



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

February 23, 2009

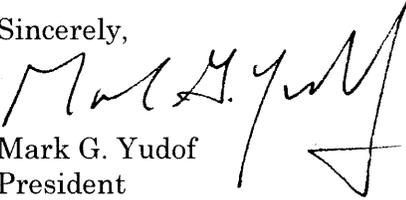
The Honorable Denise Moreno Ducheny
Chair, Joint Legislative Budget Committee
State Capitol, Room 5035
Sacramento, California 95814

Dear Senator Ducheny:

Pursuant to Item 6440-001-0001, Provision 13, of the 2008 Budget Act, enclosed is the University of California's annual *Report on Compensation Policies and Practices*.

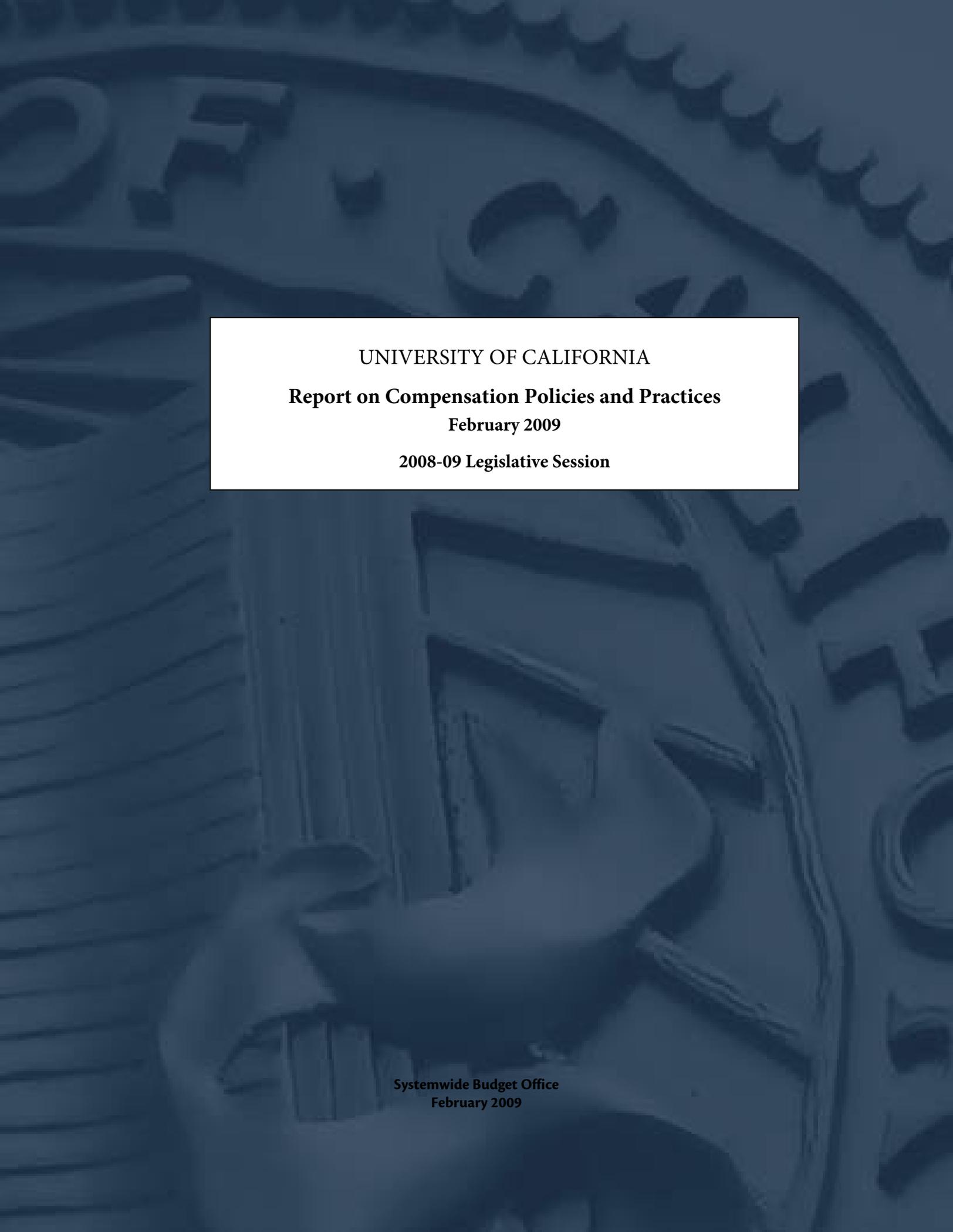
If you have any questions regarding this report, Associate Vice President Obley will be pleased to speak with you. She can be reached by telephone at (510) 987-9112, or by email at Debora.Obley@ucop.edu.

