

UNIVERSITY OF CALIFORNIA ACADEMIC SENATE

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SANTA BARBARA • SANTA CRUZ

Chair, Academic Council and Assembly of the Academic Senate
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Faculty Representative to the Board of Regents
University of California
1111 Franklin Street, 12th Floor
Oakland, California 94607-5200

January 24, 2008

ROBERT C. DYNES, PRESIDENT

Dear Bob:

As requested in your email to me, dated 1-21-08, the Academic Council reviewed the report of the Special Visit Team of Western Association of Schools and Colleges (WASC) and we provide our comments herein. We understand that the Special Visit Team was sent to the University of California to follow-up on accreditation issues implicated in the 2006 compensation audits and Regents' task force review. Further, we appreciate the team's efforts to obtain broad input and perspectives on critical issues related to the audits and review.

The true value of such external reviews lies in their ability to help make institutions stronger. Recognizing that value, the Academic Council endorses the Special Visit team's key criticisms of UC's governance and business practices, as well as the recommendations they offer for improving them.

We appreciate the steps already taken by the Office of the President to restructure and improve its business practices and, thereby reinvigorate confidence, as well as the intentions of The Regents to attain more closely to "best practices" in governance. Notwithstanding, the WASC team's credible and independent analysis mirrors our own observations and their advice should be incorporated in planning to improve UC's governance. The Team's recommendations suggest important actions – not yet taken – which are likely to help The Regents, the administration, and UC, as a whole, move forward productively ... and together.

The Academic Senate, as one of the partners in the governance of the UC system, shares accountability for meeting the goals outlined in the WASC report and, on behalf of the Senate, I offer our collaboration.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael".

Michael T. Brown, Chair
Academic Council

Copy: Academic Council
María Bertero-Barceló, Executive Director



OFFICE OF THE PRESIDENT

Robert C. Dynes
President

RECEIVED

JAN 28 2008

ACADEMIC COUNCIL

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January 28, 2008

Mr. Ralph W. Wolff
President and Executive Director
Western Association of Schools and Colleges
987 Atlantic Avenue, Suite 100
Alameda, California 94501

Dear Ralph:

Thank you for sending me the WASC team's final report. I very much appreciate the thoughtful consideration that was given of the issues surrounding executive compensation at the University of California and the constructive comments offered by the team.

I shared the report with The Secretary and Chief of Staff of The Regents, with the request that she convey the report to The Regents and obtain their views on how we can best capture any additional progress the University has made since the visit on the issues raised in the report and on our commitment to addressing outstanding concerns identified by the evaluation team. I also asked our Chancellors and Academic Council Chair Michael Brown for their thoughts as well. For your information, I enclose the response of The Regents and senior administrators; Academic Council Chair Brown's comments; and a summary of the Chancellors' comments.

I also enclose a copy of a *Report of the Working Group on the Roles of the Office of the President*, which was recently presented to and accepted by the Board of Regents. The Working Group membership included Regents, Chancellors, and UC administrators systemwide. It is a timely and informative piece, and, I believe, the report and the Board of Regents' support of it reflect the Board's responsiveness to the WASC team's concerns. I hope you will convey my appreciation to the members of the WASC team for the considerable time and effort they expended in producing such a thorough and thought-provoking document.

Sincerely,

Robert C. Dynes

Enclosures

cc: Chancellors
Provost Wyatt R. Hume
✓ Academic Council Chair Michael Brown
Secretary and Chief of Staff Griffiths



THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

1111 Franklin Street, 12th Floor
Oakland, California 94607-5200
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January 18, 2008

Mr. Ralph W. Wolff
President and Executive Director
Western Area Schools and Colleges
987 Atlantic Avenue, Suite 100
Alameda, California 94501

Dear Mr. Wolff:

Thank you for providing us with the WASC team's final Report, which we consider to be an important contribution to our ongoing efforts to improve both management and governance within the University of California system.

This letter is a preliminary response that will provide some commentary and context to those now reading the Report. We are now actively seeking further comment and advice from members of the Board of Regents, representatives of the Academic Senate, Chancellors, and other senior administrators as we prepare a more formal response, which we expect to submit in accordance with your procedures. We have distributed a copy of this letter to those individuals, and request that this letter also be included with your report at every stage at which the report is presented.

In view of the points made in the Report, we feel that we must point out actions taken by The Regents and the University administration that are directly relevant to your Report. Many of these actions were taken prior to the visit of the review team, as part of our ongoing efforts to improve governance processes. These actions were shared with the review team, but were not included in the Report.

The Report catalogues various perceived problems and makes welcome suggestions for improvement, but does not include detail of the many relevant actions taken by the University. We will address points raised in the Report in the order in which they appear. Some we consider to be factual error, including factual errors of omission.

The Creation and Work of the Governance Committee

The report's broadest conclusion is that "there are significant, other governance issues [besides executive compensation practices] that the UC needs to address, some of which are matters of serious concern" (page 7). Brief reference is made to the creation of the Board's Governance Committee and a recommendation is made to enhance its functions (page 16). The report fails to note that the Governance Committee was both created and charged by the Board with most of the duties that the Report identifies well prior to the visit of the review team. The creation of the Governance Committee was a Board-initiated action in large part in direct response to the problems that the Report identifies "at the interface between the UC Office of the President and the Regents" (page 7).

This reform was begun a year ago. The Report fails to make this key point: That the Board itself understood that the executive compensation issue was illustrative of a broader governance problem and took action to initiate a process to review and respond to that broader problem.

Roles and Responsibilities

In general terms, the Report highlights both perceived and real confusion about the roles and responsibilities of the Regents, the President, the President's staff, and the campuses (pages 7-8). It notes also that the University has identified some of the problems in this area and has developed processes to correct them, and notes that additional audits are still underway. Further, the report notes that UC has used the services of PricewaterhouseCoopers and the Mercer Group to develop new systems and procedures.

However, the Report fails to describe or discuss the broad effort underway to address the roles and responsibilities issue systemically. The University has retained the Monitor Group to support a Provost-charged and Chancellor-chaired working group that has performed a top-to-bottom analysis of the roles and responsibilities of the President, in relation to the Regents and to the campuses. This project has been ongoing since mid-2007. Its work product was considered by the Governance Committee in early January 2008 and by the full Board of Regents at its regularly-scheduled January meeting.

Causes of the Executive Compensation Failures

The Report lists the review team's conclusions regarding the causes of the executive compensation failures (pages 9-11). We note that the Board has been in agreement regarding some of these issues since late 2006 and has taken corrective actions accordingly.

The review team has concluded that the climate which led to Office of the President staff deciding on “a case-by-case basis which elements of compensation to report” to the Board and which not to report was caused by four deviations from WASC standards: (1) loss of institutional memory regarding policies, (2) an internal audit system that failed to track compliance with policy, (3) the absence of systematic review of materials submitted to the Regents by a person charged with ensuring compliance with policy, and (4) the absence of a central, accessible system of personnel records (pages 9-11).

The Report fails to note several specific initiatives that have been taken to address these matters.

First, the Office of the President and the Regents have been working with Mercer consultants for the last year to review and standardize compensation policies. This project, which is expected to be presented in segments at the next three Board meetings, will update all executive compensation policies. The policies, once adopted by the Board, will appear in standard format with cross-references to related policies. Work is underway to make the policies completely accessible electronically and to ensure proper indexing of the policies to ensure ease of access. The project also includes a requirement for periodic review of each policy at a pre-determined future date. The project was called for by the Regents’ task force created to respond to the executive compensation crisis.

Second, the Regents have hired a new Senior Vice President for Compliance and Audit as a direct report to the Board for the specific purpose of ensuring a more robust audit system and proper review of transactions for policy compliance. The individual retained to fill this role has many years of experience with both compliance and the audit functions. Her work is underway to achieve the goals outlined in the WASC team’s report. In addition, the Regents created the Chief of Staff to The Regents position to, among other things, work in coordination with the Senior Vice President and the Office of the President to address these same issues.

Third, the Office of the President has acknowledged the need to develop a central, accessible human resources information system. The Board has concurred in that assessment on a number of occasions. The President’s staff is currently assessing the cost of developing such a system and is reviewing options.

The Report concludes that one of the factors that caused violations of compensation policies was an informal Board desire to see fewer transactional issues before the Board (pages 10-11). To the extent that this assessment was at one time accurate, the Board’s many actions over the last two years can hardly be seen as reflecting that conclusion. In fact, the Board is often criticized by the campuses and others for the

number of compensation decisions that it is currently reviewing--a direct product of the need to respond to broadly expressed concerns about administrative practices in the compensation area. In addition, the Board's personnel decisions noted above reflect a decision to shoulder greater responsibility, not less. Board members have also taken on additional time commitments to hold committee meetings off-cycle from the Board meetings to ensure greater depth of understanding in the technical areas of the Investments, Audit, Long Range Planning, and Governance Committees.

Additional Governance Findings

The Report makes four specific findings of concern in the governance area: (1) There is no consistent annual evaluation of the President. (2) There is no consistent board evaluation and no ongoing improvement program for Regents. (3) There are no consistent operating procedures for Chair and Regent decision-making. (4) There is a culture of interaction within the Board that results in unnecessarily harsh treatment of UC administrators, faculty, and staff. We will address each of these findings.

First, in 2006, the Board adopted a specific and detailed process for evaluation of the President (and other direct reports to the Board). This process was discussed in our meetings with the review team, and it is disappointing to us that the review team remained confused on this point. We are including with this letter a copy of the minutes of the Board action, as well as the materials provided in connection with this Board action. The President is required under this process to develop an annual set of goals in coordination with the four key Board members designated to evaluate his or her performance. Each direct report to the Board is assigned a pre-selected team of four Regents for his or her evaluation based on the extent of contact the employee is likely to have with Regents based on assigned duties. The President's team includes the Board Chair, the Board Vice Chair, the Chair of the Governance Committee, and the Chair of the Compensation Committee. In 2006, the President did undergo an evaluation following this process. In 2007, the evaluation process was begun with President Dynes, but midway he announced that he was stepping down. At that point, a decision was made in consultation with President Dynes that a detailed evaluation pursuant to this process was not required. Since that time, the President and the Provost have consulted with the Board collectively and also with the Chairs of the Governance and Compensation Committees at the Board's request to define their respective roles. These discussions have led to an excellent understanding of duties and to a very productive transition for both offices, for which the Board is very appreciative.

Second, we shared with the review team that work has been underway for some time on a more robust program of orientation for Regents. This effort has been led by Regent Kozberg, who was the co-chair of the task force created by the Regents to respond to concerns expressed about executive compensation. One of the central points Regent Kozberg has made is the need to involve established Regents in the

process of orientation and mentoring for new colleagues, which by its very nature will involve established Regents in ongoing education. Regent Kozberg and Chief of Staff Griffiths are also collecting and will be reviewing various board evaluation examples from a number of sources. Both Regent Kozberg and Chief of Staff Griffiths have attended seminars at UCLA's Anderson School of Management to evaluate their director training offerings to assess whether they are adaptable to the Board's needs. UCLA has been asked to develop a proposal for review first by Regent Kozberg and later by the Governance Committee for a multi-session orientation program. Part of the specific reasoning that led Regent Kozberg to consider UCLA was their particular expertise in Sarbanes-Oxley principles. In addition, it is also worth noting that our new Senior Vice President for Compliance and Audit was hired in part because of her knowledge and experience with Sarbanes-Oxley principles. She made her first presentation on this subject to the Audit Committee last month. Please note that all of these efforts have been Board-initiated.

Third, regarding operating procedures for Board decisions, the presentation to the Governance Committee this month of the analysis of the Monitor-facilitated working group on the roles of the Regents, the President, and the campuses will be foundational to our ongoing efforts to address this issue. Regarding the team's criticism of Chairman Blum's letter, we note that neither Regent Blum nor his colleagues on the Board were confused about whether the views he expressed were his own. As we reported to the team, the letter was drafted with the express intent by Regent Blum to share his views with his colleagues to prompt dialogue on the subjects discussed.

Regarding the team's expression of concern that a formal appointment of the chief operating officer by the Board did not occur, we note that the University's General Counsel was consulted in advance of Provost Hume being given operating officer duties. He advised that the President was authorized to delegate operating officer duties to Provost Hume without Board action. The important point is that legal advice was sought and actions taken by the President in accordance with that advice. Regarding the boundaries between the Regents and the President, we will not repeat here what we said above regarding the Monitor-facilitated working group, except to note that this work was in process prior to the review team's visit.

Fourth, regarding the interaction between Regents and University officials and staff, we anticipate that this issue will be discussed at the Board retreat now in development. The last Board retreat was in 2004, at which time it was recommended that retreats occur periodically on a three-year cycle.

Report Recommendations

The review team has offered six recommendations in its Report. They are: (1) Comprehensive processes to assure that policies are preserved and understood as well as

readily available internally and to the public. (2) Increased effectiveness of the Governance and Audit Committees, as well as development of a comprehensive system for verifying regulatory compliance. (3) Procedures to allow for timely appointment of senior officers consistent with the competitive marketplace. (4) A clear document outlining the respective roles of the President and the Regents. (5) Presidential protocols to support the campuses and a central system for common functions for the campuses. (6) WASC accreditation criteria to include explicit standards for system presidencies and boards. (Pages 15-19) We comment as follows, noting again that this is a preliminary response to provide context to those who read the Report.

First, as noted above, the Office of the President and Regents have been working over the last year on a comprehensive review of compensation policies, which will include standardizing the format and cross-references to other authorities as well as a robust system of indexing the policies and accessing them electronically. It is anticipated that this work, done in conjunction with the Mercer consultants, will be presented in segments to the Board at the next several Board meetings. The proposal specifically includes a system of periodic, required review of policies on a regular cycle.

