

AGENDA

BOARD OF TRUSTEES

Meeting: **1:30 p.m. Tuesday, January 22, 2008**
Glenn S. Dumke Auditorium

Roberta Achtenberg, Chair
Jeffrey L. Bleich, Vice Chair
Herbert L. Carter
Carol R. Chandler
Debra S. Farar
Kenneth Fong
George G. Gowgani
Melinda Guzman
William Hauck
Raymond W. Holdsworth
Ricardo F. Icaza
A. Robert Linscheid
Peter Mehas
Lou Monville
Charles B. Reed, Chancellor
Jennifer Reimer
Craig R. Smith
Glen O. Toney
Kyriakos Tsakopoulos

Discussion Items

1. Recommendations of the Trustees' Ad Hoc Committee on the Bureau of State Audits
Reports: Part One: Compensation and Part Two: Hiring Practices, *Action*

BOARD OF TRUSTEES

Recommendations of the Trustees' Ad Hoc Committee on the Bureau of State Audits Reports: Part One: Compensation and Part Two: Hiring Practices

Presentation By

Roberta Achtenberg
Chair, Ad Hoc Committee

Charles B. Reed
Chancellor

Part One, Chapter One: Monitoring Of Compensation Policies and Practices

State Auditor Recommendation: To provide effective oversight of its systemwide compensation policies, the university needs accurate, detailed, and timely compensation data. The university should create a centralized information structure to catalog university compensation by individual, payment type, and funding source. One possibility would be to upgrade and expand the Employee Salary Projection (ESP) system to make it more complete and accurate. The chancellor's office should then use the data to monitor the campus' implementation of systemwide policies, such as the prohibition against employees performing additional assignments that would cause them to work more than 125 percent of a full-time position. Additionally, the chancellor's office should use the data to measure the impact of systemwide policies on university finances.

CSU Response: Agree in concept The CSU will explore the best way to address these issues including making appropriate coding changes to improve the accuracy and detail provided by the existing systems. The central administration also will develop and implement training to improve the consistency in coding and reporting of compensation matters by campus personnel. Finally, we will enhance monitoring at the system level through more frequent review of campus practices and will discuss with the Board of Trustees the degree to which they want centralized monitoring to occur.

Discussion and Implementation Considerations: The state auditor's recommendation raises the question of the degree of delegation and the most effective way to monitor delegated authority. The state auditors found no violation of law or existing CSU policies. The Board of Trustees current policy requires the board to approve all changes in compensation for executives. Board executive pay policies now also require an annual report to the board describing work performed and amounts paid to Trustee-Professors, executives in transition, and those in post-executive status.

The state auditor's recommendation is that a transaction by transaction review occurs at the chancellor's office for all 45,000 employees of the university.

The standing orders of the Board of Trustees approved in the early 1960's and reviewed and updated in 2006, established the operating principle that responsibility for operational transactions be delegated to campuses. This management approach is reflected throughout the Title V section applying to the CSU. The balance among transparency of transactions, risk of error and/or violation of policy, and administrative workload should be considered when examining delegation of authority for all university policies.

One example given by the auditor would not be achieved by such a centralized system because not all pay transactions would be included in such a proposed system. The auditor specifically includes only state payroll transactions in the proposed centralized system and specifically excludes payments made to employees from recognized university auxiliaries. The auditor's example of "work more than 125% of a full-time position" is specific to faculty, however, CSU policy applies to other groups of full-time employees as well. The auditor did identify that faculty typically are paid additional compensation (up to 125% of a full-time position) by one or more of the university's recognized auxiliaries. These payments to faculty are typically related to external contracts and grant activities.

A better way to identify additional workload for faculty is to examine the options identified by the auditor in a subsequent recommendation, which is to require all employees to report annually all outside employment with which they are engaged. This would achieve the same outcome as the transaction by transaction review suggested by the auditor at a much lower cost to the university.