Sincerely,


Mark G. Yudof
President

Enclosure

cc: The Honorable Gloria Romero, Chair
Senate Budget and Fiscal Review Subcommittee #1
(Attn: Ms. Amy Supinger)
(Attn: Ms. Cheryl Black)
The Honorable, Wilmer Amina Carter, Chair
Assembly Budget Subcommittee #2
(Attn: Sara Bachez)
(Attn: Amy Rutschow)
Mr. Mac Taylor, Legislative Analysts
Mr. Mike Genest, Director of Finance
Mr. Dotson Wilson, Chief Clerk of the Assembly
Mr. Gregory Schmidt, Secretary of the Senate
Ms. Diane Boyer-Vine, Legislative Counsel
Ms. Sara Swan, Department of Finance
Mr. Steve Boilard, Legislative Analyst's Office
Joint Legislative Budget Committee (18)
Interim Provost and Executive Vice President Lawrence Pitts
Executive Vice President Katherine N. Lapp
Interim Senior Vice President Daniel Dooley
Vice President Patrick Lenz
Acting Associate Vice President John Cammidge
Associate Vice President and Director Steve Juarez
Associate Vice President Debora Obley

The background of the page features a large, faint watermark of the University of California seal. The seal is circular and contains the text "UNIVERSITY OF CALIFORNIA" around the top edge and "1868" at the bottom. In the center of the seal is a shield with a book and a quill, and a banner below it with the motto "EUREKA".

UNIVERSITY OF CALIFORNIA
Report on Compensation Policies and Practices
February 2009
2008-09 Legislative Session

Systemwide Budget Office
February 2009

UNIVERSITY OF CALIFORNIA
Report on Compensation Policies and Practices
February 2009

The University of California submits this 2009 legislative report in response to Item 6440-001-0001, Provision 13, of the Budget Act of 2008, which states:

“13. It is the intent of the Legislature that the University of California submit an annual report by March 1 of each year through the 2010-11 fiscal year to the Joint Legislative Budget Committee, legislative fiscal subcommittees, and the Department of Finance on the university's progress in reforming its compensation policies and practices, reflecting the criteria specified in Provision 27 of Item 6440-001-0001 of Section 2.00 of the Budget Act of 2006 (Chs. 47 and 48, Stats. 2006).”

The criteria for this report are in Item 6440-001-0001, Provision 27, of the 2006 Budget Act, which states in part:

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

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

EXECUTIVE SUMMARY

The University continues to make significant progress towards satisfying the recommendations of the Task Force on UC Compensation, Accountability and Transparency and related audits. In response to the state budget challenge, the Board of Regents approved President Yudof's proposal to freeze the salaries of 285 top administrators and implement significant restrictions to compensation for an expanded group of senior leadership.

The compensation approval authority and governance for all Senior Management and specified non-Senior Management Group employees was approved by The Regents in September 2008. The first Bi-Monthly Transaction Monitoring Report was presented to The Regents in November 2008.

In 2008 and early 2009, the Board of Regents also approved a series of new and revised senior management compensation policies. Additional policies will be presented to the Regents at future meetings in 2009. Following Regental action and approval, it is intended that a comprehensive communication and training effort will be undertaken during 2009 to ensure that the new and revised policies, as well as the related monitoring and reporting processes, are implemented across the University.

As new compensation related policies are adopted by the University, Internal Audit will continue to work with responsible management in Human Resources and Benefits to identify opportunities for auditing the new policies for compliance with reporting requirements and other elements.

UC continues to make progress in the area of information technology and its employee database. To improve the quality of and access to employee data, the Enterprise Data Warehouse has been fully designed and implemented, and its expansion is proposed as part of the overall HRIS strategy. The University has made substantial upgrades over the past year to its infrastructure in order to support more advanced technologies, and a web-based interface pilot project to facilitate updates to the employee payroll database is scheduled to be implemented in the summer of 2009. Additionally, the Senior Leadership Information System was enhanced in 2008 to provide monitoring and compliance reports to The Regents of compensation actions for senior leadership approved by the President or the Chancellors.