Second, also noted above, almost all of the details of the recommendation to enhance the duties of the Governance and Audit Committees have been under way for some time. The hiring of the Senior Vice President for Compliance and Audit and the Chief of Staff to the Regents are part of this effort, as is the Monitor-supported working group efforts to look at the respective roles of the President, the Regents and the campuses. The efforts to develop a comprehensive orientation and mentoring program, including Board evaluation, have also been in progress for quite some time. Please refer to earlier portions of this letter for more detail. Attendance at AGB seminars has been offered to Regents in the past when consistent with budgetary limits. We will continue to offer participation to our Regents consistent with the budgetary restrictions our state currently faces. Regarding presentation of Sarbanes-Oxley principles to the Board, we have already detailed that this will be a significant portion of the orientation program we are developing and also noted that the Audit Committee heard a presentation on these principles last month.

Third, regarding procedures for appointment of senior officers, the Office of the President and Regents have been working with Mercer consultants on this issue for much of the last year. The goal is to achieve a more streamlined system of approval but at the same time to ensure that compliance and transparency protections are very strong. We had anticipated that this proposal would come before the Board in January, but in view of the need for further refinements the presentation has rescheduled for our March meeting.

Mr. Ralph W. Wolff
January 18, 2008
Page 7

Fourth, as noted above, the Regents and other University officials have all recognized the need to more clearly define the roles of the President, the Regents, and the campuses. Substantial amounts of time, attention, and resources have been devoted to this work.

Conclusion

As leaders of the University of California, we make every effort to enhance and build the University's reputation as the finest system of public higher education in the nation. Our actions in the past two years to deal effectively with serious concerns and procedural deficiencies related to executive compensation practices is only one aspect of our commitment to serving that goal. We have adjusted our organizational structure, personnel decisions, resource allocation, and committee structure and schedules to deal with the governance issues that the compensation issues made apparent.

We are grateful for the efforts and dedication of the review team and others involved in preparing the Report and look forward to further productive interactions with WASC as we work to further improve our policies, practices and procedures.

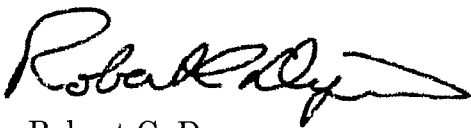
Sincerely,



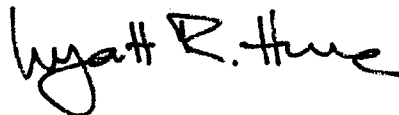
Sherry L. Lansing
Chair, Committee on Governance



Russell Gould
Vice Chair, Committee on Governance



Robert C. Dynes
President



Wyatt R. Hume
Provost

Enclosures: (1) Minutes of Committee on Compensation, March 16, 2006; and
(2) *Process and Timetable for Annual Performance Review of Officers Reporting Directly to The Regents* (Mercer Human Resource Consulting, March 16, 2006)

cc: Chancellors
Academic Council Chair Brown
Secretary and Chief of Staff Griffiths

The Regents of the University of California

SPECIAL COMMITTEE ON COMPENSATION

March 16, 2006

The Special Committee on Compensation met on the above date at Covell Commons, Los Angeles campus.

Members present: Regents Dynes, Hopkinson, Juline, Marcus, Moores, Parsky, Pattiz, Schilling, and Wachter; Advisory members Coombs and Oakley

In attendance: Regents Gould, Island, Johnson, Kozberg, Lansing, Lozano, Preuss, Rominger, Rosenthal, and Ruiz, Regents-designate Ledesma and Schreiner, Faculty Representative Brown, Secretary Trivette, General Counsel Holst, Interim Treasurer Berggren, Acting Provost Hume, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome, Foley, Gurtner, and Hershman, Chancellors Birgeneau, Bishop, Carnesale, Córdova, Denton, Drake, Fox, Tomlinson-Keasey, Vanderhoef, and Yang, Laboratory Director Anastasio, Acting Laboratory Director Kuckuck, University Auditor Reed, Financial Expert Advisor Vining, and Recording Secretary Bryan

The meeting convened at 10:15 a.m. with Committee Chair Hopkinson presiding.

12. **PROCESS AND TIMETABLE FOR ANNUAL PERFORMANCE REVIEW OF OFFICERS REPORTING DIRECTLY TO THE REGENTS**

Committee Chair Hopkinson recommended that The Regents approve the process and timetable for annual performance reviews of the Officers reporting directly to The Regents.

The Regents have an obligation to provide a performance management program for UC positions that report directly to The Regents: the President, General Counsel, Treasurer, and Secretary of The Regents. Objectives for this proposal include aligning incumbent performance with The Regents' top priorities, promoting incumbent development, and determining possible impact on compensation.

As part of the proposed performance management process, each incumbent will be asked to provide a self-assessment of his or her prior year's performance in three areas: goal progress and achievement, ongoing responsibilities, and leadership competencies. Specific Regental responsibilities and time frames are defined in the proposal.

Mr. Bob Miller, of Mercer Consulting, reported that the objectives of the program are to make sure there is the right focus on priorities, that the individuals receive input from a select group of Regents on their performance in meeting their goals and priorities, and to set the stage for performance management across the UC system. He noted that the Office of the Treasurer has a separate performance management process that focuses on investment performance and is tied to incentive compensation.

Mr. Miller reported that, based on priorities communicated by The Regents, the individuals would develop goals for the coming year in April or May and provide them for Regental review, and in July or September the Regents would respond with input on the prior year's performance and would propose compensation in October or November. There are three major components: four or five annual goals, ongoing responsibilities that might not be included in a specific goal for the year, and leadership competencies.

Committee Chair Hopkinson believed that the proposal was overdue. She indicated that the Chairman would name the lead Regent for each of the positions. Chairman Parsky suggested the following: with respect to the President, the Chairman would take the lead responsibility; for the General Counsel it would be the Chair of the Committee on Finance; for the Treasurer, the Chair of the Committee on Investments; and for the Secretary, the Vice Chairman of the Board. He commented that as part of establishing best practices, this kind of review for these positions is appropriate.

Regent Marcus expressed concern that there is consistency and uniformity among the activities that the Regents are engaged in. He believed that would be difficult under the current structure. He noted that it is common for boards to have a personnel committee or other committee that operates consistently on these matters. Chairman Parsky indicated that over the course of the coming year it may be appropriate to shift the duties solely to the Committee on Compensation.

Regent Moores noted that the proposal was very process-laden and possibly too detailed. On most boards, most members would be very familiar with what their direct reports are going to do. Chairman Parsky responded that the Regents have a responsibility to oversee the performance of their direct reports. The proposal is only a suggestion of how the reviews might take place.

Upon motion duly made and seconded, the Committee approved the recommendation and voted to present it to the Board.

MERCER

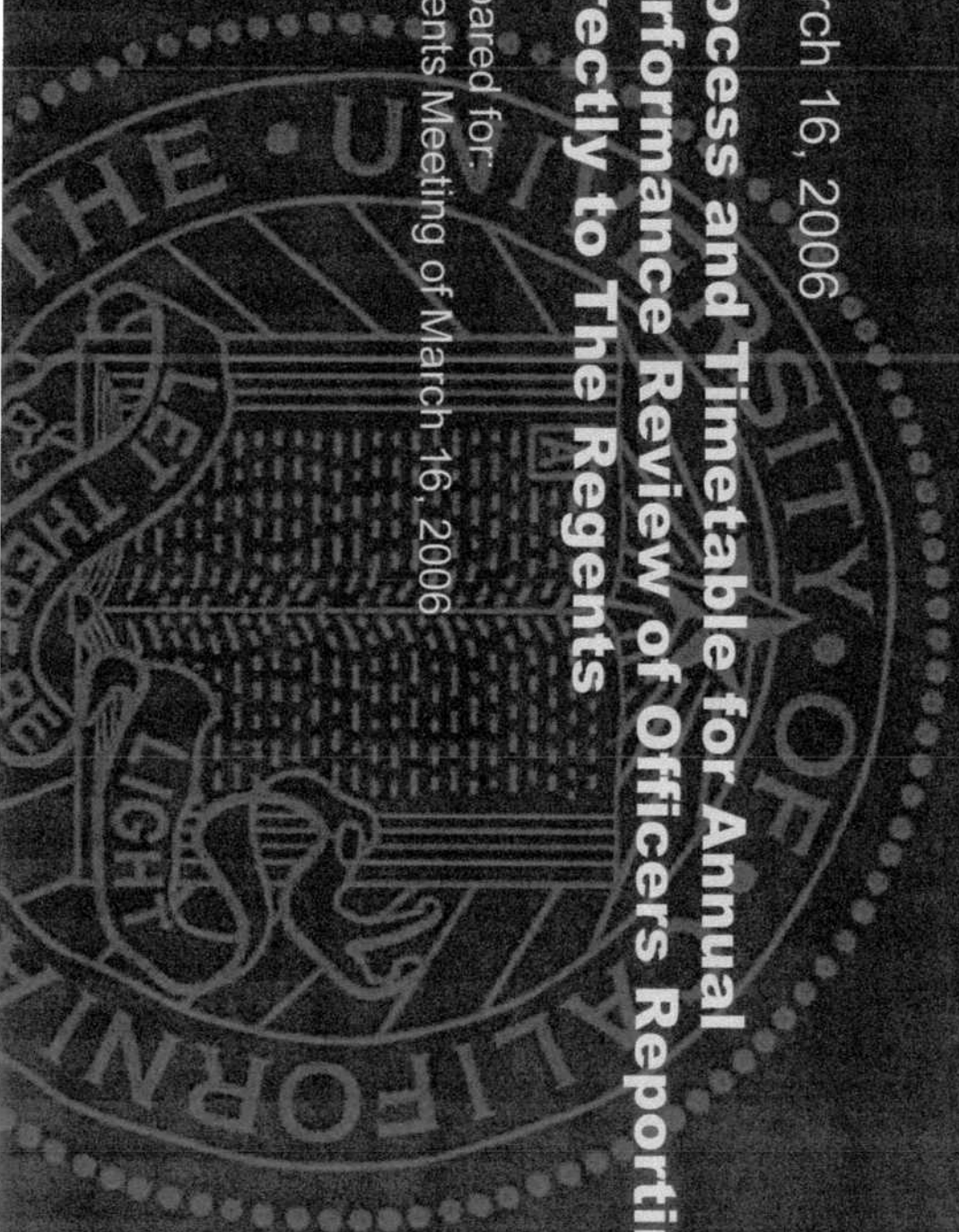
Human Resource Consulting

March 16, 2006

Process and Timetable for Annual Performance Review of Officers Reporting Directly to The Regents

Prepared for:

Regents Meeting of March 16, 2006



Performance Management Proposal

Definition

- Performance management is a process used by organizations to ensure executives and employees focus on the right values, strategies and priorities. It typically involves goal setting, ongoing performance, behavioral (competency) expectations, input on strengths and development opportunities.

Proposal

- The Regents have an obligation to provide a performance management program for UC positions where they have direct oversight.

Performance Management Program

Objectives

Objectives

1. Align incumbent performance with the Regent's strategic direction and priorities
2. Through collaboration with the President, ensure Chancellors and managers focus on top priorities
3. Promote incumbent development through Regent input and review
4. Assist the Regents in evaluating incumbent performance and determining possible impact on pay
5. Reinforce the importance of strong performance management practices across the UC system

Performance Management Program

Positions Included

- **President (Bob Dynes)**
- **General Counsel (James Holst)**
- **Treasurer (Interim: Marie Berggren) ***
- **Secretary of The Regents (Leigh Trivette)**

* This program is complementary to and would not impact the Treasurer's investment performance metrics or incentive opportunity.

Performance Management Cycle

**Regents Communicate
Top Priorities**

***Develop Goals for Coming Year
(April - May)***



***Determine
Compensation Impact
(Oct - Nov)***

***Review Prior Year's
Performance and Approve
New Goals
(July - Sept)***

Performance Management Responsibilities

Selected Regents* Responsibilities

- Approve incumbent's annual goals
- Meet with incumbent to review annual performance
- Determine need for pay increase recommendation

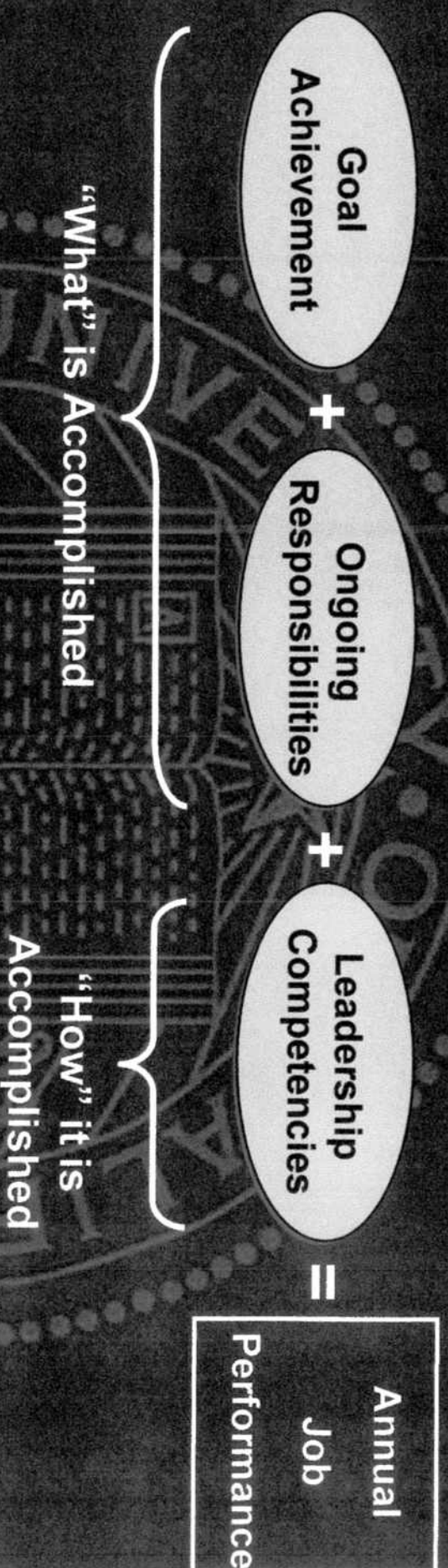
Incumbent Responsibilities

- Draft annual goals for Regent's review
- Provide progress report and/or goal adjustments (as necessary)
- Complete annual self-assessment
- Meet with Selected Regents* to review annual performance

