

The Regents of the University of California

**COMMITTEE ON AUDIT
COMMITTEE ON COMPENSATION**

July 19, 2007

The Committees on Audit and Compensation met on the above date at University Center, Santa Barbara campus.

Members present: Representing the Committee on Audit: Regents Allen, Blum, Bugay, De La Peña, Lozano, Parsky, Ruiz, and Varner; Advisory member Oakley; Expert Financial Advisor Vining
Representing the Committee on Compensation: Regents Blum, Dynes, Hopkinson, Lozano, Parsky, and Varner; Advisory member Oakley

In attendance: Regents Brewer, Garamendi, Island, Lansing, Marcus, and Wachter, Regents-designate Scorza and Shewmake, Faculty Representative Brown, Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Provost Hume, Executive Vice Presidents Darling and Lapp, Vice President Sakaki, Assistant Vice President Casey representing Acting Vice President Standiford, Chancellors Fox, Kang, Vanderhoef, and Yang, Acting Chancellors Abrams, Blumenthal, and Grey, and Recording Secretary Bryan

The meeting convened at 2:10 p.m. with Committee on Compensation Chair Lozano presiding.

1. **REPORT ON INTERNAL AUDIT OF EXECUTIVE COMPENSATION, 2006-07**

Committee Chair Lozano announced that the University Auditor's report on the results of Internal Audit's review of implementation actions related to recommendations from all 2006 internal and external executive compensation audits as well as the recommendations of the Task Force on UC Compensation, Accountability, and Transparency would be mailed to Regents.

2. **FINAL PROJECT REPORT FROM NATIONAL ACADEMY OF PUBLIC ADMINISTRATION ON THE UNIVERSITY OF CALIFORNIA'S CERTIFIED ASSESSMENT OF HUMAN RESOURCES SYSTEMS: A PATHWAY TO ASSURANCE**

It was recalled that in November 2005, the Regents were informed that a new human resources assurance model was being developed and that UC was joining the National Academy of Public Administration (NAPA) to develop a self-assessment and peer review process. At the January 2006 meeting, the Regents were notified that options were being explored to test pilot designs of the program preliminarily at several UC campuses, medical centers, and Department of Energy laboratories.

The Regents were informed at the July 2006 meeting that the Human Resources and Benefits Department introduced the University of California's Certified Assessment of HR Systems (CAHRS) as a pilot program at the San Francisco campus, the UCSF Medical Center, the Office of the President, and the Lawrence Berkeley National Laboratory. NAPA was asked also to assist with the validation of the Human Resources (HR) standards.

In March 2007, teleconference discussions were held with the Chairs and Vice Chairs of the Committees on Audit and Compensation on the current status of development of the CAHRS process, the planning for implementation of the CAHRS process at other UC locations beyond the pilot locations, and that UC Davis would join the pilot process.

Mr. Randy Scott, Executive Director of Policy and Program Design for Human Resources Benefits, introduced NAPA Vice President of Academy Studies, Mr. J. William Gadsby and NAPA Panel Chair, Dr. Frank Thompson, who summarized the report as follows.

As one of the nation's most prestigious and respected public universities, the University of California needs high-quality human resources policies and programs to support its world class academic and research operations. In addition, the Regents require assurances that HR policies are applied appropriately and consistently throughout the ten campuses, five medical centers, and two national laboratories that comprise the UC system. To satisfy the Regents, UC leadership sought (1) validated HR standards against which performance could be measured, (2) assessment processes to compare UC HR performance to the established standards and to identify any necessary remedial actions, and (3) external validation that would certify compliance with the standards.

No off-the-shelf HR standards or existing assessment models matched UC's requirements. Despite recent advances, HR is still a relatively ill-defined practice, with little overall consensus on a universal set of standards against which it can be measured. Also, while there are programs to certify individual HR professionals on the basis of their credentials or expertise, no program exists to certify HR systems as a whole. Thus, UC looked to the National Academy of Public Administration because of its reputation, large body of HR-related work, and the deep reservoir of talent and expertise within the Academy fellowship and staff.

This joint UC-Academy partnership produced the Certified Assessment of Human Resources Systems. While specifically designed for UC, CAHRS is sufficiently flexible to be transferable to other organizations – both public and private – with relatively minor modification.

CAHRS consists of five components:

- Validated HR Standards against which HR performance can be measured.
- Readiness review to prepare an organization for self-assessment.
- Self-assessment to formally compare HR operations to the standards.
- Peer review to ensure the integrity of the self-assessment by producing an independent expert opinion on the extent to which the standards have been met.
- Certification which occurs when the peer review opinion attests or certifies that an organization has successfully met all of the standards.

The HR Standards

The CAHRS HR standards balance both strategic and operational HR dimensions. They reflect the Academy's view that, while service delivery remains the threshold issue for establishing HR credibility, the HR function is evolving to play a more strategic and enabling role in enhancing organizational performance and achieving mission accomplishment.

The CAHRS standards are:

- A. Systemwide Management, which sets forth performance expectations for corporate level HR, including setting strategic direction, formulating policies, designing systems, communicating with and representing the organization, consulting, advising, demonstrating overall system accountability, and carrying out functions best handled at the corporate level.
- B. HR Strategic Management, which describes performance elements such as collaboratively developing HR strategic plans, playing a leadership/enabling role in the management of the organization, identifying current and emerging workforce needs, and promoting commitment to ethical values and diversity.
- C. HR Operations and Program Assurance, which addresses performance elements involving assurance and evaluation, HR metrics and continuous improvement, HR staff management, HR systems and infrastructure, and HR consultation and assistance.
- D. Employment and Talent Management, which describes performance expectations for acquiring the talent needed to achieve mission goals and objectives, for effectively managing employees to enhance organizational capacity, and to improve individual performance through effective performance management and rewards and recognition.
- E. Total Compensation and Benefits, which focuses on managing compensation and benefits to attract, retain, and motivate a highly qualified and diverse workforce, and exercising appropriate stewardship of public funds consistent with established compensation philosophy and policies.

