

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.

* * *

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 Outdated policies and practices must be replaced.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.

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

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.

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

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.

* * *

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.

* * *

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.

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

Summary of Findings and Recommendations

Disclosure and Transparency

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.¹ 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.

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.

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.

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.

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

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.

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.

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.

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.

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

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

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.

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.

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.

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.