* See page 9 for specific Regent responsibilities

Performance Management Areas

Three Components



Examples of Performance Areas

- Performance areas may include initiatives beyond the incumbent's full control
- In these instances, level of effort should be considered in the assessment

President	General Counsel	Treasurer	Secretary of The Regents
Examples of Annual Goals ▼			
<ul style="list-style-type: none"> ▪ Hire new Chancellor 	<ul style="list-style-type: none"> ▪ Introduce new process for measuring client satisfaction 	<ul style="list-style-type: none"> ▪ Assess need for new investment partners 	<ul style="list-style-type: none"> ▪ Develop new Regent on-boarding process
Examples of Ongoing Responsibilities ▼			
<ul style="list-style-type: none"> ▪ UC funding 	<ul style="list-style-type: none"> ▪ Outside counsel oversight 	<ul style="list-style-type: none"> ▪ Investment performance 	<ul style="list-style-type: none"> ▪ Regent meeting support
Examples of Leadership Competencies ▼			
<ul style="list-style-type: none"> ▪ Strategic Vision 	<ul style="list-style-type: none"> ▪ Collaboration 	<ul style="list-style-type: none"> ▪ Leading Teams 	<ul style="list-style-type: none"> ▪ Knowledge of Governance Practices

Performance Management Schedule and Timing

Schedule ▼	Timing	Position Incumbent	Selected Regents* Responsible	All Regents
1. Incumbent submits annual goals for coming year to Selected Regents*	April 1	Draft		
2. Selected Regents* provide input and approve final goals	May 1		Input & Approve	
3. Regents receive final goals	May Regents Meeting			Informed
4. Incumbent submits self-assessment for prior year to Selected Regents*	July 31	Draft		
5. Selected Regents* review self-assessment and provide assessment	August 31		Input & Review	
6. Incumbent and Selected Regents* meet to discuss prior year's performance	September	Input	Input & Approve	
7. Regents receive summary of incumbent's prior year's performance	September Regents Meeting			Informed
8. Compensation Committee recommends compensation impact for Regents' ratification, contingent on legislative budget action (see note)	October Regents Meeting		Compensation Committee Approval	Approval

* See page 9 for specific Regent responsibilities

Note: Committee on Investments would also recommend and approve the Treasurer's incentive award

Regents Responsible for Providing Performance Input and Review

✓ = Primary Responsibility

	Incumbent to be Reviewed			
Responsibility for Providing Input and Review ▼	President	General Counsel (1)	Treasurer (2)	Secretary of The Regents (3)
Chair of the Regents	✓	✓	✓	✓
Vice Chair of the Regents	✓			✓
Chair of the Compensation Committee	✓	✓	✓	✓
Chair of the Education Policy Committee	✓			
Chair of the Investment Committee			✓	
Chair of the Finance Committee		✓	✓	
Chair of the Special Committee on Regents' Procedures		✓		✓

- (1) General Counsel would also receive feedback from the President
- (2) Treasurer would also receive feedback from UCOP's SVP Business and Finance
- (3) Secretary of The Regents would also receive feedback from the President

Performance Management Self-Assessment Instructions

- The instructions cover:
 - goals,
 - on-going responsibilities, and
 - leadership competencies
- The self-assessment may note performance areas beyond the full control of the incumbent (e.g., UC system-wide initiatives)

Next Steps

- Refine proposed approach and self-assessment instructions based on Regent input
- Develop three to six leadership competencies for each position, validate with incumbents
- Launch new performance management program in April, 2006

REPORT OF THE WASC SPECIAL VISIT TEAM

**To the University of California Office of the President
and Board of Regents**

October 23 – October 24, 2007

Team Roster

John T. Casteen III (University of Virginia), Chair
Cameron Howell (University of Virginia), Team Writer
William E. Kirwan (University System of Maryland)
Kitty Lagareta (University of Hawaii System)

The evaluation team in conducting its review was able to evaluate the institution according to Commission Standards and Core Commitments and therefore submits this Report to the Accrediting Commission for Senior Colleges and Universities of the Western Association of Schools and Colleges for action and to the institution for consideration.

On October 23-24, 2007, a special committee of the Accrediting Commission for Senior Colleges and Universities of the Western Association of Schools and Colleges (WASC) visited the Office of the President of the University of California (UC) in Oakland. This report provides background information, findings, and recommendations for the UC Board of Regents, for UC's senior executives, and for WASC.

The names and affiliations of the members of the special committee are listed in Appendix A. The special committee expresses its gratitude for the candor and responsiveness of all with whom it met while in Oakland, and also of those who provided information in individual interviews and in conference calls. We are especially grateful to President Robert Dynes, Provost and Executive Vice President Wyatt R. Hume, and staff members in the President's Office for their responsiveness to our many questions; to the Regents who provided context and their perspectives on the issues that we were asked to examine; and to the faculty members, chancellors, former chancellors, and others who provided us with valuable information and commentary.

Hilary A. Baxter, UC's WASC Accreditation Liaison Officer, and Diane M. Griffiths, the Regents' Secretary and Chief of Staff, provided specific and timely assistance, for which we are grateful. Several Regents met with us face-to-face or by telephone. These included Chair Richard C. Blum, Vice-Chair Russell Gould, Judith Hopkinson, Joanne Kozburg, and Sherry L. Lansing. WASC President and Executive Director Ralph A. Wolff advised us before, during, and after the

visit. Each has contributed in some sense to this report, and we are grateful to all.

In addition, Cameron Howell of the President's Office at the University of Virginia provided invaluable staff support throughout this project, including serving as principal drafter of this report. We are much indebted to him.

Background

In 1992, following controversy about executive compensation, the UC Regents adopted policies and procedures to promote fiscal transparency and to prevent abuse. These policies appear not to have been adjusted after 1992. Over time, UC administrators and Regents apparently forgot these policies or ceased to follow them systematically. In November of 2005, the San Francisco *Chronicle*, and subsequently other news sources, alleged large-scale irregularities in the salaries and compensation awarded to high-level UC administrators.

State government and the UC appear to have initiated inquiries shortly after the newspaper reports appeared, among them a Task Force (and eventual report) on UC Compensation, Accountability, and Transparency; two external audits conducted by PricewaterhouseCoopers; one internal audit conducted by the University Auditor; and a state audit conducted by California's Bureau of State Audits.

These reports and audits revealed numerous failures and violations of UC policies. The Regents' 1992 policy required that all compensation arrangements (including base salary, moving expenses, special relocation allowances, housing

allowances, and summer stipends) for some 300 senior executives be identified and presented to the Regents in their action agenda when the Regents approved these appointments. In scores of instances over at least the past half-dozen years, total compensation was not systematically included in approval requests made to the Regents.

WASC Accountability Issues

In light of the audit findings, WASC examined UC's compliance with its standards and criteria for accreditation. The identified irregular compensation arrangements included, among others, administrators on UC's separately accredited campuses. WASC President and Executive Director Ralph A. Wolff wrote to President Dynes on December 7, 2006, that each UC campus is affected by governance actions taken by the UC Office of the President and the Regents; system-level governance and deficiencies in system-level governance "have direct impact on and relevance to the accreditation of each campus." Mr. Wolff identified as relevant two specific WASC Standards for Accreditation:

The matters identified in the audits are subject to Commission attention under Standard 1, which covers institutional integrity and accountability[,], and Standard 3, which covers financial controls and oversight and decision-making processes. In addition, these issues have implications under Standards 1 and 3 with regard to University governance – how the governance systems of the

University are responding to assure that these matters are being addressed in a timely and appropriate way.

In addition, five of WASC's Criteria for Review were determined to be at issue. CFRs 1.3, 1.8, 3.8, 3.9., and 3.10 read as follows:

CFR 1.3 The institution's leadership creates and sustains a leadership system at all levels that is marked by high performance, appropriate responsibility, and accountability.

CFR 1.8 The institution exhibits integrity in its operations as demonstrated by the implementation of appropriate policies, sound business practices, timely and fair responses to complaints and grievances, and regular evaluation of its performance in these areas.

CFR 3.8 The institution's organizational structures and decision-making processes are clear, consistent with its purposes, and sufficient to support effective decision making.

CFR 3.9 The institution has an independent governing board or similar authority that, consistent with its legal and fiduciary authority, exercises appropriate oversight over institutional integrity, policies, and ongoing operations, including hiring and evaluating the chief executive officer.

CFR 3.10 The institution has a chief executive whose full-time responsibility is to the institution, together with a cadre of

administrators qualified and able to provide effective educational leadership and management at all levels.

In May of 2007, Mr. Wolff appointed the current special committee (1) to determine whether or not the University of California (at the levels of the Regents, Office of the President [UCOP], and campuses) has responded effectively to issues arising under WASC Standards 1 and 3 and the five related CFRs; (2) to evaluate how these responses illuminate the governance functions of the UCOP, the Regents, and the campuses; (3) to offer advice to benefit the UC system; (4) to identify necessary follow-up actions to be taken by the UC and/or WASC with respect to the audit findings and CFRs; and (5) to offer advice to strengthen and clarify the relationship between the University of California system and WASC.

The University's Response

On September 17, 2007, UC submitted to WASC and to the special committee the report entitled "Follow-up Action in Response to Task Force Report and Audits on Compensation" and supported by appendices labeled A through Z. This report summarizes the UC compensation issues and identifies conditions that contributed to them, describes the relationship between WASC standards and the compensation controversy, and outlines corrective actions taken by the University.

The report discloses that UC has implemented numerous remedies in response to the audit findings. Some of these remedies are ongoing or have not

yet begun. These include Regents' actions, system-level reforms, and campus-level reforms.

Committee Procedure

The WASC special committee evaluated the UC's "Follow-up Action in Response to Task Force Report and Audits on Compensation" and discussed this report in a conference call before visiting the UC System Office on October 23-24. Members of the special committee spoke with Richard C. Blum, Chair of the Board of Regents, in a conference call on October 1. (Mr. Blum could not be present during the October 23-24 visit.) Using a uniform set of questions, committee members interviewed several current and former UC chancellors, as well as a former UC provost. With two exceptions, these interviews were conducted before the special committee's October 23-24 special visit. Telephone conversations with one Regent who could not be present during the special visit occurred after the visit. While in Oakland, the committee had access to additional documents and reports relevant to the compensation audits and to UC's systems of governance.

Committee Findings

On page 2 of UC's "Follow-up Action in Response to Task Force Report and Audits on Compensation" document, the University makes the following assertion. Underlining for emphasis is original to the report:

We believe that, collectively, corrective measures taken by the University – those completed, those underway[,] and those requiring additional attention – yield policies and practices at all levels that are wholly consistent with the standards upon which WASC accreditation is based.

Although the WASC special committee concurs that the several audits have led to a conscientious and thorough analysis of many of the issues relating to violations of compensation policies, the committee's interviews and research also led the committee to the conclusion that there are significant, other governance issues that the UC needs to address, some of which are matters of serious concern.

The issues leading to the creation of the special committee appear to have occurred primarily at the interface between the UC Office of the President and the Regents. We neither heard nor found in the audit reports any suggestion of impropriety or irregularity on any of the campuses. UC's "Follow-up Action in Response to Task Force Report and Audits on Compensation" proposes vesting significant new responsibilities in the Office of the President. Separately, however, Chairman Blum's August 22, 2007, letter ("We Need to Be Strategically Dynamic") challenges the functioning of the Office of the President and calls for reorganization and changes in the operation of the President's Office.

We heard from virtually all with whom we talked that governing the UC system and its ten campuses should be the collaborative work of the campus chancellors and administration, the President or Office of the President, and the

Regents. In reviewing the overall assignment and delegation of roles and responsibilities between the campuses, the Office of the President, and the Regents, we found deviations from WASC's standards or expectations of "leadership," by which term the Standards and CFRs clearly include both administrators and the Regents. We spoke to no one who disagreed with this observation. The University identified some of these deviations in its reports, and it has developed processes to correct many of them. Related audits are still in progress. In addition, the Regents have relied heavily on external consultants, notably PricewaterhouseCoopers and the Mercer Group, to propose new systems and procedures.

We believe that these efforts are likely to document adequately the deviations from policy that did occur with respect to compensation issues and to make future violations unlikely. One caution deserves to be noted: A challenge that arises when correcting past wrongs and, at the same time, revising necessarily complex policies for the future is to avoid over-correction. A flawless reporting system may trigger expansion of processes that are already highly bureaucratic and, in the process, make timely action on high-level appointments more complicated than necessary.

From the information available, we see no reason to believe that the deviations from the Regents' 1992 policy were intentional or that anyone in the Office of the President deliberately departed from the Regents' requirements and expectations. In many instances, the total compensation of proposed appointees appears actually to have been reported to the Regents, but in background

documents rather than in the Regents' action agenda. (The 1992 policy required that this information appear in the action agenda.) In most identified instances of incomplete or improper reporting of total compensation, the unreported amounts were comparable to compensation approved for persons in comparable positions whose compensation was reported properly in the action agenda.

The available information suggests that personnel in the Office of the President decided on a case-by-case basis which elements of compensation to report in the action agenda and which not to report.

