



## **Actions Taken to Reform the University's Senior Management Compensation Policies and Practices**

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

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

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

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

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

If you would like additional information regarding any of these reforms, please contact Karl Engelbach, Legislative Director, in the University's State Governmental Relations Office at (916) 445-9924.

### **DISCLOSURE AND TRANSPARENCY**

- Beginning this year, provide the Legislature with an annual report through 2010-11 on the total compensation provided to the University's senior executives as well as annual updates on the University's progress in reforming its compensation policies and practices.
- Clarified the definition of "total compensation" for purposes of systemwide approval, public disclosure, and reporting to make explicitly clear which elements comprise total compensation.
- Established a new presidential policy for the public disclosure of compensation information.

- Instituted new guidelines for the reporting of compensation information. In addition to other reports the University is obligated to provide its Board of Regents and the public on executive compensation, corporate board service, and other forms of compensation, the University will:
  - Provide an electronic annual report of salaries for *all* UC employees, including a section on *total* compensation for senior managers.
  - Provide ongoing, regular reports of recent hires of executives and staff earning the amount that currently requires Regents' approval; separations; and Regents' approval of raises.
  - Post all compensation actions immediately following action by the Regents at regularly scheduled board meetings and within one week of actions taken between meetings (interim actions). The mode of reporting shall be through the standardized template that has been developed to report total compensation, including all perquisites, in a clear and transparent manner.
  - Implement a new systemwide procedure regarding the disclosure of compensation information in press releases as follows:
    - **Regent-approved appointments:** All press releases on appointments approved by the Regents will include total compensation. This means that the press release will include a clear statement of the base salary approved, and a listing of the other approved elements of compensation. The press release will also provide a link to the template that details these other elements of compensation;
    - **All other appointments:** When a press release is issued for other appointments that do not require approval of the Regents, the press release will include base salary, with an offer to make other compensation information available upon request.
- Adopted new practice that the Regents' compensation committee will vote in open session on compensation for all University officials requiring approval by the Regents, as part of the University's ongoing commitment to transparency and public accountability. This action goes beyond what is required under existing open meeting laws and a recent related court ruling.
- Appointed an interim systemwide Public Information Practices Coordinator charged with coordinating all Public Records Act (PRA) requests and establishing clear protocols and timelines for processing such requests.
- Created a website dedicated to posting compensation information, including Regents' actions at meetings and in between meetings related to compensation that is easily accessible to the public.

## ACCOUNTABILITY AND GOVERNANCE

- Adopted a new structure and approval process for senior management compensation to strengthen Regents' oversight and market appropriateness for senior management compensation.
- As part of the new approval process for senior management compensation, approval by the Regents is required for any employee whose total cash compensation exceeds \$200,000, *or* for whom a compensation increase of 15% or more is proposed, *or* who is among the top leadership positions in the University. In addition, *all* elements of total compensation—including any exceptions to policy—for these employees must be disclosed to the Regents at the time of requesting approval and to the public immediately following Regents' action.
- Established a Regents' committee on compensation to provide greater oversight and policy guidance on compensation.
- Initiated a reorganization of the UC Office of the President to ensure better compliance with policies and principles and strengthen the University's business practices and management. Actions include the establishment of several new leadership positions, including:
  - Chief Compliance and Audit Officer/Senior Vice President (reporting directly to the Regents)
  - Chief Financial Officer/Executive Vice President
  - Chief Business Operations Officer/Executive Vice President

- In addition to these new positions and hires, The Regents have also hired a new General Counsel and will soon hire a new Chief of Staff and Secretary to The Regents.
- Launched independent external audit by PricewaterhouseCoopers of senior manager compensation and departure agreements for top University officials over the past ten years.
- Formed an independent Task Force, co-chaired by former California Assembly Speaker Robert Hertzberg and UC Regent Joanne Kozberg and consisting of distinguished state and national leaders, to examine UC compensation, accountability, and transparency issues.
- Adopted all recommendations of the Hertzberg-Kozberg Task Force and external and internal audits and management reviews. Implementation began immediately following the Regents' adoption and is ongoing.
- Issued corrected W-2 forms (Form W-2c) to some senior managers for benefits that the University did not properly report previously as compensation. These administrative errors by the University were identified by the external PricewaterhouseCoopers audit of executive compensation.
- Launched process for consideration of corrective actions to address those University employees who authorized compensation or benefits that were not in full compliance with University policy, as identified in the various external and internal audits.
- Committed to conducting annual audits specifically of senior management compensation.
- Added a statement of consequences relating to serious violations of compensation policies to the 1993 Regents' Principles for Review of Executive Compensation. The 1993 Principles, as well as all other compensation-related policies, are being examined as part of a comprehensive policy review and reform currently underway.
- As part of a comprehensive policy review, the University will clarify and simplify the authority and responsibilities among the Regents and the president to make compensation decisions, including specifying the group of designated University employees for whom the Regents shall retain direct authority to approve compensation.
- Implemented mandatory ethics briefing for all UC employees.

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

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

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

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

## **HUMAN RESOURCES INFORMATION SYSTEM**

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