- F. Training and Development, which describes performance expectations for equipping employees with the requisite competences to achieve current and future mission requirements and to improve individual and organizational performance.
- G. Work Environment and Employee/Labor Relations, which focuses on providing a productive work environment by dealing with employees and recognized bargaining units fairly and constructively and promoting a safe and supportive work environment.

The Academy Panel developed these CAHRS HR standards with extensive input from subject matter experts, thought leaders, HR practitioners, UC stakeholders, numerous Academy experts, academics, representatives of HR professional associations, and HR professionals from federal and State agencies and non-profit organizations. The HR standards were validated at several stages and tested at multiple UC locations.

Readiness Review

A readiness review is an informal “self-help” activity designed to prepare an organization for formal self-assessment. It involves studying the HR standards, informally assessing HR performance against those standards, and identifying remedial actions in preparation for the more rigorous self-assessment.

Self-Assessment

Self-assessment is a process during which an internally selected team compares its own operations to the HR Standards and reaches conclusions about the extent to which the standards are being achieved. Unlike a readiness review, a self-assessment requires support and documentation to back-up conclusions and the presentation of results in a formal report, and is subject to external peer review.

Peer Review and Certification

Peer review is a quality assurance process widely used in accounting, auditing, and other professions, and is a familiar concept in academic, medical, research, and evaluation communities. In CAHRS, peer review is a top-level review by independent external experts to ensure the integrity of an organization’s self-assessment, provide advice and suggestions for improving HR operations, and identify best practices suitable for emulation elsewhere.

The end product of the peer review is a formal peer review opinion that renders a judgment about the extent to which an organization meets the HR standards. Certification is based on a peer review opinion’s formal attestation that all standards are met.

The Academy has prepared guidelines and instructions for carrying out each phase of the CAHRS process. These are contained in three publications: the “Readiness Review Guide,” the “Assessor Guide,” and the “Peer Review and Certification Guide.”

Conclusions and Recommendations

In its report, the Panel recommends that UC adopt, at least initially, the CAHRS model for its non-academic staff employees, which account for about two-thirds of all its total employment. Fundamentally, the Panel believes that CAHRS can be an effective means for providing the assurances that the Regents are seeking about HR operations. Other potential benefits include bolstering accountability and transparency, mitigating risks associated with non-compliant actions, promoting appropriate consistency in the interpretation and application of policies throughout the system, strengthening HR capacity and improving performance, targeting resources to priority needs, sharing best practices, and reducing the time and effort devoted to responding to internal and external oversight mechanisms.

At UC's request, the Panel is recommending actions needed to implement CAHRS systemwide. The Academy's expertise and experience suggest that large organizational changes such as CAHRS require leadership commitment, effective change management and communication strategies, sufficient resources, supportive information systems, and clearly defined roles and responsibilities. Implementing CAHRS will be a challenge given UC's size, breadth of operations, and shared governance structure. Of particular importance is the need for a comprehensive Human Resources Information System – something that is lacking at this time.

Accordingly, the Panel recommends that:

- The Regents of the University of California and the President of the University clearly express their support for CAHRS, and require its implementation throughout the University.
- The Regents and the President ensure that CAHRS is integrated (aligned) with all related Regental/UC initiatives designed to promote sound management and responsible public stewardship.
- The President affirm that UC's Office of the President Human Resources and Benefits Department (UCOP-HR&B) will be accountable for the implementation and ongoing administration of CAHRS and provide to that department the authority, staff resources, and infrastructure needed to manage the CAHRS implementation and continued administration successfully.
- UCOP-HR&B develop a comprehensive communication and education implementation plan for CAHRS with emphasis on engaging, and obtaining support from, location leadership and other key stakeholders.
- UCOP-HR&B implement CAHRS according to a phased plan and time line, endorsed by the Regents, with specific location adoption of CAHRS being guided by overall location readiness.
- The Regents and the President take steps to ensure the development of a comprehensive Human Resources Information System.
- The President, in consultation with key location stakeholders, clarify authorities, roles, and responsibilities for the full range of HR functions and activities, especially in locations where HR responsibilities are shared.

- UCOP-HR&B develop training and share best practices and successful approaches for building collaborative, consultative, and cooperative relationships and partnerships with others performing HR roles.
- The Regents, the President, and UCOP-HR&B ensure that CAHRS remains a “continuous improvement” effort to strengthen HR practice at UC.
- Over time, UCOP-HR&B work collaboratively with the locations to identify a systemwide set of core HR performance metrics beyond the illustrative examples incorporated in the standards.

Regent Brewer noted that six of the seven standards relate to the campuses and one relates to the systemwide office. She asked whether the six should be applied to the Office of the President with regard to its HR functions. Executive Director Scott responded that the UCOP HR department would be under the same auspices for implementing this process.

In response to a question asked by Regent Hopkinson, Mr. Thompson recalled that this project will not provide UC with a system for HR. The panel has determined that there is a need for systemwide or HR system support to fully implement the process. Information will be presented at a future meeting with respect to identifying system support requirements and their costs, along with staff resource requirements and their costs, for further implementation and ongoing maintenance of this process.

Committee Chair Lozano thanked the NAPA representatives for their work and the thoroughness of their review and recommendations. She indicated that the Regents anticipated adopting the proposal as a model going forward and would anticipate the future presentation concerning implementation.

The meeting adjourned at 2:25 p.m.

Attest:

Secretary and Chief of Staff