These facts being as they are, we believe that the deviations from the Regents' 1992 compensation policy were not in compliance with WASC standards as noted below and resulted from the following:

- (1) Loss of "institutional memory," including knowledge that the 1992 policies ever existed. Few or no Regents or senior UC officers were in their current positions when the 1992 policies were adopted (WASC Standards 1 and 3; CFRs 1.3, 1.8, 3.8, and 3.9).
- (2) An internal audit system that failed to track compliance with Regents' policies and flag them for the Regents or for the President. This issue touches both governance and executive management practices (WASC Standards 1 and 3; CFRs 1.3, 1.8, and 3.9).
- (3) The absence of systematic review of materials submitted to the Regents by persons charged specifically with verifying the

action agenda's adherence to established policies. This or analogous safeguards ought to be commonplace protections for a public board with responsibilities as broad as the Regents' responsibilities (WASC Standard 3; CFRs 1.3 and 3.8).

- (4) The absence of a central or universally accessible system for personnel records, including compensation records. The various campuses have independent human resource databases. No universal interface exists. Needed compensation data are acquired from the campuses manually and slowly – a problem that appears to account for the delay of four months before the University could respond to the executive compensation allegations originally made in the *Chronicle* in 2005 (CFR 3.7 [“information technology resources. . . sufficiently coordinated and supported to fulfill (the University's) educational purposes and to provide key academic and administrative functions”]).

More than one factor seems to have shaped an environment in which violations of UC compensation policies were not uncommon. One is the Regent's decision several years ago, as reported by several Board members, to decentralize the University's administration. Senior officers were instructed to “bring less material to the Board” for review and approval, but the instruction came in the form of informal direction rather than in the form of a policy revision. The Regents' need to keep their workload under control is

understandable and legitimate. At the same time, senior officers working under these informal instructions were placed at risk with regard to Regents' policies adopted prior to their time.

A second factor is clearly the scale and complexity of the Regents' workload and the quality of the management systems available to the President's staff as they provide services to the Regents. The absence of a centrally accessible personnel system makes compensation work especially difficult. Generally speaking, meetings occur every second month, a schedule that is in no sense unusual for boards of this kind. Offers of employment and salary commitments often need to occur between Board meetings. Chancellors and other officers hire new colleagues in a competitive marketplace where timely offers have a premium value and where an unwieldy, prolonged, and bureaucratic process of approval can damage the University's interests.

Additional Issues of Significance

Although the special committee initially focused on the response of the UCOP and Regents to compensation issues, it soon became clear that other significant issues were also present in the UC's governance, leadership, and decision-making processes that are relevant to WASC's standards. As a result, the special committee is obligated to report what it found in the course of examining UC's written submissions to WASC and in the course of its interviews and research. We believe that some of these issues are not widely recognized by the Board of Regents but are of sufficient significance to warrant attention,

reflection, and action. At the present time, these issues seem fundamental to effective governance and decision-making, especially at a time when the University's leadership is in transition:

1. There is no consistent, verifiable annual evaluation of the President conducted in the context of annual or other presidential plans of work agreed upon by the President and the Board of Regents. We heard contradictory reports about evaluations of the President. These ranged from no evaluation, to evaluation by a few Regents, to evaluation by the Chair, all described as both with and without periodic reports of findings to the Regents (WASC Standard 1; CFRs 1.3, 1.8, and 3.9).

2. There is no consistent, systematic board self-assessment, and there is no on-going or constant improvement/self-improvement program for the Regents. Newly appointed Regents receive a general briefing on UC systems and procedures shortly after they are appointed. Regents and staff members told us that, after this initial orientation session, the Regents do not engage in process- or system-improvement exercises to assure that they understand current best practices among boards with similar mandates. Responses to our questions about Regents' participation in the on-going training programs offered for college and university board members by the Association of Governing Boards and similar organizations were mixed. No one with whom we talked reported having taken part in any training exercise of this kind (WASC Standard 1 and Standard 3; CFRs 1.3, 1.8, and 3.9).

Symptomatic of the Board's failure to address "best-practice" governance issues, we received differing responses when we asked whether or not the Regents had discussed among themselves the possible value of Sarbanes-Oxley principles of corporate governance to their work as Regents, particularly with regard to their fiduciary responsibilities. One prominent Regent said that they had not. Others said that they had. Similarly, no Regent with whom we spoke was familiar with the two commissions formed by the Association of Governing Boards (AGB) specifically to recommend best practices for board governance as it relates to the employment and assessment of college and university presidents. (See the 1996 report of the AGB Commission on the Academic Presidency ["Stronger Leadership for Troubled Times"] and the 2006 report of the AGB Task Force on the State of the Presidency in American Higher Education ["The Leadership Imperative"].) In our opinion, knowledge of these two reports might well have protected the Regents' interests in executive compensation and general oversight of the Office of the President.

3. There are no consistent (formal or informal) "operating procedures" for Chair and Regent conduct and decision-making. There appears to be a practice among members of the UC Board of Regents, especially the Chair, to make seemingly official statements regarding the UC without formal Board action or prior discussion and authorization of the Board through collective action. It is a general principle of board functioning that boards act only through formal and collective action, rather than as individuals. One example of individual rather than collective action arose in the discussion of widely publicized plans issued in

a position paper by Chairman Blum on the need for reorganization of the UC Office of the President. We received inconsistent responses when we asked to what extent the entire Board of Regents or some significant Regents' committee had contributed to or approved Chairman Blum's letter ("We Need to Be Strategically Dynamic") before that letter was published and circulated, and, in response, the administrative reorganization described in it was begun by the University administration. Generally speaking, the Regents with whom we talked said that they had little or no knowledge of the letter prior to receiving it and reading newspaper accounts of it. It is clear that the letter and proposed actions were not formally adopted by the Board prior to publication (WASC Standard 1 and Standard 3; CFRs 1.3, 3.8, 3.10, and 3.11).

Responses were similarly inconsistent when we asked whether or not the Regents had discussed or approved the letter at their next meeting, following the letter's publication. A faculty spokesperson told us that he discussed it in his presentation to the Regents at this meeting. We heard also that one other reference to it occurred during this meeting, but that the Regents did not discuss the letter or approve the then-in-progress reorganization of the President's Office and appointment of a Chief Operating Officer. The special committee finds it highly unusual and at odds with accepted board governance "best practice" for a letter of this importance to be made public without considerable discussion of its underlying content by the Board and the UCOP and for follow-up action to be taken in response to the call of a single Regent, albeit the Chair.

Similarly, the team learned that Board members have regularly and publicly commented on UC issues outside of Board meetings, sometimes critically, asserting their leadership positions on the Board. It will be important for the Board to establish clear principles defining to whom and under what circumstances individual Board members are authorized to speak on behalf of the Board, especially absent formal Board action. In addition, as further described below, formal lines of authority and boundaries between the policy-setting role of the Board and the executive function of the Office of the President need to be established and followed.

4. There is a culture of interaction within the Board of Regents that needs attention. A concern raised often enough in our interviews to merit mention is the belief that the Regents are sometimes unnecessarily harsh in their treatment of UC administrators, faculty, and staff. According to these reports, civility in communications at public and private meetings, in the media, and in other venues have suffered over time, and the consequence is a perceived absence of common purpose and a “we-they” mentality. This perception merits attention because it undermines shared governance and collective responsibility (WASC Standard 1 and Standard 3; CFRs 1.3, 3.8, 3.9, and 3.10).

Committee Recommendations

The following recommendations are made in the spirit of encouraging further progress on the issues facing the University of California:

1. *UC should build comprehensive processes and procedures to assure that policies adopted at any level within the organization are preserved and understood by persons responsible to implement them. These policies and procedures should be readily available internally and to the public. Available technology will allow this information to be maintained within a searchable, public database with appropriate indexing and editorial attention to assure that interested persons generally (not to mention persons who need to know because of their duties) can find and track policies relevant to any issue. We recommend further that the Regents adopt a system-wide rule of sunseting and then periodically reenacting policies so that chancellors, the President, and the Regents do not find themselves locked into policies (or salary caps or any other artificially rigid prescriptions) that by their nature require regular review and renewal.*

2. *The Regents should continue building the effectiveness of their operations by such means as the Governance Committee already created as a response to the compensation crisis, a strong and properly staffed Audit Committee supported by state-of-the-art financial accounting and control systems throughout the UC, and a coherent system for verifying regulatory compliance. Among other responsibilities, the Governance Committee might well design and run that part of the orientation of new Regents to the Regents' responsibilities, codes of conduct (including agreements as to who speaks for the Regents and what responsibilities come to individual Regents when they speak for, or present themselves as speaking for, the UC), customs of operation, and range of authorities. This committee might also take responsibility for periodically sending individual Regents to meetings*

of the Association of Governing Boards, WASC, and the American Council of Education, and it might encourage Regents to volunteer to serve on visiting committees of WASC and other accrediting and regulatory entities that address issues like the UC's, but in other states and contexts. It might also manage a new set of programs of self-assessment, self-scrutiny, and self-improvement for the Regents. The Audit Committee or some other designated committee should regularly conduct self-assessment programs for the Regents. These should include assessments of members' individual work, of the work done by committees of the Regents, and of the performance of the President and the Office of the President.

The Regents' Audit Committee should assume at least some of the responsibilities accepted by the audit committees of the boards of public companies under the Sarbanes-Oxley Act of 2002, even though these responsibilities are not imposed by law on not-for-profit entities. Best practice is a common matter of scrutiny for well-governed boards and universities. An audit committee is a natural repository for this responsibility. Among other responsibilities, the Regents' system for verifying regulatory compliance should provide regular reports for the Regents on the UC's accreditation, federal statutory, state statutory, and other regulatory obligations, and also on processes of regulatory change that affect or may plausibly affect the UC. Here, too, the Regents' goal ought to be informed by best practice.

3. *The Regents and the UCOP should develop procedures that allow for timely appointments of senior officers consistent with the competitive marketplace for institutions of UC's quality.*

4. *As they seek a new President, the Regents should devote significant time and thought to developing a document that clearly defines the roles, responsibilities, and expectations of the President – along with the roles, responsibilities, and expectations of the Board of Regents. Ambiguity about the respective roles of the Regents and the President compounds the problems described in this report. Mr. Blum's letter ("We Need to Be Strategically Dynamic") may solve certain problems and meet genuine needs, including the need for institutional memory of Regents' policies, but unresolved ambiguity about which functions belong to the Regents and their new Chief of Staff and which belong to the President will likely complicate rather than simplify roles and responsibilities as a new UC President takes office. A document defining the roles of the President and Board might take the form of a compact or codicil or side letter to the letter of the President's appointment, and in this compact the Regents and the eventual President should subscribe together to a set of core principles for the future. These should include transparency, strict attention to policies competently adopted and to perpetual review and renewal of these policies, and understandings about who speaks for the UC and with what authority. This compact should define the limits of each signatory's responsibilities and authorities. It should embody sound principles of institutional governance and execution of positions of public trust. It should be a public document, and it should be periodically updated.*

5. *The Office of the President should develop protocols to support the campuses and especially campus leaders in a timely manner during periods of turmoil, and indeed should seek closer alignment with the chancellors on all matters of common concern. It should advocate, build, and maintain effective central systems for common functions, including personnel management and finance.* The UCOP must be accountable to the Regents for the integrity and effectiveness of its operations while serving the needs of the chancellors and their campuses. Sound management and control systems are central to the task of serving both constituencies in a manner that addresses issues in a transparent and expeditious manner. In building these systems, the UC Office of the President must have the support of the chancellors and the Regents.

6. For WASC: *Revise the accreditation criteria to include explicit standards for system presidencies and system boards.* These are implicit in the current criteria, but lay persons appointed to such boards as the UC Board of Regents might well not understand such terms as “leadership” in a context more complex than that of an individual campus.

Conclusions

UC’s individual campuses are among the best and most respected in the nation and in the world. The system as a whole sets a standard of excellence. This standard of excellence deserves to be matched by an equal level of excellence in the University of California’s governance systems, in both the Board of Regents and the Office of the President. The WASC special committee

believes that the University urgently needs to upgrade and to modernize its governance systems and procedures. Although real and significant progress has been made in regard to UC's compensation policies and practices, serious issues remain to be addressed with respect to the general systems of governance, leadership, and decision-making that are required by WASC's Standards and Criteria for Review.

The process of searching for a new President of the University of California presents a unique opportunity to define more clearly the roles and responsibilities of each of the key parties in the UC's governance and leadership. Moreover, given all of the challenges of the past several years in addressing the policy violations that have occurred in relation to UC compensation, in addressing media claims regarding these violations, and in addressing criticism levied by members of the UC Board against its own administration, there is a need to reestablish confidence in the senior administration of the University and a need for the Board to conduct itself in ways that will ensure the success of any new President (and of the Office of the President). Failure to address these issues could, over time, threaten the reputation that the University of California has deservedly earned as perhaps the nation's finest system of public higher education.

