Prepared by Deloitte Consulting, LLP  
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## **HR Benchmarking Assessment**

Deloitte Consulting Study – August 2005

Summary of HR Technology Findings

2/28/06

**Background:** Deloitte Consulting LLP was engaged to conduct a system-wide assessment of HR activities including Office of the President (UC OP), 10 campuses, 5 medical centers and 3 national laboratories. This included interviews of Chief Human Resource Officers (CHROs) at 19 locations, UC OP interviews and external benchmarking. HR activities for Academic Affairs were excluded.

### **Summary of Key Findings: HR Organization and Technology**

- UC operates under a highly decentralized model. Certain functions are handled centrally at UC OP (labor relations, benefits, senior management compensation, staff compensation (non-academic) and HR policy), but the locations (campuses, medical centers and labs) do not formally report to UC OP HR.
- Each of the locations has adopted its own HR vision and strategy for HR operations – resulting in a wide variation of priorities, activities performed, deployed technologies and technology strategies.
- There is no central HR Information System. There is a central payroll system that is fed information from the locations; however, some of the locations have developed customized HR “systems” and databases which interface with the central payroll system.
- The current payroll system (PPS) is outdated and requires extensive resources for development and maintenance. The absence of a central HRIS also contributes to the need for a higher number of technical/professional positions across UC locations compared to external benchmarks.
- There are currently 6 separate ERP systems in place (Enterprise Resource Planning systems such as Peoplesoft and Oracle) and 15 separate data warehouses at the locations.
- Due to lack of central HR Information System and the multiple separate systems at the locations, there is lack of standardization in data reporting, extensive manual and redundant processes, and customized workarounds at some locations, leading to inconsistency and potential risk to the University.
- Economy of scale has not been realized for UC’s system-wide purchasing power, resulting in duplicative investments and resources.

**Prepared by Deloitte Consulting, LLP**

**2/28/2006**



- <sup>1</sup> See pp. 31 for the Regents' Principles; also available at: [www.universityofcalifornia.edu/regents/policies/6154.html](http://www.universityofcalifornia.edu/regents/policies/6154.html).
- <sup>2</sup> See pp. 31 for the Regents' Principles; also available at: [www.universityofcalifornia.edu/regents/policies/6154.html](http://www.universityofcalifornia.edu/regents/policies/6154.html).
- <sup>3</sup> See pp. 36-37 for the Regents' Principles; also available at: [www.universityofcalifornia.edu/regents/policies/6154.html](http://www.universityofcalifornia.edu/regents/policies/6154.html).
- <sup>4</sup> The statement is available at: [www.ucop.edu/ucophome/coordrev/policy/Stmt\\_Stdts\\_Ethics.pdf](http://www.ucop.edu/ucophome/coordrev/policy/Stmt_Stdts_Ethics.pdf).
- <sup>5</sup> Institutional Shareholder Services, "ISS U.S. Corporate Governance Policy 2006 Updates," p. 3, available at: [www.issproxy.com/policy/index.jsp](http://www.issproxy.com/policy/index.jsp).
- <sup>6</sup> According to a 2005 report by the executive search firm Spencer Stuart, in 1998, S&P 500 CEOs served on an average of two outside corporate boards; today, the average has dropped to less than one (0.9) per CEO. See Spencer Stuart, "Spencer Stuart 2005 Board Index," p. 10, available at: [content.spencer-stuart.com/sswebsite/pdf/lib/SSBI-2005.pdf](http://content.spencer-stuart.com/sswebsite/pdf/lib/SSBI-2005.pdf).
- <sup>7</sup> UC Academic Personnel Manual 740-0, Policy on Leaves of Absence/Sabbatical Leaves, available at: [www.ucop.edu/acadadv/acadpers/apm/apm-740.pdf](http://www.ucop.edu/acadadv/acadpers/apm/apm-740.pdf).
- <sup>8</sup> The eight universities UC compares itself with in faculty compensation surveys are: Harvard University, MIT, Stanford University, SUNY-Buffalo, University of Illinois, University of Michigan, University of Virginia, and Yale University. For chancellor and senior management compensation, UC compares itself with 26 comparator universities, consistent with surveys by the California Postsecondary Education Commission. For staff, depending on the employee group, UC compares itself with a broad range of relevant compensation surveys.
- <sup>9</sup> UC Regents' Resolution RE-61, available at: [www.universityofcalifornia.edu/regents/regmeet/sep05/re61.pdf](http://www.universityofcalifornia.edu/regents/regmeet/sep05/re61.pdf).