Collectively, these developments and reforms demonstrate the University's strengthened commitment to public accountability and to correcting the administrative deficiencies identified by the recommendations of the April 2006 report of the Task Force on UC Compensation, Accountability, and Transparency; the Price Waterhouse-Coopers report; and the Bureau of State Audits' May 2, 2006 report.

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

- Use of a standardized definition of "total compensation" to make explicitly clear all appropriate elements of compensation and which elements require Regental approval.
- Compliance with the presidential policy for public disclosure of compensation information.
- Continuation of the practice of the Regents' Committee on Compensation voting on all compensation recommendations in open session.
- Establishment of a rigorous process of collecting, validating and certifying individuals' total compensation information reported on the Annual Report on Executive Compensation.
- Collection of information from individuals for preparation of the Annual Report on Compensated Outside Professional Activities for calendar year 2008. This information is reported to The Regents at their March meeting and certified as complete and accurate by each individual required to report such activities to The Regents.
- Use of the standard template for reporting of total compensation for senior leaders.
- Public posting of all compensation actions approved by The Regents.
- Provision of the third annual report of salaries of all UC employees in July, 2008.
- Compliance with new procedures regarding press releases to disclose compensation information, including a clear statement of all approved elements of compensation.
- Use of the University's compensation website, which includes compensation actions approved by The Regents and other matters related to compensation, easily accessible to the public.

Significant steps were taken this past year by the University towards reforming its compensation policies and practices in order to address the recommendations from the Task Force report and audits, and for compliance with the requirements under the Budget Act of 2006. Reforms are presented in the following categories in this report:

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

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

ANNUAL REPORTING OF TOTAL COMPENSATION FOR NAMED POSITIONS

Consistent with the Task Force's recommendation on reporting, the University has continued to use the new expanded format for the Annual Report on Executive Compensation, with the next report being presented at the Board of Regents at their meeting scheduled for March 17-19, 2009. The University will forward the portion of this report, as described in the Budget Act language, to the Legislature following review by The Regents at the March meeting.

The population represented in this report includes University senior leaders who were specified in the Budget Act language, including the President, Provost, Executive Vice Presidents, Vice Presidents, Associate/Assistant Vice Presidents, the University Auditor, Principal Officers of The Regents, Chancellors, Vice Chancellors, Deans, National Laboratory Director/Deputy Director, and Medical Center Chief Executive Officers, as well as many others in top management positions whose total potential cash compensation exceeds \$214,000. This report includes compensation details on approximately 545 incumbents and former incumbents in these positions including those in acting capacities.

Information on each employee includes the following:

1. Cash compensation, which includes annualized base salary, annualized stipends, actual payments received under incentive or bonus programs, total actual Health Sciences Compensation Plan (HSCP) payments, and other cash compensation or cash payments which include payments while on sabbatical leave.
2. One-time payments and reimbursements made to the employee or on behalf of the employee to a third party vendor, including relocation allowance, temporary housing reimbursements or allowances, or moving expense reimbursements.
3. Benefits and perquisites, including automobile allowances (annualized rate reported), leased automobiles, senior management benefits (including any life insurance, business travel insurance, and salary continuation for disability), University provided housing, severance benefits, senior management supplemental benefit program contributions, additional post-retirement benefits (including medical coverage, enhanced retirement income benefits, enhanced vesting schedules, etc.), and home mortgage loans provided under University programs (the original loan amount is shown).

REFORM OF COMPENSATION POLICIES AND PRACTICES

The University of California has made progress in reviewing and revising its compensation policies and practices. Through discussion with The Regents, the University has established a governance model to clarify roles, responsibilities and processes related to the revision and approval of senior management compensation policies and to clarify the respective authority and accountability of The Regents, the President and the Chancellors in approving individual compensation actions (more information on this governance model is provided on page 6).

This governance model has been incorporated into a series of new and revised policies approved by The Regents between July 2008 and February 2009, including:

Senior Management Group (SMG) Performance Management Review Process – In addition to assessing achievement toward established goals and objectives, individuals will also be assessed relative to standards and competencies defined in the revised policy.

SMG Salary and Appointment – The new policy provides clear, comprehensive direction for salary setting and defines responsibility and accountability for SMG salary and appointment-related actions.

Reemployment of UC Retired Employees – Under the new policy, reemployment is restricted to no more than 43% time during a continuous 12 month period, and no more than a total of 12 months, subject to extension following the appropriate approval process.