APPENDIX A: TEAM ROSTER



Western Association of Schools and Colleges

Accrediting Commission for Senior Colleges and Universities

TEAM ROSTER AND TITLE PAGE

University of California
1111 Franklin Street
Oakland, CA 94607-5200
(510) 987-9418

Date of Visit: October 23-25, 2007

Type of Visit: Special

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Accreditation Liaison Officer:

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**APPENDIX B: SCHEDULE FOR SPECIAL VISIT BY THE WESTERN
ASSOCIATION OF SCHOOLS AND COLLEGES TO THE UNIVERSITY OF
CALIFORNIA**

Tuesday, October 23

Claremont Hotel

41 Tunnel Road
Berkeley, CA 94705
(510) 843-3000

3:00 – 5:00 p.m. – Team meeting (Lanai I)

5:00 – 6:00 p.m. – President Robert Dynes (Lanai I)

6:30 – 8:30 p.m. – Private dinner (Monterey Room on the mezzanine level)
~ Wyatt (Rory) Hume, Provost and Executive Vice President
~ Katherine Lapp, Executive Vice President, Business
Operations

Wednesday, October 24

UC Office of the President

1111 Franklin Street
Oakland, CA 94607
(510) 987-9418

8:00 – 10:00 a.m. – Meeting with UCOP staff that oversee or work on compensation
(rm. 9115)

- ~ Katherine Lapp, Executive Vice President, Business
Operations
- ~ Nicholas Jewell, Vice Provost, Academic Personnel
- ~ Judy Boyette, Associate Vice President, Human Resources &
Benefits
- ~ Dennis Larsen, Executive Director, Resource
Administration, Human Resources & Benefits

10:00 – 10:15 a.m. – Break

10:15 – 11:15 a.m. – General Counsel Charles Robinson (rm. 9115)

11:15 – 12:15 p.m. – Universitywide Academic Senate (rm. 9115)
~ Michael Brown, Chair
~ Mary Croughan, Vice Chair

12:30 – 2:30 p.m. – Lunch (rm. 12107)

- ~ Regent Russ Gould, Vice Chair*
- ~ Regent Judith Hopkinson, former Compensation Committee Chair*
- ~ Regent Joanne Kozberg, co-chair of Compensation Task Force*

2:30 – 3:00 p.m. – Follow-up as needed for clarification, review of documents, and additional information (rm. 9115)

3:00 – 4:30 p.m. – Team meeting (rm. 9115)

4:30 – 5:30 p.m. – Provost Hume (rm. 12102)

5:30 – 6:30 p.m. – President Dynes (President's conference room – 12th floor)

Arrangements have been made for the team to have dinner at the Claremont on Thursday, October 24, at 7:30. In addition, the Lanai I room will be available for the team members' use from the initial team meeting through 11:00 p.m. on the 24th. The room will be equipped with Wi-Fi internet access, a printer, two copies of the complete report (including appendices), and other supplies listed in the WASC visit guide.

UNIVERSITY OF CALIFORNIA ACADEMIC SENATE

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SANTA BARBARA • SANTA CRUZ

Chair, Academic Council and Assembly of the Academic Senate
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Faculty Representative to the Board of Regents
University of California
1111 Franklin Street, 12th Floor
Oakland, California 94607-5200

January 24, 2008

ROBERT C. DYNES, PRESIDENT

Dear Bob:

As requested in your email to me, dated 1-21-08, the Academic Council reviewed the report of the Special Visit Team of Western Association of Schools and Colleges (WASC) and we provide our comments herein. We understand that the Special Visit Team was sent to the University of California to follow-up on accreditation issues implicated in the 2006 compensation audits and Regents' task force review. Further, we appreciate the team's efforts to obtain broad input and perspectives on critical issues related to the audits and review.

The true value of such external reviews lies in their ability to help make institutions stronger. Recognizing that value, the Academic Council endorses the Special Visit team's key criticisms of UC's governance and business practices, as well as the recommendations they offer for improving them.

We appreciate the steps already taken by the Office of the President to restructure and improve its business practices and, thereby reinvigorate confidence, as well as the intentions of The Regents to attain more closely to "best practices" in governance. Notwithstanding, the WASC team's credible and independent analysis mirrors our own observations and their advice should be incorporated in planning to improve UC's governance. The Team's recommendations suggest important actions – not yet taken – which are likely to help The Regents, the administration, and UC, as a whole, move forward productively ... and together.

The Academic Senate, as one of the partners in the governance of the UC system, shares accountability for meeting the goals outlined in the WASC report and, on behalf of the Senate, I offer our collaboration.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael".

Michael T. Brown, Chair
Academic Council

Copy: Academic Council
María Bertero-Barceló, Executive Director

Comments from Various Chancellors on the WASC Team's Final Report

- I don't see any recommendations that might take us closer to having a well prepared and more cohesive Board of Regents -- the matter is still being left to on-the-job training.
- I am concerned that WASC will micromanage the UC's leadership role through its accreditation. Although it can be helpful, it can also damage the autonomy and hinder the innovative process if not carefully done.
- The fact that the visit team did not meet with the Monitor team was rather unfortunate. Otherwise the team would have formed a different opinion. On the other hand it is good that regents want to establish a more formal orientation program through UCLA.
- It is essential to implement an IT system for digital search and consistency check of UC policies and corporate memory.
- The suggestion for sun setting of UC regent practices would help rectify some out dated policies. For instance when was the last time the policy on automobile compensation got updated?
- It may be prudent to appoint an Acting President in case the search committee is not successful in finding an outstanding individual who can step in and work out the leadership matters during this transitory period.
- Recommendation #3 (to develop procedures that allow timely appointments of senior officers) will be facilitated by the study now underway to reduce the number of officers who fall within the classification requiring prior approval and by the recommendations of the Roles and Responsibilities task force to adopt generally an audit rather than prior approval approach to compensation compliance.
- This was a thoughtful report from individuals who are seasoned educators.

Report of the Working Group on the Roles of the Office of the President

Governance Committee of the Board of Regents

January 8, 2008

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EXECUTIVE SUMMARY

In the spring of 2007, the Board of Regents and the president of the University of California undertook a major effort to assess the organization and operations of the university's finance and administrative functions, centering on the Office of the President (UCOP). The initial diagnostic phase of that work revealed significant dissatisfaction with UCOP's performance, as well as concerns about its role in areas where it is perceived to add limited value. A major cause of these problems has been a lack of clarity about UCOP's mission and appropriate role, which has been further blurred by the Regents' active intervention in a number of areas, as they have sought to carry out their fiduciary obligations. A key conclusion of the diagnostic was that it is critical to restore confidence in UCOP, examining institutional roles and authorities to determine where reaffirmations or changes need to be made in administrative governance.

In response, a Working Group¹ was formed to make recommendations regarding the respective roles, decision-making authority and accountabilities of the president, Regents and chancellors, and principles for redesign of UCOP. This report is intended to (1) provide recommendations for the reaffirmation / realignment of presidential roles vis-à-vis the Regents and chancellors;² (2) provide design guidance for reconfiguring UCOP and systemwide support services; and (3) provide preliminary input for reappraising Regental interaction with the university administration. The key specific proposed changes relative to the current state are summarized on pages 18-19.

High-level Roles and Interfaces of the Regents, President and Chancellors

The Working Group believes the university will be best administered by reaffirming the three complementary spheres of authority and responsibility, delineated as follows.

The Board of Regents provides fiduciary oversight and broad policy determination. As the fiduciaries of the university, the Regents' principal purpose is to sustain and enhance the university as a thriving institution. The Regents' primary *administrative* responsibilities are to (a) establish general university policies consistent with the mission of the state's public, land-grant research university; (b) provide direction on the university's priorities; (c) hire, support and evaluate the performance of the president; (d) delegate, with appropriate oversight, the authority for the management of the university to its executive officers; and (e) approve major operating decisions as opposed to maintaining detailed involvement in transactional matters.

The president provides executive leadership of the university as a whole. The president has primary responsibility for managing the activities and standards that are central to the mission of the institution and essential to the idea of one university. Maintaining appropriate oversight, the president delegates to the chancellors and other executives the duties of administering the various units of the university. The president's responsibilities can be viewed in four dimensions:

- Academic leader of the institution: Defining the vision for the university, and leading the system in developing and executing plans in support of that vision
- Chief executive officer: Leading the administration of the university, especially selecting, supporting and evaluating the performance of chancellors, representing the campuses to the Regents, and establishing a structure to manage the university's affairs
- Primary external advocate: Promoting the university's interests and managing its reputation with external stakeholders
- Guardian of the public trust: Ensuring legal and ethical compliance, managing system risk and providing information regarding university activities

¹ The Working Group's membership includes Provost and Executive Vice President W. R. Hume (Sponsor), UC Davis Chancellor Larry Vanderhoef (Convener), Regent Leslie Schilling, Regent Ben Allen, Executive Vice President Katherine Lapp, Academic Senate Chair Michael Brown, UC Irvine Executive Vice Chancellor and Provost Michael Gottfredson, UC Santa Cruz Vice Chancellor Meredith Michaels, and UC Berkeley Vice Chancellor Nathan Brostrom, with staff participation by Vice Provost Daniel Greenstein, Special Assistant to the Provost Jan Corlett, Special Advisor to Chairman Blum Betsy Horan, and the Monitor Group.

² This report does not purport to describe the roles and responsibilities of the Regents and Chancellors except as they pertain to the interfaces with the president, nor does it comment on or seek to alter the role of the Academic Senate.

The chancellors play a dual role in providing executive leadership to their respective campuses and supporting the president in accomplishing universitywide goals. Their primary administrative responsibilities are to (a) provide leadership in defining and accomplishing the campus vision, goals and plans; (b) select, support and evaluate campus senior administrators; (c) represent the campus within the University and in the external community; (d) assist the president in establishing and then accomplishing systemwide goals; and (e) ensure that the campus administration adheres to policies and practices in compliance with Regental and presidential policies; and (f) exercise sound stewardship of state resources.

Design Principles for Reconfiguring UCOP

The Office of the President has two broad functions. Its primary function is to support the president in executive leadership of the university as a whole (see above), and to assist the president in providing information and analyses to the Regents of the University so that their responsibilities may be effectively achieved. Its secondary function is to provide various services to the wider university community. The Working Group has developed a general set of principles for assessing and improving the performance of these functions, in order to make them more efficient, decisive, responsive and transparent.

The first assessment principle is whether a given activity needs to be performed at UCOP. If not, it should be delegated, consistent with a general preference for responsible relocation of authority to the chancellors and campuses, or eliminated if the activity is unnecessary. Second, primary UCOP activities supporting presidential leadership of the entire institution should undergo a thorough review, during which major processes and departmental boundaries must be reexamined to eliminate unnecessary work, simplify structure where possible, clarify decision-rights, specify competencies required for key roles, identify critical systems deficiencies, and increase responsiveness to customers or stakeholders. Third, activities generally classifiable as universitywide support services should be reconfigured where feasible into one of two formats—(a) systemwide Service Centers, i.e., dedicated business units under accountable managers, whose mission is to provide high-quality services in the most cost-effective manner possible; or (b) Coordinated Local Functions, where substantial benefit accrues from alignment or coordination of consultative bodies across campuses, with integrated central support from UCOP where needed.

For both Service Centers and Coordinated Local Functions, incentives and accountability mechanisms must be redesigned to meet cost-benefit tests, designate knowledgeable administrators or bodies to be responsible, and ensure that the interests of the system as a whole are properly represented. Service Centers and Coordinated Local Functions could well be managed at a campus or by a third-party vendor, rather than at UCOP—again, the preference is to locate such entities pragmatically as close to the source of activity or relevant, cost-effective expertise as is practical and responsible.

Crosscutting these design principles is the need to pair delegation of authority with appropriate oversight responsibility. UCOP's oversight role recently has too often been one of gatekeeper, approving (or denying) campus proposed actions; similarly, the Regents have felt an understandable fiduciary need to increase their oversight activities, which has caused them to enter into considerable transactional detail. Motivations aside, the impact of fastidious oversight has significantly slowed decisive decision-making at the university. The Working Group believes that a superior form of oversight can be accomplished at UCOP by instituting an effective performance management system, combined with targeted auditing to ensure compliance with policies. A system of targeted review / approval of defined major decisions by the president and (where appropriate) the Regents can complement the oversight system, without losing the substantial benefits of operating flexibility.

Regental-administration Interaction

To allow the Regents to fulfill their policy-setting and fiduciary roles, and to withdraw with confidence from the transactional oversight detail just mentioned, they will need reliable and timely information that restores their confidence in the integrity of UCOP administrative processes. The Regents legitimately require—and the administration also urgently needs—basic systems to support human-resources, oversight, compliance and

risk-management procedures. The systems required to do this are expensive, long-term investments, but they are properly matched to long-term administrative needs of the university, and they are needed now.

In addition, to enhance clarity and impartiality of communication, the Working Group believes that the president should be the authoritative sole official channel of communication between the Board of Regents and the administrative structure of the university. This important formality should be supplemented with specific protocols to facilitate normal interaction between Regents and administrators.

Mechanisms Required for Successful, Lasting Implementation

Inasmuch as some of the Working Group's recommendations have been discussed in previous administrative reform efforts, it is useful to ask how, this time, success in implementation can be made more likely and durable. The Working Group emphasizes the following six mechanisms as key success factors:

- True performance management systems: Direct connection of authority, responsibility and results via clear statements of expectations, alignment of incentives, formal performance evaluation, professional support mechanisms, clear consequences, and planned succession programs;
- Two-way accountability systems: Campus accountability to Regents and president, coupled with UCOP accountability to the campuses for the quality and cost-effectiveness of services;
- Clear decision rights: Specification of decision rights (e.g., right to make, be consulted on, ratify, or be notified of decisions) for processes at UCOP and the campuses;
- Clear, authoritative system of communication between the Regents and the president: Practical protocols to guide communication between Regents and senior administrators, both at UCOP and on the campuses, on the basis of a single authoritative channel through the president to the Regents;
- Formal and responsible channels of communication between the campuses and UCOP: Two-way flow of information between the campuses and UCOP—a truly consultative management practice rather than a top-down 'headquarters'-style communication flow;
- Modernization of key information and management systems and processes: Investment in modern human resources and enterprise risk management systems, to support both Regental and administrative needs for timely, accurate data.

Recommendations to Governance Committee

The Working Group recommends that the Governance Committee:

- Reaffirm and endorse the clarification of the roles, high-level decision-rights, responsibilities and accountabilities of the president, Regents and chancellors detailed below;
- Endorse the design principles for reconfiguration of UCOP;
- Support the institution of the six mechanisms for successful implementation of administrative reform; and
- Consider the observations on Regental-administrative interaction as essential to the effective functioning of the Office of the President.