Based on this audit, the risk of policy violation is not sufficient to incur the costs to create a centralized process and staff to examine every personnel transaction for every employee on every campus.

There were some payments made to higher paid administrative employees by campus auxiliaries that the audit also identified. Again, these payments are consistent with university policy. However, auxiliary payments may not always meet the test of transparency regarding total compensation for all employees. And, as noted above, the auditor's recommendation for a centralized system does not include recognized auxiliary pay transactions to university employees.

It may be appropriate that the chancellor's office review and approve all payments to vice presidents from all fund sources available to the university, i.e., including auxiliaries. This review could occur both at initial appointment of a vice president and annual

changes in payments to vice presidents, including salary increases and any other adjustments to other forms of compensation. Transaction review, which is done for executives, is not recommended at the Trustee level since this would involve more than 100 individuals. Instead, the Chancellor would report on the general nature of compensation and the changes to such compensation from all sources to the Board in an annual report each year. It is recommended that this report be combined with the executive compensation report called for by existing Trustee policy. It is recommended this report be presented to the board in September or November of each year after the typical increase in compensation has occurred for all employees, which is traditionally in July of each year. This process and reporting would meet the objective for transparency of higher paid central administrators on each campus.

A second component of the auditor's recommendation is to improve the consistency of coding of pay transactions in the State Controller's payroll system. The auditor's review did show a high rate of coding errors and inconsistencies in processing state payroll transactions. It is appropriate that the interim vice chancellor, human resources conduct training sessions on appropriate coding for all campus personnel who implement payroll transactions. This training should be completed by August 1, 2008. In addition, the university auditor should conduct an audit for selected campuses in the latter part of 2008 as part of the auditor's annual work plan on the completeness and accuracy of payroll transactions in the state payroll system for CSU employees.

Ad Hoc Committee recommendation: Given the size of the University system, it is appropriate to continue the delegation of authority to the presidents to monitor employee pay transactions for policy compliance and coding accuracy. CSU will provide a comprehensive training program for coding of salary payments to employees. The University Auditor will conduct periodic audits to ensure compliance with proper coding of payments. To achieve better transparency, the chancellor will review presidential recommendations for vice presidential compensation (salary, salary increases, bonuses, and supplemental forms of compensation) and from all fund sources at the initial appointment and in subsequent years, and will provide an annual report to the Trustees on vice presidential compensation to be made in September if compensation actions have been taken, or in November.

State Auditor Recommendation: The board should consider total compensation received by comparable institutions, rather than just cash compensation, when deciding on future salary increases for executives, faculty, and other employees. The university should work with interested parties, such as the commission and the legislative analyst, to develop a methodology for comparing itself to other institutions that considers total compensation. If the university believes it needs a statutory change to facilitate its efforts, it should seek it.

CSU Response: Agree The CSU will continue to work with interested parties in an effort to develop a methodology for use of total compensation analysis for executives, faculty and other employees. We are committed to using the best tools available as long as lag comparisons for executives, faculty and other employees are all based on the same compensation elements.

Discussion and Implementation Considerations: The CSU will work with the Department of Finance, the Legislative Analyst Office and other interested parties to reach agreement on the appropriate methodology for calculating compensation comparisons for all employees. If no agreement is reached with these parties, the chancellor will report to the Trustees at least every five years on total compensation for all employees to guide the board's decision on compensation. It is recommended that total compensation be defined as annual salary, health benefits and retirement benefits because it is highly complex to assign a dollar value to other components of compensation.

In the past, the comparison studies for executives and faculty were limited to annual cash salary. The state auditor recommends a broader definition of compensation and this is appropriate if implemented for all employee groups, i.e., executives, faculty, management, and other staff. Limiting application of such broader definition for analysis of any one group (only executives, for example) for comparison would constitute an unfair system of market compensation comparison.