Settlement of Litigation, Claims and Separation Agreements – The amended policy defines the authority of the President to approve certain settlements of claims and separation agreements and the authority of the General Counsel to approve settlements of litigation and claims in order to streamline the Board of Regents' practices and procedures.

SMG Hiring Bonus – The new policy eliminates the practice of using other benefits or compensation in lieu of a hiring bonus, thereby increasing transparency. It defines specific eligibility criteria and limits the maximum amount of a hiring bonus to 20% of the proposed starting base salary.

University-Provided Housing – The revised policy clarifies approval authority for renovation and remodeling of executive officers' residences and clarifies reimbursement provisions for both moving in and moving out of University-provided housing.

SMG Automobile Allowance – The revised policy eliminates the leased automobile program and requires reporting to the President and The Regents of any payments made under the policy.

SMG Moving Reimbursement – The revised policy defines eligibility criteria, increases reimbursable costs for storage from 30 days to 60 days, and requires documented repayment provisions in the event the employee separates prior to completing one year of service.

SMG Relocation Allowance – The revised policy removes a geographical restriction and provides for relocation allowance for moves within California, establishes a combined limit with the new hiring bonus policy, and requires documented repayment provisions in the event the employee separates prior to completing the agreed upon period of service (at least two years).

The continuing goal of this work is to develop policies that are clear, consistent, transparent, easily understood, and provide guidance on when and how exceptions may occur. This process is also addressing conflicts between policies for senior managers and policies for academics, including bringing clarity to those policies for senior managers who also hold academic appointments. The policies have been developed within a new template, which is intended to present policy parameters, approval authorities and compliance and monitoring requirements in a clear and consistent format. The revised policies strengthen internal controls and facilitate greater transparency, compliance and reporting.

During 2009, it is intended that a comprehensive communication and training effort will be undertaken to ensure that the new and revised policies, as well as the expanded monitoring and reporting processes, are implemented across the University. UC is also continuing efforts to complete the review of all remaining compensation policies. It is anticipated that additional SMG policies, including policies on absence from work, transitional leave, and outside professional activities, will be presented to The Regents for discussion and action at future meetings in 2009.

Audits/Compliance Monitoring

During 2008, the University's Internal Auditors conducted the following compensation related audits:

- The Annual Report on Executive Compensation presented to The Regents was reviewed for completeness and accuracy at each location before being certified and submitted by local officials to the Office of the President;
- The Annual Report of Fiscal Year Expenses of the President/Chancellor was reviewed at each location for compliance with policy and consideration of compensable elements;
- The Annual Report of Taxable Expenses of the President/Chancellor was reviewed at each location for compliance with policy and appropriate tax reporting treatment of taxable amounts;
- The procedures for review of travel and entertainment expenses incurred by the President/Chancellor were reviewed at each location for compliance with policy.

In addition, as new compensation related policies are adopted by the University, Internal Audit works with responsible Human Resources management to identify opportunities for auditing the new policies for compliance with reporting requirements and other elements.

HUMAN RESOURCES INFORMATION SYSTEM (HRIS)

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

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

Improve the Quality of and Access to Employee Data

Improvement of payroll data quality through enhanced edits and management reports is an ongoing goal that will be addressed as the review, revision, mapping, programming, and implementation of the UC campus pay codes is completed (referred to as Description of Service, or DOS, codes – please see below for additional information concerning the project to review and revise these payroll codes). Existing edit reports covering pay transactions will continue to be reviewed to ensure consistency with the new campus payroll codes and how they map into Office of the President (UCOP) systems and reports. In addition, the severity levels associated with the edits (e.g., warning, fatal, etc.) are being reviewed, including assessment of the authority currently given to campuses to set such severity levels.

Since early 2007, the UCOP DOS Code Committee has been working with the campuses to revise the campus Payroll/Personnel System (PPS) DOS codes and the mapping of those codes to the systemwide pay categories. Initial work has focused on codes related to the Health Sciences Compensation Plan, housing, honoraria, stipends, perquisites, bonuses, and incentive awards. Changes to date include re-mapping of campus codes to more accurately match the appropriate systemwide pay codes, elimination of unnecessary campus codes, and creation of uniform and consistent campus codes where needed. Current work is ongoing on the "by agreement" and "additional pay" categories.

The Committee has also started work on a searchable DOS Code Data Base and dictionary that will be comprised of the pay codes established by each campus. This application will greatly enhance the ability of UCOP and campuses to further improve the quality of the pay codes and ensure that they are used consistently by locations. The Committee is also developing a new PPS edit to inactivate obsolete and redundant DOS codes. This edit feature will prevent PPS processors from generating future payments using inactive codes and will facilitate the use of new DOS codes introduced by UCOP, which are supported by University policy.