REPORT OF THE WORKING GROUP ON THE ROLES OF THE OFFICE OF THE PRESIDENT

I. WORKING GROUP CHARGE AND OBJECTIVES OF THIS REPORT

In the spring of 2007, the Board of Regents and the president of the University of California undertook a major effort to assess the organization and operations of the university's finance and administrative functions, centering on the Office of the President (UCOP).

The initial diagnostic phase of that work revealed significant dissatisfaction with UCOP's performance on some critical support functions for the university, as well as concerns about UCOP's involvement in areas where it is perceived to add limited value. The diagnostic work found multiple causes of these problems, all of which have developed over time—lack of clarity about UCOP's mission and appropriate role in the university, significant structural and systems issues, prolonged review processes, and a control, rather than service, orientation. Furthermore, in this context the Regents' fiduciary obligations have caused them to intervene actively in a number of administrative areas, further blurring the lines of responsibility for governance and management in the university.³

Notwithstanding the talent and efforts of many committed individuals, it has become apparent that institutional confidence must be restored in the Office of the President. In addition, institutional roles and authorities must be examined to determine where traditional arrangements need to be reaffirmed or where adjustments need to be made. These needs have intensified as the competitive and financial environment of the 21st century has increased pressure upon the university to become more adroit operationally and strategically.

To address these challenges, and in order to enable the university to deliver on its mission effectively and efficiently, a Working Group of senior university leaders⁴ was called together to make recommendations regarding the respective roles, decision-making authority and accountabilities of the president, Regents and chancellors, and principles for redesign of UCOP.

The purpose of this Working Group report to the Governance Committee of the Board of Regents is to:

1. Provide recommendations to ensure clarity about fundamental roles and responsibilities in the administrative governance of the University of California:
 - The role of the president, including high-level decision-rights, responsibilities, and accountability;
 - The roles of the Regents and chancellors with respect to the president, including their high-level decision-rights, responsibilities, and accountabilities;
2. Provide design guidance for reconfiguring UCOP and restoring its credibility:
 - Principles to clarify UCOP activities and streamline processes, address issues of trust, reconfigure activities where necessary to ensure added value to the campuses and capture savings opportunities, and create a performance- and service-oriented administrative culture;
 - Identification of mechanisms, including institutional and systems reforms, needed for successful implementation.
3. Provide a basis from which the Regents can regain confidence in UCOP and reengage with a primarily supervisory role.

Importantly, this report does *not* purport to describe the roles and responsibilities of the Regents and chancellors except as they pertain to their administrative interfaces with the president, nor does it comment on or seek to alter the role of the Academic Senate. It also does not address the roles of the General Counsel,

³ See *Monitor Group Report to the Regents: University of California Organizational Restructuring Effort (September 2007)*.

⁴ The Working Group's membership includes Provost and Executive Vice President W. R. Hume (Sponsor), UC Davis Chancellor Larry Vanderhoef (Convener), Regent Leslie Schilling, Regent Ben Allen, Executive Vice President Katherine Lapp, Academic Senate Chair Michael Brown, UC Irvine Executive Vice Chancellor and Provost Michael Gottfredson, UC Santa Cruz Vice Chancellor Meredith Michaels, and UC Berkeley Vice Chancellor Nathan Brostrom, with staff participation by Vice Provost Daniel Greenstein, Special Assistant to the Provost Jan Corlett, Special Advisor to Chairman Blum Betsy Horan, and the Monitor Group.

Chief Audit and Compliance Officer, and Chief Investment Officer of the University, who share reporting relationships to the Regents and to the president.

The report is structured as follows:

- Context and fundamental principles (section II below);
- High-level roles of the Regents, president and chancellors; and Four Dimensions of the president’s Role, together with the authorities, responsibilities, and general decision-rights at the interfaces (sections III and IV);
- Design principles for reconfiguring UCOP and—since many issues raised in this effort have been common to previous investigations⁵—key mechanisms for making the reconfiguration successful (sections V and VI);
- Summary of proposed changes (VII).

II. INSTITUTIONAL CONTEXT AND CORE ORGANIZATIONAL PRINCIPLES

In this section, much will be familiar. However, the Working Group believes that in reappraising an institution as complex as the University of California for the purpose of constructive reform, it is crucial to start from a shared understanding of fundamentals.

Institutional Context of the University

The Working Group has based its deliberations on these fundamental characteristics of the university:

- The University of California is the designated research university within the public higher-education system of the state of California.
- Teaching, research and public service by the faculty and students constitute the purpose and value of the institution.
- The university is an institution in the land grant tradition, with responsibilities to the people of the state of California for advancing their welfare as well as pursuing scholarly and scientific inquiry.
- The university can be considered as a single federation of campuses with distinctive strengths and a common aspiration for excellence.
- The university operates under shared governance by the Regents, president and Academic Senate, with ongoing consultation concerning its fundamental policies and priorities.

Core Organizational Design Principles

The Working Group has approached the reexamination of roles and responsibilities and reconfiguration of UCOP with the following core organizational design principles in mind:

- The purpose of the governance and organizational structure of the university is to enable the effective and efficient provision of the university’s teaching, research and service mission.
- The university is best served when headed by a strong president, with a lean, well-focused support staff, who leads the university decisively to implement systemwide strategic priorities.
- The university’s structure requires striking a sound balance between campus autonomy and the interests of the institution as a whole:
 - The university’s mission is carried out at the ten campuses, motivating delegation of decision-making authority to the chancellors and campuses where possible.

⁵ For example, *The Role of the Office of the President in the Management of the University of California*, California Postsecondary Education Commission 1991.

- When the goals or needs of the university as a whole arise—e.g., in attaining major systemwide economies of scale or achieving long-range plans—central leadership must assure that the common interest is well defined and strongly supported.
- The chief benefits of good organizational design arise from clarity of roles, congruent authority and responsibility, simplification of structure, transparency of function, and establishment of mutual accountability.
- Beyond reporting relationships, effective structures of administrative authority require:
 - Promulgation of regulations that are clear and sufficiently detailed but also allow for the exercise of appropriate local judgment;
 - Support from systems that can amply fulfill institutional obligations for the compliant performance of administrative duties.

III. HIGH-LEVEL ROLES OF THE REGENTS, PRESIDENT AND CHANCELLORS

In governing the University, administrative authority arises from the Regents. It is delegated to the president and in turn is delegated to and exercised day-to-day by the chancellors. This chain of delegation establishes three complementary spheres of administrative authority and responsibility:

- Overall policy determination and fiduciary oversight from the Board of Regents;
- Executive leadership of the university as a whole by the president;
- Executive leadership of the campuses by the chancellors.

The following sub-sections lay out the Working Group's general perspective on roles, key responsibilities and accountability within each of these spheres.

1. Role of the Board of Regents

The people of California have a vested interest in maintaining a university to promote the social and economic welfare of the community by providing higher education and the benefits of research within the framework of the Master Plan. Their trusted representatives are the Regents, appointed by the governor as fiduciaries of the university trust independent of political or sectarian influence. As such the Regents' highest concern must be to sustain and enhance the university as a thriving institution and to ensure it can attain the highest levels of excellence, create value for the people of California, achieve the university's plans, manage its funds responsibly, and comply with policies the Regents determine to be in the university's best interests.

In the view of the Working Group the Regents' primary general administrative responsibilities are to:

- Establish general university policies and standards consistent with their best judgment, in exercising their fiduciary role, and consistent with the mission of the state's public, land-grant research university;
- Provide direction regarding the university's priorities and long-range goals;
- Hire and evaluate the performance of the president of the university;
- Delegate authority for the management of the university to its executive officers, and establish appropriate oversight mechanisms to ensure that they:
 - Lead the university in achieving its mission of excellence in teaching, research and service;
 - Promote and protect the interests of the university externally;
 - Manage funds according to the standards established by the Regents;
 - Ensure compliance with Regental policies and applicable laws and regulations.
- Support the president and chancellors institutionally and personally in the achievement of the university's mission; and
- Approve major systemwide operating decisions including those above specified high financial or risk thresholds.

The Regents' accountability is broadly to the people of the state, to one another as fiduciary colleagues, and to the president and the faculty, because Regental support of them is vital to the success of the university.

2. *Role of the University President and UCOP*

The Working Group believes in a strong presidency coupled with sound, effective institutional arrangements as the foundation of confidence in the administration of the University of California, and in the value of superior leadership capabilities—both of competence and of style—as the foundation of trust in the president.

Within the University of California structure, the president provides executive leadership for the institution as a whole, with responsibility for managing the university's affairs in accordance with the policies established by the Regents. The president has particular responsibility for managing the activities and standards that are central to the mission of the institution and essential to the idea of one university. Maintaining appropriate oversight, the president delegates to the chancellors and other executives the duties of administering the various units of the university.

The president's responsibilities can be viewed in four dimensions (see Figure 1):

Fig. 1: Dimensions of the Role of the President



- **Academic leader of the institution:** Defining the vision for the university, and leading the system in developing and executing plans in support of that vision
- **Chief executive officer:** Leading the administration of the university, especially selecting, supporting, and evaluating the performance of chancellors; representing the campuses and labs to the Regents; and establishing a structure and policies to manage the university's affairs
- **Primary external advocate:** Promoting the university's interests and managing its reputation with external stakeholders
- **Guardian of the public trust:** Ensuring legal and ethical compliance, managing system risk, providing information regarding university activities, and assuring accountability to the public concerning the university's conduct

The several dimensions of the role of the president—and their implications for the reciprocal decision-rights and responsibilities at the interfaces with Regents and chancellors—are described in greater detail in the following section.

The president is specifically accountable to the Regents for his or her performance in office, and broadly to the faculty and students of the university for promoting the success of the university's mission.

3. Role of the Chancellors and Campuses

The chancellors play a pivotal dual role in the federal structure into which the University of California has evolved. They are the chief executive officers of their respective campuses. They also are primary colleagues and advisors to the president, playing an indispensable part in helping define and accomplish the goals of the university as a whole.

The chancellors' primary administrative responsibilities are to:

- Provide leadership to the faculty and align the administration in defining and accomplishing campus vision, goals and plans;
- Select, support, and evaluate campus senior administrators;
- Represent the campus to the president, ensuring that he or she understands campus accomplishments, interests and needs—and represent the campus externally, in collaboration with the president where appropriate;
- Assist the president and university administration in establishing and accomplishing key universitywide goals and programs;
- Ensure that campus administration adheres to policies and practices in compliance with Regental and presidential policies; and
- Exercise sound stewardship of state resources.

The chancellors are specifically accountable to the president for campus leadership, administration and performance in accordance with the vision, long-range strategic plan and policies of the University. They are broadly accountable to the faculty and students of their campuses in promoting the success of the institutional mission.

The Working Group feels it important to emphasize that, in each instance of delegation of authority, superiors have responsibility to expend significant time and effort supporting the success of the administrator in question.

IV. DIMENSIONS OF THE ROLE OF THE PRESIDENT

The Working Group has disaggregated the president's overall role into four major complementary dimensions. Each dimension entails specific responsibilities and high-level decision rights, which in turn have implications for the interfaces with the Regents and the chancellors.

1. Academic Leader of the Institution

As leader of the university's educational and research mission, the president:

- Defines and inspires support for the vision of a modern public research university;
- Leads the system in achieving the University's public service obligations, in accordance with Regental priorities:
 - ▶ The president defines and leads the execution of long-term plans for the university, following policies set by the Regents.
 - ▶ The president has specific responsibility and authority to develop a program, in consultation with the chancellors, to enlist the campuses to attain universitywide objectives and to hold the chancellors accountable for performance.
- Upholds and promotes educational access, affordability and quality of the university's education and research activities, consistent with the policies and standards set by the Regents.

2. *Chief Executive Officer*

As the university's chief executive, the president:

- Selects and evaluates chancellors and senior administrators of the university administration:
 - ▶ The president is responsible for selecting, setting expectations for, and evaluating the performance of the chancellors,⁶ to whom is delegated very broad executive authority for the management of campus and laboratory affairs, and from whom is expected both local leadership and key participation in achieving the university's common goals.
 - ▶ Likewise, the president selects, sets expectations for, supports and evaluates the vice presidents of the university, who directly aid the president in his or her leadership, advocacy, administration and compliance responsibilities.
 - ▶ The appointments of chancellors and senior administrators of UCOP are reviewed and approved by the Regents.
- Acts as the sole authoritative contact between the Regents and university as a whole, to preserve consistent and reliable administrative communication:
 - ▶ As chief executive officer, the president is the responsible channel of information and decision-making between the Regents and chancellors and other administrators—e.g., communicating Regental interests, inquiries, requests, and decisions *to* the chancellors and campuses, and ensuring accurate representation of campus interests, accomplishments and needs *from* the campuses to the Regents.
 - ▶ The president has the specific responsibility and authority to develop systems and processes to provide the Regents with accurate information as to the state of the university's operations and capabilities, so that the university can attain its goals—in particular, the proliferation of offices providing official information to the Regents (beyond limited and practical purposes) should be avoided for reasons of both clarity and efficiency, and, where necessary, investments should be undertaken to provide systems support for these functions.
 - ▶ For practical purposes, the president may establish protocols and processes for communication between the Regents and executive officers (e.g., between Regental committee heads and chancellors or UCOP officials).
- Establishes and administers the university management structure:
 - ▶ The president oversees management of university-level operations at UCOP and systemwide service provision through support functions to the campuses.
 - ▶ The president approves major decisions having systemwide implications.
 - ▶ The Regents monitor the performance of the administrative structure established by the president but do not specify details of the structure.
- Allocates systemwide operating and capital funds:
 - ▶ The president is ultimately responsible for developing the operating and capital budgets of the campuses, UCOP and other university units, in support of systemwide and campus-level priorities, through a transparent budgetary process.
 - ▶ The president is also responsible for pursuing state funds on behalf of the university to fund the budgets.
 - ▶ The chancellors are responsible for participating in the budgeting process and for assuming shared financial responsibility for achieving systemwide priorities.

