Compensation Policies and Practices:
Actions in Response to Audit Recommendations from
the Bureau of State Audits (BSA), PricewaterhouseCoopers (PwC), and the Internal UC Auditor (IA)

Action Item #	Audit Recommendation #	Recommendation	Recommended Action and Comments	Timing
RE-76a	BSA #1	To improve its ability to monitor campus compliance, the president's office needs to issue clear directives prescribing consistent use of the Corporate Personnel System (CPS). These directives should include a requirement that campuses consistently classify compensation into standard categories that best describe the compensation provided to employees. Also, the president's office should standardize the categories that can be included in retirement-covered compensation and restrict the use of classifications, such as "By Agreement," that are too vague to allow the president's office to ensure that the compensation complies with university policy.	***RECOMMENDED ACTION: CONCUR*** ***ACTIONS UNDERWAY:*** These recommendations are being addressed on multiple fronts. 1. CONSISTENT USE OF CODES. The systemwide Payroll Coordination Unit is working with the campuses on the consistent use of Description of Service (DOS) codes. As an initial step, the campuses have been informed that they can no longer establish their own new PPS (Payroll Personnel System) DOS codes but must request Payroll Coordination at UCOP to create the code so that consistency and linkage to CPS (Corporate Personnel System) can be assured. 2. DATA WAREHOUSE. Most importantly, a data warehouse repository is being developed at UCOP for senior management compensation data fed from the payroll system. 3. SENIOR MANAGEMENT COMPENSATION INFORMATION SYSTEM. The Senior Management Compensation Information System (SMIS) is on target for launch in the fall of 2006. ***FUTURE ACTIONS:*** 4. Following its initial release, the SMIS will be enhanced to include collection of additional electronic data, tracking of requests for approval, and the development of online statements for the annual senior management compensation certification requirement. It is the first phase of a much larger effort to address UC's human resources information system requirements.	Underway Fall 2006: Launch of the Senior Management Compensation Information System.

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RE-76b	**BSA #2**	The president's office should consider developing additional automated controls and edits within the CPS, such as only allowing the entry of information considered valid for the field in question or ensuring that expenditures are charged to the proper fund, to help avoid the possibility of errors.	***RECOMMENDED ACTION: CONCUR*** ***ACTIONS UNDERWAY:*** 1. DATA INTEGRITY. Since the Corporate Personnel System (CPS) consists of data extracts from campus payroll systems, the primary mechanisms to improve CPS data quality and integrity consist of improving the quality of the data entered into the Payroll Personnel System via improved systems controls and edits and greater user discipline at the point of data entry. Also covered above in BSA #1 (Consistent Use of Codes) and below in IA #1. ***FUTURE ACTIONS:*** 2. TRAINING. Training and online help and documentation will reinforce the need for accuracy and appropriateness of classification of transactions at the point of entry. 3. FUTURE HR INFORMATION SYSTEM SOLUTIONS. Will be designed to provide access to consistent and accurate personnel data.	The Senior Management Information System (SMIS), to be launched in October 2006, will consist of well-defined data elements and clear definitions of data fields at data entry points. Offered by UCOP and campus HR offices at the time of deployment of the SMIS. Planning for UC-wide HR Information System capabilities is underway. Status update at Sept 2006 Regents meeting.
RE-76c	**BSA #3**	To preserve the integrity of the compensation policies it issues, the president's office needs to limit the number of exceptions to policy it allows. This objective could be accomplished by the regents requiring the university to track and annually report exceptions to compensation policy that the president, provost, vice chancellor of academic affairs, campus chancellors, and other university officials grant during a fiscal year and provide justification for each exception.	***RECOMMENDED ACTION: CONCUR*** ***ACTIONS UNDERWAY:*** 1. POLICY REVISIONS. Relevant policies will be reviewed for possible revisions with respect to defining what constitutes an exception; making clear the manner in which exceptions may be considered and approved; and establishing clear authority and guidelines for granting exceptions. In addition, a clear centralized process for review, oversight, and reporting of exceptions on a regular basis will be developed.	Sept 2006: Proposed policy on how exceptions may be considered and related issues to be presented to The Regents.