The UCOP DOS Code Committee continues to work with the campus Chief Human Resources Officers, Academic Personnel Directors, and Payroll Managers to identify priorities for change after payroll code changes have been implemented.

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

Develop UC Enterprise Human Resources/Payroll Service Architecture

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

A web-based interface pilot project to facilitate updates to UC’s employee payroll database was initiated in September 2008, and is currently in the requirements development phase. This first phase is scheduled to be implemented in the summer of 2009. This interface will provide for simpler and more accurate data entry into UC’s payroll system.

Provide New Human Resource Applications to Address UC-wide Needs

High-level discussions on the HRIS strategy this past year have inevitably led to discussions on the long-term strategy for payroll. While the Payroll Service Architecture described above certainly facilitates the integration of HRIS applications, the functional owners of the payroll system are considering two additional options: 1) Buy a commercially packaged payroll solution with an integrated HRIS, or 2) Engage in a collaborative development with other Universities to develop a payroll/HR system, perhaps based on another University’s system or a commercial package. Providing HRIS applications under any of these scenarios would require a significant investment, however, which at present is extremely challenging given the current state budget situation. The original Payroll Service Architecture approach is the most incremental approach with the quickest short-term gains, so UC is proceeding with this development in a pilot proof-of-concept mode while the other options are considered.

The Senior Leadership Information System (SLIS) was used to capture compensation and related information for senior leadership and to produce the 2008 Annual Report on Executive Compensation and the Compensated Outside Professional Activities report. SLIS was enhanced in 2008 to provide monitoring and compliance reports to The Regents of compensation actions for senior leadership approved by the President or the Chancellors.

OTHER REFORMS AND ACTIONS

Salaries of Top Administrators Frozen

In response to the state budget challenge, on January 14, 2009, the Board of Regents approved President Yudof’s proposal to freeze the salaries of 285 top administrators and implement significant restrictions to compensation for an expanded group of senior leadership. The proposal took effect immediately, and will remain in effect for the remainder of 2008-09 and through the 2009-10 fiscal year. Because this action occurred in January 2009, outside the parameters of this year’s report, an expanded discussion will be provided in the University’s March 2010 Legislative Report on Compensation Policies and Practices.

Compensation Approval Authority and Governance

At their meeting of September 18, 2008, The Regents approved a recommendation to adjust the Indexed Compensation Level (ICL), which is the amount of total potential cash compensation requiring Regents’ review and

approval, from amounts exceeding \$205,000 to those exceeding \$275,000. The new 2008-09 ICL is intended to identify a meaningful population that requires the review and approval of The Regents.

The adjustment of the ICL to \$275,000, in combination with the *SMG Salary and Appointment* policy approved by The Regents at the same meeting, is consistent with the recommendations in the April 2006 Report of the Task Force on UC Compensation, Accountability, and Transparency. That report states, “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.”

- Regental approval will apply to all compensation actions for all 340 Senior Management Group (SMG) employees, as well as all non-SMG staff who have cash compensation above the new \$275,000 level.
- The compensation level determines the number of compensation transactions required for Regental review and approval. The additional number of non-SMG staff above the new ICL is approximately 34 individuals, resulting in the number of employees subject to Regental approval of approximately 374.

In September 2008, The Regents also adopted clear mechanisms for approvals of compensation actions within policy, as well as heightened reviews and approvals of any actions that are exceptions to policy. These included the following features, specifically for non-SMG employees:

- Actions either within policy or that are exceptions to policy for non-SMG employees will require a higher level of review and approval -- that of the President for any of the Chancellor’s actions or The Regents for any of the President’s actions.
- A key feature of this authority and governance model is the production of Bi-Monthly Transaction Monitoring Reports that are presented to The Regents at each meeting, covering the compensation actions taken by the Chancellors and the President since the last reporting period. The reporting captures details of these compensation actions, showing a before and after picture, including flagging actions that are exceptions to policy. The first of these ongoing Bi-Monthly Reports was presented to The Regents in November 2008.

Contact information:

UCOP Systemwide Budget Office
1111 Franklin Street, 10th Flr.
Oakland, CA 94607-5220

Office website: <http://budget.ucop.edu>

Report website: <http://budget.ucop.edu/legreports/200809/200809legreq.html>