⁶ The president also selects the Director of Lawrence Berkeley Laboratory, and subsequent references to chancellors in this document apply as appropriate to the director.

- ▶ The Regents are responsible for approving the systemwide operating and capital budgets proposed by the president, and for supporting the president in his pursuit of state funding.

3. *Primary External Advocate*

In his or her role as the chief representative of the University of California, the president:

- Champions the value of the University's education, research and service to the public:
 - ▶ The president leads the communication and advocacy of the value of public higher education, research and the economic and social impact of the university's activities.
 - ▶ The Regents are responsible for supporting the president in this role and contributing to his or her success by participating in the advocacy program as requested.
 - ▶ The chancellors are responsible for supporting the president's systemwide communications program and conducting campus communications in a manner consistent with it.
- Manages the University's overall external reputation:
 - ▶ The president is responsible for fostering, coordinating and supporting institutional, alumni, donor and industry relationships at the university level.
 - ▶ The chancellors, in addition to managing external relationships locally, are responsible for participating in system-level relationship-building as requested by the president.
 - ▶ The Regents are responsible for working in concert with the president to develop system-level relationships.
- Represents the University to the state and federal governments:
 - ▶ The president is responsible for representing the university to the state and federal governments through a governmental relations program that calls upon the resources of the entire university as appropriate.
 - ▶ The Regents are responsible for participating in the representation of the university to government entities at the request of the president.
 - ▶ The chancellors rely on the president's leadership to represent their interests to the state and federal governments, and they are responsible for providing campus-level resources in collaboration with the president's governmental relations program.

4. *Guardian of the Public Trust*

As the primary individual charged with safeguarding the reputation of the university, the president

- Sets specific policies and monitors compliance for ethical conduct and proper use of funds:
 - ▶ Following general policies set by the Regents, the president is responsible for setting compliance policies at a level of specificity that provides for necessary levels of commonality across the system and assurance of appropriate behavior.
 - ▶ The president is also responsible for putting in place appropriate thresholds for executive decision-making authority at the campuses with respect to compliance, to allow adequate latitude for the exercise of local administrative judgment.
 - ▶ The Regents set general compliance policies and standards and, by periodic audit using generally accepted approaches, certify performance to appropriate levels.
 - ▶ The chancellors have specific responsibility for the application of standards, policies and processes articulated by the president and for ensuring their fulfillment at their several institutions.
- Identifies, manages and mitigates financial, administrative and professional risks in order to protect the university system
 - ▶ The president is responsible for instituting systemwide risk management systems and processes and monitoring universitywide compliance.

- ▶ The Regents are responsible for setting general policies on risk and certifying overall compliance.
- ▶ The chancellors are responsible for applying risk-management systems and monitoring compliance at the campuses.
- Provides timely information on university activities in response to appropriate requests
 - ▶ The president is responsible for identifying systemwide information needs and ensuring that standards, practices and systems meet these needs in a timely and accurate manner in response to legitimate administrative requests for information. To do this, the president must develop and execute plans for appropriate investments and information systems implementations, along with necessary administrative innovations.
 - ▶ The Regents are responsible for setting general policies and protocols for obtaining the information needed to allow them to fulfill their supervisory and fiduciary obligations.
 - ▶ The chancellors are responsible for administering the necessary systemwide processes and information systems in the campus environment.

V. DESIGN PRINCIPLES FOR RECONFIGURING UCOP

The purpose of designing principles for the reconfiguration of UCOP is to clarify where UCOP activities can be streamlined, usefully refocused, relocated to deliver value most efficiently, created where critical gaps exist, or eliminated if they do not add value.

In general, UCOP plays two broad roles. Its primary function is to support the president in executive leadership of the university as a whole (see above), and to assist the president in providing information and analyses to the Regents of the University so that their responsibilities may be effectively achieved.

Over the years, UCOP services supporting the president have gone largely without reexamination as to pertinence or effectiveness; it is appropriate to review them now. At the same time, campus-directed support services have grown to consume a substantial fraction of UCOP's activity. Some of these services have had a compelling rationale to be centralized and provided by UCOP, while others have not; some have demonstrated accountability to their customers in the system, while others have not. As a result, UCOP has become less attentive to its primary role in supporting the president, and its effectiveness as a provider of systemwide services has suffered in the eyes of its customers. In addition, opportunities exist for centralization of administrative functions now carried on by individual campuses that could result in lower costs without sacrificing service quality.

Principles for Reconfiguring UCOP

The Working Group has been highly aware of the conflicting pressures inherent in organizational reform, including the importance of details, but has deliberately kept its advocacy of redesign principles at a general level.

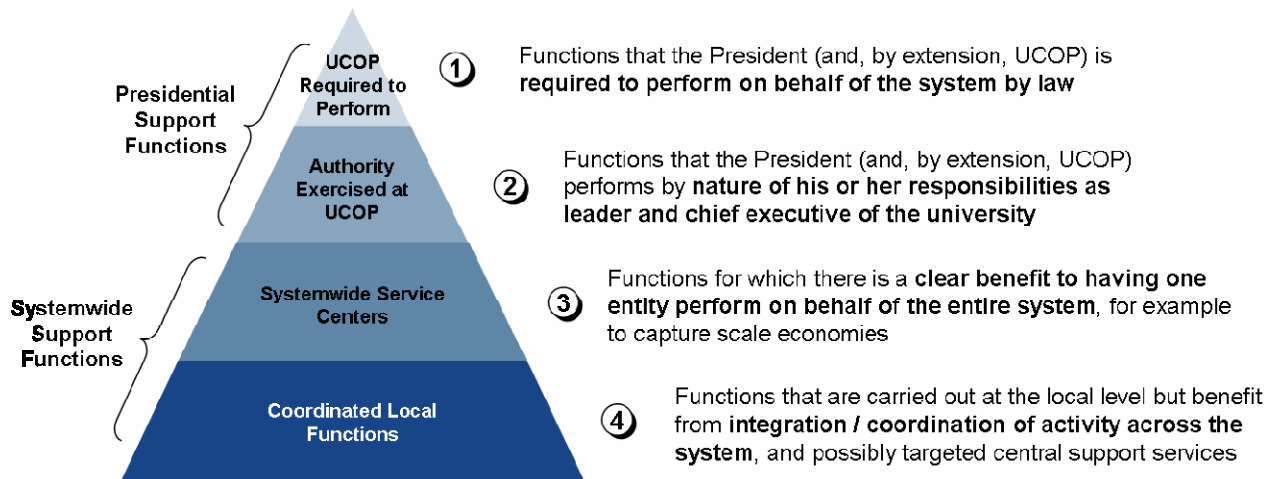
The first question to be asked and answered is whether a given service needs to be performed at all at UCOP. If not, it should be eliminated, or relocated according to the principles elaborated below.

Secondly, in developing principles for redesign, the Working Group has identified four levels of administrative activity at UCOP, as illustrated in Figure 2, which can usefully support the two broad roles of UCOP:

- Presidential support functions: Functions that the president (and, by extension, UCOP) performs on behalf of the system—either because he or she must do so by law (Level 1) or does so by nature of the president's responsibilities as academic leader of the institution or chief executive of the university (Level 2);
- Systemwide support functions:

- Service Centers: Functions for which there is a clear benefit to having one entity perform on behalf of the entire system (Level 3)—e.g., capturing scale economies;
- Coordinated Local Functions: Functions that are carried out primarily at the (inter)campus level but which can benefit from alignment or coordination of activity across the system and, frequently though not always, some degree of central support (Level 4).

Fig. 2: Categories of Administrative Activity at UCOP



Presidential Support Functions (Levels 1-2)

The distinguishing feature of the core, top-level functions is that UCOP personnel perform them in aid of the president as he acts on behalf of the entire university or exercises definitive decision-rights on behalf of the administration of the enterprise, as a consequence of one or more of the dimensions of the president's role (see above, section III).

These functions come into play, at Level 1, as the president acts as the designated legal agent for the Regents—e.g., when the president or his designees enter into contracts, file a unified tax return, and so on. These functions occur, at Level 2, when the university's common front or face as a whole system is involved—e.g., when the president leads the university in fulfilling its educational mission, directs the administration in executing the university's long-range plan, leads the process of the university budget, is responsible for negotiations with the state government, represents the university as a whole to external entities, or is chief spokesperson to the public concerning the value of the university's activities. In many of these functions the president routinely and closely consults with chancellors and campus administrators. However, the ultimate authority and decision responsibility rest in the president's hands.

Supporting the president at these two levels forms the core work of UCOP. Acknowledging the accomplishments of many capable individuals at UCOP, the Working Group also believes there is a pressing need to integrate UCOP into a lean, purposeful organization. Particularly in light of the critiques of its performance, UCOP's *modus operandi* must be reconstituted to be efficient, decisive, responsive and transparent in doing so. Major processes and departmental boundaries must be reexamined to eliminate unnecessary work, simplify structure where necessary, clarify decision-rights, specify competencies required for key roles, and identify critical systems deficiencies.

The second broad category of activity at UCOP pertains to its role as a provider of services to the campuses or system, as distinct from activities in support of the president. This category includes two kinds of functions, Systemwide 'Service Centers' and Coordinated Local Functions; each of these is discussed, in turn, below.

Systemwide ‘Service Centers’ (Level 3)

The Working Group suggests that, where appropriate, service functions now at UCOP be reconfigured from undifferentiated departments into distinct “Service Centers”—in effect, dedicated management units, or even mini-businesses, whose overarching mission should be to provide high-quality services in the most cost-effective manner possible. Some entities historically housed at UCOP (e.g., Continuing Education of the Bar, the UC Press) exemplify the type, which can usefully be extended to other activities.

Candidates for creation of systemwide Service Centers are activities where there are:

- **Potential cost savings** due to economies of scale or scope (e.g., spreading fixed costs)—which are identifiable, whose value outweighs the investment required to obtain them, and which are realizable with intensified management focus on obtaining results;
- **Potential service quality improvements** (e.g., greater consistency, timeliness, access to expertise or better systems)—which are substantial and where appropriate customization for campus needs can be met at reasonable cost, due to pooling of resources.

Importantly, Service Centers are appropriate in cases where the activities do *not* require intensive, ongoing consultation from each campus entity in order to be delivered effectively (if intensive consultation *is* needed, the Coordinated Local Function format below is more appropriate).

Each Service Center should have a responsible managing executive in charge, reporting either to a chancellor or to a senior vice president in UCOP and, ultimately, to the president. Service Centers must have specific service agreements with campus customers that provide (a) appropriate commercial terms or transfer-pricing as appropriate, (b) incentives to ensure high service quality and responsiveness to customer needs, and (c) options for reasonable “opt-out” decisions by individual campuses if the Service Center does not meet the terms of the agreement. Structures of accountability—e.g., boards where appropriate—should be instituted to ensure that customer-service orientation is built into the entities.

Any such reconfiguration as a Service Center naturally must meet a straightforward economic test—namely, total benefits (e.g., cost and /or risk reduction, access to scale, innovation gains from best-practice sharing, enhanced differentiation with customers or partners) must outweigh total costs (e.g., coordination, complexity, cost of suboptimal results for some campuses, risk of poor decisions due to distance from the front lines, etc.). For functions currently provided by UCOP, if the test is not met, the function should be eliminated or relocated into a more efficient entity.

Physical location of the Service Centers is a pragmatic decision (see Figure 3). A campus, group of campuses or a third-party vendor can act as the location for a Service Center for a given function, provided they can supply cost / quality combinations better than the current offering. A campus may be able to provide enhanced service quality because of better understanding of campus needs, quicker responsiveness, or existing expertise that can lower cost or improve quality. UCOP should house Service Centers primarily in special circumstances (e.g., if practical governance or pricing mechanisms cannot be devised to ensure equitable treatment of all campuses, or no campus is willing).

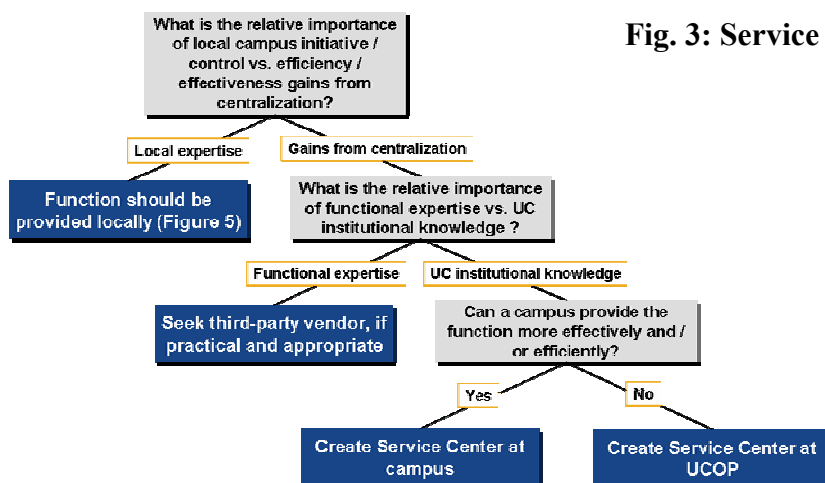


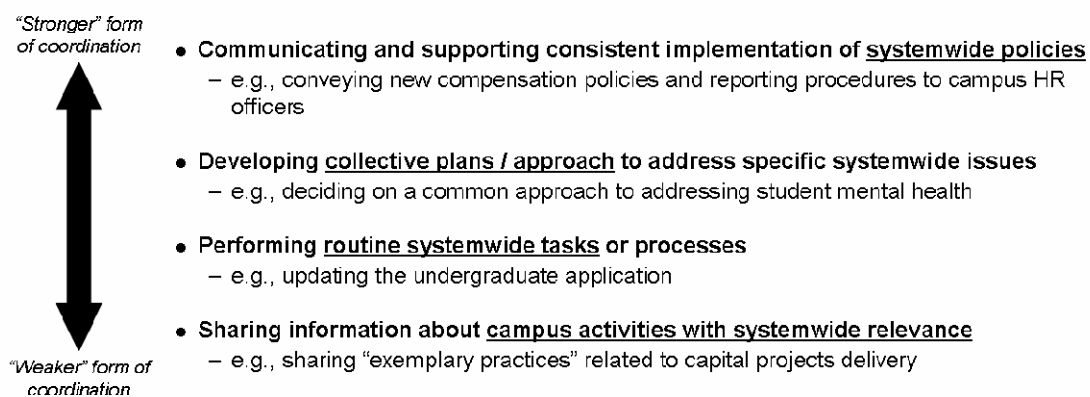
Fig. 3: Service Center Location Choice Logic

Coordinated Local Functions (Level 4)

Many functions across the university are carried out primarily at the campuses but can benefit significantly from some degree of cross-campus integration, coordination and / or targeted central support services. For example, admissions decisions are made locally by each campus, but campus admissions directors collaborate to update the undergraduate application, and UCOP provides administrative support for the applications process.