Ad Hoc Committee recommendation: The CSU should engage the fiscal control agencies, i.e., Department of Finance and Office of the Legislative Analyst, and the California Postsecondary Education Commission, and seek agreement on the data used for comparison compensation for executives, faculty and other employee groups. The definition of total compensation must be the same for all groups of employees.

Part One, Chapter Two: Executive Transition and Post Employment Compensation

State Auditor Recommendation: The board should continue to monitor the chancellor's administration of the executive transition program to ensure that it is conducted in a prudent manner and that intended cost-savings are achieved for the university. In addition, the board should require the chancellor to include in the transition agreements, clear expectations of specific duties to be performed, as well as procedures for the former executives to report on their accomplishments and status of deliverables. Further, the board should require the chancellor to include information in his annual report on the status of accomplishments and deliverables associated with transition agreements.

CSU Response: Agree The chancellor already has begun to include in transition agreements clear expectations regarding specific duties to be performed by executives. A report of accomplishments and deliverables will be added to the annual report. The trustees will consider whether they wish to take specific action on this matter.

Discussion and Implementation Considerations: The chancellor already is required to inform the board members in writing when transition programs are negotiated and annually reports information on transition programs to the board in a public meeting. In the annual report, the chancellor will report progress on objectives for each executive and as described in recommendation one, an expanded report on vice president and executive compensation would be provided to the board in September or November. Making the annual report in the fall rather than March would be more timely as it coincides with the beginning of the academic year and implementation of the state budget and would be consistent with the annual compensation cycle.

Ad Hoc Committee recommendation: The chancellor should report deliverables and progress in the annual report on executive transitions. To report near the beginning of the fiscal and academic years, this report should be made in September rather than March.

State Auditor Recommendation: The University should work through the regulatory process to develop stronger regulations governing paid leave of absences for management personnel. The improved regulations should include specific eligibility criteria, time restrictions, and provisions designed to protect the university from financial loss if an employee fails to render service to the university following a leave. For example, the regulations should require all employees applying for a paid leave of absence to submit a bond that would indemnify the university if the employee fails to render service to the university following a leave of absence. The university should also maintain appropriate documentation supporting any leave of absences it grants. Finally, the board should establish a policy on the extent to which it wants to be informed of such leave of absences for management personnel.

CSU Response: Agree While balancing the need for consistency with the need for some administrative flexibility, the CSU Board of Trustees will consider actions which can strengthen the process for granting leave of absences for management personnel. They will consider development of criteria regarding eligibility, time limitations, and fiscal protective measures.

Discussion and Implementation Considerations: The paragraphs of Title 5 pertaining to Management Personnel Plan employees is void of clear reference to paid leaves of absence for designated employees. The University will develop expanded definitions and criteria of paid leaves of absences. The definition and criteria will be incorporated into Title 5.

A review of amendments to Title 5 will be scheduled for information in March and action for May.

Ad Hoc Committee recommendation: The chancellor should propose amendments of Title 5 regulations governing paid leaves of absence for management personnel for action by the Board in spring 2008. The Ad Hoc Committee determined it is not practical to obtain a bond to guarantee future re-entry into CSU service of an individual granted a leave for professional development.

Part One, Chapter Three: Moving and Relocation Compensation

State Auditor Recommendation: The University should strengthen its policy governing the reimbursement of relocation expenses. For example, the policy should include comprehensive monetary thresholds above which board approval is required. In addition, the policy should prohibit reimbursements for any tax liabilities resulting from relocation payments. Finally, the board should require the chancellor to disclose the amounts of relocation reimbursements to be offered to incoming executives.

CSU Response: Agree The Board of Trustees will consider means of strengthening the controls related to reimbursement of relocating expenses. They will review the amount of discretion given the system executives and determine the extent to which the board wishes to review or approve any such expenses. The chancellor will disclose the amounts of reimbursements offered to incoming executives.