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RE-76d	**BSA #4**	To preserve the integrity of the compensation policies it issues, the president's office needs to improve its oversight of campuses' compliance with those policies. One mechanism it should use to improve oversight is to annually identify unauthorized exceptions to policy, such as housing and relocation allowances paid above allowable limits and auto allowances being granted to individuals who do not qualify.	***RECOMMENDED ACTION: CONCUR*** ***ACTIONS COMPLETED OR UNDERWAY:*** 1. DEVELOP CHIEF COMPLIANCE OFFICER POSITION. The Chief Compliance Officer (CCO) will be responsible for establishing additional monitoring and oversight activities, including establishment of expectations for monitoring activities by line management within University operations and at the campus level, to ensure compliance with policies. The President's Implementation Committee might make recommendations for the CCO job description to assure oversight of compliance with compensation policies. 2. INTERNAL AUDIT. In addition, the University's Internal Audit Program is committed to periodic audits of executive compensation and compliance with related policies. The scope and timing of these audits will be agreed upon with the Regents' Committee on Audit, with input from the Regents' Committee on Compensation. 3. IDENTIFYING EXCEPTIONS. With regard to exceptions, the new compensation disclosure template shows clearly any exceptions to policy for all new senior-level appointments that require Regental approval. Use of the template will be extended to other compensation actions for UC executives, including promotions, stipends, and other adjustments. 4. POLICY REVISIONS*.* Relevant policies will be reviewed for possible revisions with respect to defining what constitutes an exception; making clear the manner in which exceptions may be considered and approved; and establishing clear authority and guidelines for granting exceptions. In addition, a clear centralized process for review, oversight, and reporting of exceptions on a regular basis will be developed.	Chief Compliance Officer position established in May 2006. Beginning in July 2006: Review and approval of job description. Ongoing. Completed, in use. Sept 2006: Proposed policy on how exceptions may be considered and related issues to be presented to The Regents.

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			FUTURE ACTIONS 5. RECRUIT AND HIRE CHIEF COMPLIANCE OFFICER. A search for candidates for the Chief Compliance Officer position will be initiated promptly following approval of the job description. Also covered below in PwC Comp #5. The issue of policy exceptions is also being addressed by the President's Implementation Committee in response to the Task Force recommendations. See Attachment 2, RE-74i and RE-74k, for details.	Following July 2006 Regents meeting.
RE-76e	BSA #5	The president's office should determine if it is appropriate to require repayment of university funds for the instances we identified in which a university employee received compensation in violation of university policy, and if so, develop a repayment plan with each employee.	***RECOMMENDED ACTION: CONCUR*** ***ACTIONS UNDERWAY:*** 1. DECISIONS ON REPAYMENTS. The Office of the President is responsible for recommending to The Regents both curative and corrective measures for all compensation provided that was not in accordance with policy or was not properly approved. These recommendations will be made at upcoming Regents' meetings, beginning in July, in accordance with Guidelines approved by The Regents at the May 2006 Regents' meeting.	Ongoing, beginning in July 2006.
RE-76f	BSA #6	To eliminate inappropriate compensation included in employees' retirement earnings, the president's office should remove the amounts we identified from the employees' retirement earnings and establish a mechanism to detect, on at least an annual basis, compensation that campuses have incorrectly classified as retirement covered.	***RECOMMENDED ACTION: CONCUR*** ***ACTIONS UNDERWAY:*** 1. CORRECTIONS TO RETIREMENT EARNINGS. Any inappropriately covered compensation has been resolved or will be resolved as appropriate according to the individual circumstances. *FUTURE ACTIONS:* 2. COMPLIANCE AND MONITORING ACTIVITIES. New compliance and monitoring activities will be developed and additional training and attention to detail and accuracy in coding of compensation at the campus level will address this risk.	Ongoing, beginning in May and continuing until completed. Interim progress reports will be provided. Ongoing.