The current practice of systemwide coordination varies substantially, ranging from high-level debate on critical policies, to development of collective approaches (e.g., by the medical centers in some areas), to informal peer gatherings to share best practices (figure 4). Central support services likewise currently vary from formal and elaborate to *ad hoc* and informal.

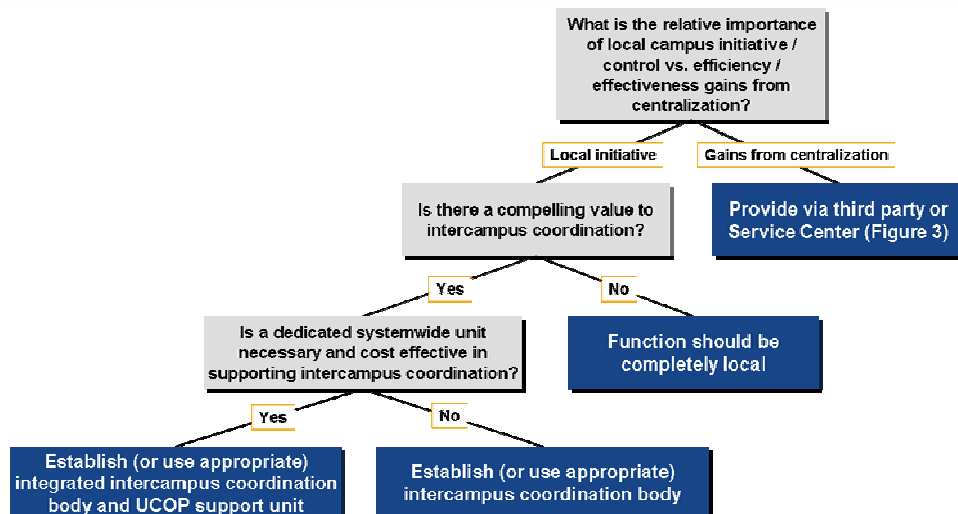
Fig. 4: Spectrum of Current Systemwide Coordination Activities



As with other activities, over time these functions have tended to accrete and grow at UCOP, consuming significant resources but adding limited value and creating overlapping jurisdictions. The design problem to be solved, therefore, is to provide for consultation and support to the degree needed, assign clear decision rights and responsibility for results, and to prevent the accretion of unaffiliated support services.

Reconfiguring the coordinated functions effectively requires a logic screen for both structure and applied resources (Figure 5).

Fig. 5: Coordinated Function Design Logic



Where cross-campus coordination makes sense, the mechanism for that coordination can vary. In some instances it makes sense for a central staff to exist to effect the coordination while in others the coordination can be effected by formal cross-campus councils (e.g., Council of Chancellors, Council of Executive Vice Chancellors, etc.), or can be initiated *ad hoc* by a campus reaching out to the other campuses around a specific issue. Where it makes sense for an intercampus body to drive coordination, a key decision to be made is whether such a body should be granted decision rights for a given function.

If central facilitation support or targeted support services (such as training) are needed and cost-effective, these coordinated functions take on a stronger form—becoming *integrated activity systems*, where some activities are managed and performed by the campuses with support from UCOP. To make such integrated activity systems work properly, the campuses should be accountable for the performance of the function at the campus level, while the economics, incentives and accountabilities of those providing the support services at UCOP are structured to appropriately represent the interests of the coordinated whole. This will provide a check on the past tendency of “convening” and “coordinating” functions to grow centrally at UCOP, often consuming significant resources but adding limited value.

Delegation of Authority and Oversight / Compliance

As discussed under the structure of the university, the core organizational design principles and the role of presidents and chancellors, the preference and recommendation of the Working Group is to delegate authority and administrative decision-making rights as close to the point of activity as is reasonable. This is because decisions of higher quality can be made in a more timely fashion when they are taken with ‘specific knowledge’ of the circumstances. At the same time, however, it is important to acknowledge that both the Regents and the president have oversight and compliance responsibilities over all University activities—and therefore all four activity categories listed above have overlaid upon them a set of UCOP and Board oversight and compliance processes.

The form that the interplay of delegation of authority and oversight / compliance takes is critically important. In recent years, UCOP’s oversight role has all too often been one of gate-keeper, reviewing and approving (or denying) proposed campus actions. Lately the Regents have felt a need to increase their oversight activities by reviewing and approving (or denying) proposed plans and actions in detail. This review/approval approach has had two major drawbacks: it adds time (and therefore cost) to the decision process and can result in suboptimal decisions because the reviewers lack the requisite ‘specific knowledge’ and because, in some cases, the reviewers are less expert than those proposing.

A superior form of oversight can be accomplished through an effective performance management system, combined with targeted auditing to ensure compliance with policies. In such a system, clear performance goals / benchmarks are established up front, incentives are aligned with those goals, performance against the goals is evaluated, and consequences are delivered. For the most part, the University does not currently have such a fully-integrated performance management system, and one needs to be created.

To deal with the impact of major strategic and operating decisions, a system of targeted review / approval by the president and (where appropriate) the Regents can complement the oversight system just described, without losing the substantial benefits of operating flexibility. While ‘major’ needs to be more fully defined, it could be broadly characterized as system-level decisions—such as budget approval, debt capacity, new campus openings, etc., or approval of campus-level decisions with the potential to impact the entire university (e.g., opening of a new professional school)—or decisions that, should they go awry, would have the potential to harm the entire institution (e.g., investments or contracts above a certain threshold, most probably one higher than the current threshold, which has not been changed for years).

For many campus functions, UCOP can exercise its performance oversight duties solely through the president’s management oversight of the chancellor. However, for some functions, effective performance oversight is best done when UCOP can look across similar units on each campus. This is especially true for

functions requiring specialized expertise in evaluating the performance of units, such as with the medical centers. A next step should be to determine which functions require such “matrixed” performance oversight.

VI. MECHANISMS REQUIRED FOR SUCCESSFUL IMPLEMENTATION

Several efforts at administrative reform over the last 20 years have mentioned many of the issues and suggestions in this report, at various levels of detail. It is important to ask how, this time, success in implementation can be made more likely and durable.

The Working Group believes that six major mechanisms should be instituted across all administrative venues for the clarification of roles and reconfiguration of UCOP to be successful on a long-term basis.

1. True performance management systems:

Establishing a reliable connection between authority, responsibility and results requires that performance management systems be developed and maintained at a high standard of human resources practices. This involves at a minimum (a) a formal statement of expectations of the administrator by the delegating party; (b) alignment of incentives with those expectations; (c) periodic formal performance evaluation of the administrator based on the expectations and on responsible input from informed parties; (d) systematic support for the administrator, e.g., by protocols for performance feedback and by formal programs or informal approaches to coaching and professional development; (e) the delivery of real consequences for performance relative to those expectations; and (f) planned succession programs where appropriate.

The Working Group believes these structures must be put in place beginning with senior administration, e.g., by the Regents with respect to the president, and by the president with respect to the chancellors and senior officers of UCOP.

2. Two-way accountability systems:

Given the university’s culture and governance structure, it is important that administrators not simply fulfill the requirements of a reporting relationship but also respond to the legitimate needs of the communities they serve. As such, while the campuses need to be accountable to the Regents and the president for their performance, UCOP departments also need to be accountable to the campuses for creating value—i.e., for not only service levels but also for the costs of the central activities and for the burdens (cost, slower processes, etc.) placed on the campuses from the central activities, including oversight and compliance activities. For example, at the department or unit level, systems must be established to solicit and evaluate responsiveness and satisfaction from users of services (e.g., at the campuses) and those affected by administrative processes, as a key criterion of performance.

3. Clear decision-rights:

This document addresses high-level decision rights. To implement successfully, major administrative processes at UCOP and the campuses should be disaggregated and decision-rights (i.e., the right to make the decision, consult on it, ratify it, or be notified of it) specified in detail. In the case of processes involving consultation but of paramount importance to the university (such as the budget), it is especially important that general protocols for deliberation and final decision-making be established and enforced to prevent drift.

4. Two-way channels of communication between the Regents and the president, to assure clarity and accountability, requiring mechanisms in both directions:

- Practical protocols should be established to guide communication between Regents and senior administrators, both at UCOP and on the campuses, on the basis of a single authoritative channel through the president to the Regents;
- After appropriate review, the processes and information systems to provide the Regents with information to enable them to carry out their fiduciary responsibilities with confidence should be strengthened so as to eliminate the need for extensive *ad hoc* information requests or investigations (see also below).

5. Formal and responsible channels of communication between the campuses and UCOP:

The Working Group believes that a two-way flow of information between the campuses and UCOP—a truly consultative management practice rather than a top-down ‘headquarters’-style communication flow—is needed to sustain the health of the university’s federal administrative system, and that accountability for results concerning intercampus administrative issues should be mutual. The linchpin mechanisms of these communication channels are:

- The transparent budget process, in which the process leading to final resource allocation has been orderly and open and presidential decisions are clearly understood; and
- Formalized decision-rights and responsibilities for intercampus bodies, where applicable, so that participation in universitywide administration is accompanied by accountability for action and results.

6. Modernization of key information and management systems and processes.

To allow the Regents to fulfill their policy-setting and fiduciary roles, and to withdraw with confidence from the transactional oversight detail just mentioned, they will need reliable and timely data. The Regents legitimately require—and the administration also urgently needs—basic systems to support human-resources, oversight, compliance and risk-management procedures. The Working Group advocates that investments in modern human-resources and enterprise risk-management systems be specified, strongly endorsed and funded by top administration and the Regents, and managed to completion.

VII. RECOMMENDATIONS AND SUMMARY OF PROPOSED CHANGES

The Working Group recommends that the Governance Committee

- Reaffirm and endorse the clarification of the roles, high-level decision-rights, responsibilities and accountabilities of the president, Regents and chancellors (sections II through IV);
- Endorse the design principles for reconfiguration of UCOP (section V);
- Support the institution of the six mechanisms for successful implementation of administrative reform (section VI); and
- Consider the observations on Regental-administrative interaction as essential to the effective functioning of the Office of the President.

The Working Group also highlights the following more specific clarifications and/or changes to present practice, which it believes are needed in order to achieve the specific purposes of this report:

- Clarifying decision-making to permit more effective attainment of universitywide goals:
 - The president should have the explicit responsibility to lead the University in achievement of systemwide goals (such as the long-range plan), with the corresponding authority to call on the chancellors and the entire university for assistance in realizing these goals.

- In addition to having responsibility for the performance of their individual campuses, the chancellors should explicitly share responsibility in the “commons” for helping to define and accomplish universitywide goals, including carrying out campus activities in a manner that is consistent with the interests of the university as a whole.
- Clarifying authority to increase effectiveness of administration at the campus level:
 - UCOP should have a preference to locate administrative functions at the campuses or other locations as close to the source of value as is practical and appropriate.
 - The chancellors should have direct authority and accountability for judicious application of general policies at their respective campuses.
 - Specific decision-rights and definitions of conditions and thresholds for presidential / Regental approval of major systemwide operating decisions should be established.
- Establishing principles to reconfigure UCOP as a more effective, service-oriented entity:
 - UCOP should focus its primary activity on functions to support the president’s work.
 - Systemwide services should be reconfigured as distinct Service Center entities, where feasible and cost-effective, using service agreements and establishing clear accountability, in order to take advantage of system scale and expertise; where practical, these Service Centers should be provided by a campus or third-party vendor.
 - Intercampus coordinating functions should be used or set up to take maximum advantage of local initiative and managerial capabilities, and, when required and cost-effective, should integrate central expertise provided from UCOP.
 - UCOP should shift its oversight and compliance approach from “comprehensive transaction approval” to “performance management with selective review and approval.”
- Instituting a culture of performance and accountability:
 - True performance management systems—with clear expectations, alignment of incentives, regular evaluations, necessary support structures, delivery of consequences, and succession planning—should be instituted, beginning with the president, chancellors and UCOP senior officers.
 - Accountability mechanisms should be attached to major UCOP functions, reflecting the views of the campus-based customers.
- Provide a basis for Regents’ regaining confidence in UCOP in a primarily supervisory role
 - The principle of Regental focus on fiduciary rather than transactional activity should be reaffirmed.
 - The president should institute practical protocols to guide communication between Regents and senior administrators.
 - A review of needs, specification, investment and implementation of key information, compliance and risk-management systems should be undertaken, both to provide the Regents with data and confidence they require for their fiduciary responsibilities and to support administrative responsibilities with appropriate systems capabilities.