Discussion and Implementation Considerations: It is not entirely practical or possible to report relocation expenses for new executives at the time of appointment because of many unknown factors such as the cost of “necessary and reasonable” moving expenses until a moving firm conducts an estimate of weight and distance of a relocation, selling costs of real estate are known, and other associated costs specified in existing CSU relocation policy can be identified for the specific executive. At times, specific identification of costs can only be completed months after a person accepts the offer of employment. The chancellor can report executive relocation costs approved in the past twelve months annually each fall if the board desires. Authority currently exists to make relocation reimbursement for all employment categories, that is, faculty, staff, and managers to complete recruitment, if the budget permits.

For transparency, the chancellor recommends that executive relocation costs be included in the September or in November report to the Trustees on executive and vice president compensation of all types and from all sources.

Ad Hoc Committee recommendation: The chancellor should report relocation expense estimates when an executive's compensation is set when possible or, if not, in the next annual report, special arrangements will be reported as they occur, and an annual report on relocation will be made to the board each September or no later than November.

State Auditor Recommendation: The University should continue to work with California Faculty Association representatives during the collective bargaining process to strengthen its dual-employment policy by imposing disclosure and approval requirement for faculty. It should also impose similarly requirements for other employees, including management personnel. If the university believes it needs a statutory change to facilitate its efforts, it should seek it.

Response: Agree The CSU will continue to work through the collective bargaining and regulatory processes to strengthen the outside employment disclosure policy for faculty. We strongly favor an information process which will allow for the identification of any conflict of commitment prior to the start of an outside employment. The CSU will adopt for management personnel similar requirements to those adopted for faculty.

Discussion and Implementation for Considerations: We agree that outside employment should be reported and will pursue via collective bargaining negotiations and legislation. The CSU supported legislation to this effect by then-Senate leader John Burton; the legislation was not passed. University employees should have a primary commitment of time and energy to their work assignment duties in the California State University.

The Committee on Collective Bargaining should add outside employment reporting to its bargaining plan with the faculty union. The Committee on Governmental Relations should add reporting of outside employment by full-time faculty to its legislative agenda. Simultaneous with implementation of an outside employment reporting policy for all full-time faculty, the Committee on University and Faculty Personnel should develop an outside employment policy for management and executive employees. As noted earlier, the transactional based, centralized information system recommended by the auditor in Recommendation One would not capture all sources of data. The proposed approach of negotiating outside employment would require such notification and follow-up with individual employees and could occur on an exception basis.

Ad Hoc Committee recommendation: The CSU should either pursue legislation requiring disclosure and approval of outside employment for all full-time faculty or negotiate through the collective bargaining process disclosure and approval of dual employment disclosure and implement a similar policy for all full-time management and executive employees.

Part Two, Chapter One: Lack of Systemwide Guidance to Aid Campuses in Considering Diversity When Hiring Professors

State Auditor Recommendations: To ensure campuses employ hiring practices that are consistent with laws and regulations and among the campuses, the university should issue systemwide guidance on the hiring process for professors ensuring that departments elect faculty to search committees, write broad position descriptions to result in greater opportunities for women and minorities, to properly use affirmative action plans, make special efforts to have women and minorities serve on faculty search committees, inform the committees of national availability data, encourage applicants to complete information cards to collect gender and ethnicity data, and have campuses provide training on hiring process and compliance with state and federal law and regulations.

CSU Response: Agree and Agree in concept. The Chancellor's Office will remind the campuses to elect members of faculty search committees. Guidelines will include the need to develop position descriptions as broadly as possible consistent with academic needs and the CSU commitment to inclusiveness. Systemwide guidance will address appropriate goals in the context of affirmative action. We will give careful consideration to whether any action or guidance about the placement of minorities and women on search committees could be viewed as an illegal preference in violation of Proposition 209. A task force of selected campus personnel will be convened to develop best practices guidance for faculty searches.