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RE-76g	BSA #7	To increase transparency as it relates to the compensation of highly paid university employees, The Regents should require the president's office to disclose all forms of compensation for university officers and for all employees whose compensation exceeds an established threshold. This disclosure should occur when The Regents approve the employees' salaries and at least annually in a report to The Regents. If the president's office continues to submit its annual report on compensation to The Regents, it should ensure that it is accurate and timely.	***RECOMMENDED ACTION: CONCUR*** ***ACTIONS COMPLETED OR UNDERWAY:*** These recommendations are already being addressed by the President's Implementation Committee in response to the Task Force recommendations. Also covered below in PwC Comp #1, #2, and #4. See Attachment 2, RE-74b, RE-74c, RE-74d, RE-74e, and RE-74g, for details.	Most actions are already completed. Others (i.e., information systems development to capture data for reporting) are underway and ongoing.
RE-76h	PwC Compensation #1	Consider implementing a "checklist" format for documenting elements of compensation. This standard format could be used to capture all agreements during the hiring process and subsequently be used for approval and disclosure purposes.	***RECOMMENDED ACTION: CONCUR*** ***ACTIONS UNDERWAY:*** These recommendations are already being addressed by the President's Implementation Committee in response to the Task Force recommendations. Also covered above in BSA #7. See Attachment 2, RE-74c, RE-74d, RE-74e, and RE-74g, for details.	Completed and in use since March 2006.
RE-76i	PwC Comp #2	Review the format of the Annual Report on Compensation to ensure that all elements of compensation requiring disclosure under Regental policies are included.	***RECOMMENDED ACTION: CONCUR*** ***ACTIONS UNDERWAY:*** This recommendation is already being addressed by the President's Implementation Committee in response to the Task Force recommendations. Also covered above in BSA #7. See Attachment 2, RE-74d and RE-74e, for details.	Next annual report will have revised format.
RE-76j	PwC Comp #3	Utilize payroll data to generate or validate the accuracy and completeness of the Annual Report on Compensation.	***RECOMMENDED ACTION: CONCUR*** ***ACTIONS UNDERWAY:*** 1. DATA WAREHOUSE. The Senior Management Information System (SMIS) currently in development is a data warehouse, fed by the Payroll Personnel System and other manual sources of compensation and total	SMIS to be launched in October 2006.

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			remuneration data. It will be accessible by campuses and UCOP via the web and will contain the data and reporting capability to support the production of the Annual Report on Compensation as well as ad hoc queries as needed. ***FUTURE ACTIONS:*** 2. SYSTEM ENHANCEMENTS. Planned enhancements to the SMIS include: collection of additional electronic data; processing and tracking of requests for approval of senior-level compensation-related proposals; automation of manual processes; submission of annual senior manager's certification statements	Enhancements to be developed immediately following system release in October, 2006 and on an ongoing basis.
RE-76k	PwC Comp #4	Review mechanisms for disclosing compensation information to the public to ensure that data is provided in accordance with internal and external requirements.	***RECOMMENDED ACTION: CONCUR*** ***ACTIONS COMPLETED:*** This recommendation is already being addressed by the President's Implementation Committee in response to the Task Force recommendations. Also covered above in BSA #7. <u>See Attachment 2, RE-74b, RE-74c, RE-74e, and RE-74f, for details.</u>	Completed. New proposed disclosure policy will be brought to Regents in Sept 2006.
RE-76l	PwC Comp #5	Perform on-going monitoring and oversight to ensure adherence to policies and procedures for Regental approval and public disclosure.	***RECOMMENDED ACTION: CONCUR*** ***ACTIONS COMPLETED OR UNDERWAY:*** 1. DEVELOP CHIEF COMPLIANCE OFFICER POSITION. The Chief Compliance Officer (CCO) will be responsible for establishing additional monitoring and oversight activities, including establishment of expectations for monitoring activities by line management within University operations and at the campus level, to ensure compliance with policies. The President's Implementation Committee might make recommendations for the CCO job description to assure oversight of compliance with compensation policies. 2. INTERNAL AUDIT. In addition, the University's	Chief Compliance Officer position established in May 2006. Beginning in July 2006: Review and approval of job description.