Discussion: While it is recognized there is a tension between federal requirements for diversity and the need to comply with California's Proposition 209 which dictates that hiring decisions are colorblind, it is prudent to have more consistency among the campuses and within campuses in the hiring practices related to faculty positions while continuing to allow each campus to customize their recruitment practices to meet their particular needs. It should be noted that recent CSU faculty searches (as reported in Table 4 of the audit report) resulted in hiring 44% female against a national availability of 41% and recent minority faculty hired at a 26% rate against a national availability of 12%.

Ad Hoc Committee recommendation: CSU management will provide training on use of affirmative actions plans and use of national availability pools. The campuses will be reminded to follow the faculty union contract on the election of faculty departmental searches, on the appropriate position description, and alternatives in naming a faculty search committee to attain diversity within the constraints of Proposition 209 and federal requirements. The CSU will convene a task force of campus managers to advise on best practices in recruitment and disseminate best practices information by fall 2008. The CSU will advise campuses on use of affirmative action goals and availability pools in

faculty departmental searches to the extent that it is feasible and consistent with Proposition 209.

Part Two, Chapter Two: Campuses' Hiring Processes for Management Personnel Vary, and CSU's Consideration of Diversity in the Hiring of Presidents and System Executives is Limited.

State Auditor Recommendation: Campuses could broaden the perspective of search committees for management positions by appointing women and minorities to search committees lacking diversity. Campuses should be instructed to compare the proportions of women and minorities in the total applicant pool to the proportions in the labor pool to help assess the success of their outreach efforts in recruiting women and minority applicants. Properly use affirmative action goals and plans. More complete policies should be developed to guide the recruitment process for system executives. For consistency and to broaden the search pools, advertising should be broadened to include publications primarily with women or minority audiences for all presidential and system executive positions. To broaden the perspective of the committees and increase the reach of the search for presidential positions, the university should develop policies regarding the diversity of trustees and advisory committees, and consider alternatives on the manner in which to increase committee diversity.

CSU Response: Agree and agree in concept. The CSU will develop guidelines for campuses and promulgate best practices to ensure that laws and regulations are consistently applied and that efforts are made to give women and minorities opportunities to serve on management search committees. The trustee policy on searches for system executives will be reviewed for improvement and more detail on the search process. Advertising sources will be increased and monitored their effectiveness in broadening the candidate pool.

Discussion: The state auditors found no violation of law or CSU policies. The auditor ignored the fact that the CSU presidential corps is diverse having women, minorities, and foreign born among the group. Regarding the search policy for system executives, the trustees adopted policy in 1992 that made the chancellor responsible for conducting an "appropriate search process" and stated that the chancellor would present a single candidate to the Board of Trustees for appointment. The rationale was that the "Chancellor will have the support of the Board in building his or her own management team." A revision of the search policy for system executives can be brought to the Committee on University and Faculty Personnel whenever the trustees desire.

With respect to developing policies about the diversity of trustees serving on presidential search committees, appointment to the board is not within the control of the university system. The composition of a presidential search advisory committee is defined by

trustee policy, but the individual members are elected on campus by their constituent groups. Restricting membership of trustees and others based on gender and ethnicity to serve on presidential search committees could be a violation of Proposition 209.

Ad Hoc Committee recommendation: It is expected that CSU management will provide training on use of affirmative actions plans and use of national availability pools for management searches by type of position and campuses will be reminded to invite women and minorities to serve on management position searches. Broad-based advertising of management and executive positions is recommended. The system executive position search policy should be more detailed. A revised policy will be considered by the Committee on University and Faculty Personnel at a future meeting in spring 2008.

The following resolution is recommended for approval by the Ad Hoc Committee:

RESOLVED, by the Board of Trustees of the California State University that the actions recommended by the Ad Hoc Committee on the Bureau of State Audits reports on compensation and hiring practices as presented in the Agenda Item 1 of the January 22-23, 2008, meeting of the Board of Trustees are adopted.