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			Internal Audit Program is committed to periodic audits of executive compensation and compliance with related policies. The scope and timing of these audits will be agreed upon with the Regents' Committee on Audit, with input from the Regents' Committee on Compensation.	Ongoing.
			3. IDENTIFYING EXCEPTIONS. With regard to exceptions, the new compensation disclosure template shows clearly any exceptions to policy for all new senior-level appointments that require Regental approval. Use of the template will be extended to other compensation actions for UC executives, including promotions, stipends and other adjustments.	Completed, in use.
			4. POLICY REVISIONS**.** Relevant policies will be reviewed for possible revisions with respect to defining what constitutes an exception; making clear the manner in which exceptions may be considered and approved; and establishing clear authority and guidelines for granting exceptions. In addition, a clear centralized process for review, oversight, and reporting of exceptions on a regular basis will be developed.	Sept 2006: Proposed policy on how exceptions may be considered and related issues to be presented to The Regents.
			FUTURE ACTIONS 5. RECRUIT AND HIRE CHIEF COMPLIANCE OFFICER. A search for candidates for the Chief Compliance Officer position will be initiated promptly following approval of the job description. Also covered below in BSA #4. The issue of policy exceptions is also being addressed by the President's Implementation Committee in response to the Task Force recommendations. See Attachment 2, RE-74i and RE-74k, for details.	Following July 2006 Regents meeting.
RE-76m	**PwC Travel & Entertainment (T&E) #1**	Provide training to all approvers of travel and entertainment expenses. Training should include guidance on permitted expenses and documentation requirements.	*RECOMMENDED ACTION: CONCUR* *ACTIONS UNDERWAY:* 1. LOCATION-SPECIFIC ACTION PLANS.	Action plans due to

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			Campuses, laboratories, and the Office of the President have been asked to develop appropriate guidelines and action plans to address this recommendation. All locations are required to provide a summary of the action plan and timetable for completion to Vice President – Financial Management Anne Broome. *FUTURE ACTIONS:* 2. IMPLEMENTATION OF PLANS.	VP Broome: July 13, 2006 Specific timetable TBD after July 13.
RE-76n	**PwC T&E #2**	Require all approvers to clearly document their review and approval.	*RECOMMENDED ACTION: CONCUR* *ACTIONS UNDERWAY:* 1. LOCATION-SPECIFIC ACTION PLANS. Campuses, laboratories, and the Office of the President have been asked to develop appropriate guidelines and action plans to address this recommendation. All locations are required to provide a summary of the action plan and timetable for completion to Vice President – Financial Management Anne Broome. *FUTURE ACTIONS:* 2. IMPLEMENTATION OF PLANS.	Action plans due to VP Broome: July 13, 2006 Specific timetable TBD after July 13.
RE-76o	**PwC T&E #3**	Perform ongoing monitoring and oversight to ensure adherence to policies and procedures.	*RECOMMENDED ACTION: CONCUR* *ACTIONS UNDERWAY:* 1. LOCATION-SPECIFIC ACTION PLANS. Campuses, laboratories, and the Office of the President have been asked to develop appropriate guidelines and action plans to address this recommendation. All locations are required to provide a summary of the action plan and timetable for completion to Vice President – Financial Management Anne Broome. *FUTURE ACTIONS:* 2. IMPLEMENTATION OF PLANS.	Action plans due to VP Broome: July 13, 2006 Specific timetable TBD after July 13.

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RE-76p	**Internal Audit (IA) #1**	Even with its current shortcomings, the Corporate Personnel System (CPS) can be utilized for continuous monitoring purposes as a diagnostic and analytical tool. Its usefulness will depend on the enforcement of more discipline in the assignment of transaction codes, but efforts in this regard should not await the development of new systems.	***RECOMMENDED ACTION: CONCUR*** ***ACTIONS UNDERWAY:*** 1. DATA INTEGRITY**.** Since the Corporate Personnel System (CPS) consists of data extracts from campus payroll systems, the primary mechanisms to improve CPS data quality and integrity consist of improving the quality of the data input into the Payroll Personnel System via improved systems controls and edits and user discipline at the point of data entry. Also covered above in BSA #1 and in BSA #2 (Consistent Use of Codes). ***FUTURE ACTIONS:*** 2. TRAINING. Training and online help and documentation will reinforce the need for accuracy and appropriateness of classification of transactions at the point of entry. 3. FUTURE HR INFORMATION SYSTEM SOLUTIONS. Will be designed to provide access to consistent and accurate personnel data.	The Senior Management Information System (SMIS), to be launched in October 2006, will consist of well defined data elements and clear definitions of data fields at data entry points. Offered by UCOP and campus HR offices at the time of deployment of the SMIS. Planning for UC-wide HR Information System capabilities is underway. Status update at Sept 2006 Regents meeting.
RE-76q	**IA #2**	The Senior Management Group (SMG) Coordinators' roles at the campuses need to be reassessed and their interaction with the UC Office of the President (UCOP) should be enhanced. Similarly, the SMG Coordinator at UCOP should take on an expanded role beyond assistance in the hiring phase of SMG employees.	***RECOMMENDED ACTION: CONCUR*** ***ACTIONS UNDERWAY:*** 1. EXPLORE OPTIONS. UCOP is exploring options for expanded role and responsibilities of SMG unit at UCOP and improving relationship with and role of campus SMG Coordinators.	Efforts just underway, ongoing.
RE-76r	**IA #3**	Policy review is especially needed in certain areas including: • Stipends	***RECOMMENDED ACTION: CONCUR*** ***ACTIONS UNDERWAY:***	Sept 1, 2006: RFP

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		• Vacation accrual • SMSPP eligibility • Sabbatical rate of pay • Relocation allowances and Faculty Housing Assistance (to address their intersection and the availability of both tat the same time) • Relocation Allowance (repayment provisions) • Spousal Hires	1. ENGAGE OUTSIDE CONSULTANT. RFP will be issued to engage outside consultant to assist in the development of a new comprehensive policy framework. *FUTURE ACTIONS:* 2. DEVELOP NEW POLICY FRAMEWORK. Ongoing work will take place with consultant, once selected, to develop the policy framework and timetable, and review and revise, as appropriate, individual policies and practices.	responses due. Nov 2006: Recommendation to Regents. Jan 2007: Anticipate framework to be presented to Regents. Overall effort will take <u>at least</u> one year.
RE-76s	IA #4	The locations can provide an additional check on the accuracy and completeness of Regental approval. The Internal Auditor found it difficult at many locations to find documentation of Regents' actions and so campus personnel were often unaware of what compensation actions had been approved or disclosed to The Regents and the public.	***RECOMMENDED ACTION: CONCUR*** ***ACTIONS UNDERWAY:*** 1. IMPROVE PROCESS FOR SUBMISSION AND REVIEW OF ITEMS FOR REGENTAL APPROVAL. The Office of the President has begun to redefine the campus submission process for Regents' Items, including use of a single format for items. UCOP is also reviewing workflow at UCOP and campus locations for submissions, and information flow back to locations on approved items. *FUTURE ACTIONS:* 2. IMPROVE COMMUNCATIONS. Consider recommendations to improve communication procedures and protocols between campuses and UCOP following Regental action on campus compensation matters.	Ongoing Nov 2006: Recommendations for improving communications to be brought to The Regents.