

California State University Response to Compensation Audit

The California State University (CSU) appreciates the time and effort dedicated by the Bureau of State Audits to the comprehensive review of the CSU's Compensation Management. The auditor's recommendations will assist us in improving Compensation Management in the CSU. The CSU further appreciates this opportunity to respond to the draft audit of its Compensation Management. We have reviewed the draft and find that the facts are correctly reported in the audit. We do however have concerns about the conclusions others might reach when reading the report.

The CSU agrees in nearly all cases with the auditor's recommendations and will explore the appropriate manner to address the issues which have been raised. We will be acting on some recommendations immediately and on the others as soon as feasible. Many of these recommendations will be discussed with the Board of Trustees in order to determine whether policy changes will be made and/or whether there will be additional trustee involvement in the oversight process. We have provided responses to each of the auditor's recommendations and have organized those responses in the same order that they were presented in the audit.

The CSU takes seriously its obligation to effectively manage all aspects of its compensation program. This audit addresses three general aspects of the compensation program: 1) Monitoring of Compensation Policy and Practices 2) Administration of Executive Transition and Post-employment Compensation, and 3) Administration of Moving, Relocation, and Dual Employment Policies.

One issue which is raised throughout the audit report is the decision by the CSU administration to delegate most of the operational compliance responsibility for various aspects of the compensation program to the campus presidents and staff. We continue to believe that in a system as large and complex as the CSU such delegation is the best administrative practice. We do, however, recognize the importance of consistency and prudent decision making. We are committed to improving the manner in which we monitor compliance with both legal requirements and policy regarding all aspects of compensation administration.

The majority of the issues raised in chapter two and chapter three of the report involve the exercise of discretion either by a campus president or by the chancellor within existing university policy. We agree that more written guidelines would help clarify the scope of such discretion and reduce the possibility that discretionary decisions are perceived as questionable. However, we firmly believe that not every potential situation which may arise can be anticipated and covered by written guidelines or criteria. We further believe that some degree of administrative flexibility must be provided to address these situations. The administrators exercising such discretion must continue to be held accountable for the decisions they make.

CHAPTER ONE: MONITORING OF COMPENSATION POLICIES AND PRACTICES

- **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.
 - **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 will also 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.

- **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 consider total compensation. 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 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.

RESPONSE TO CHAPTER ONE FINDINGS:

Figure two accurately reflects the overall growth in compensation for all groups within the system. The Golden Handshake offered to faculty and which was approved by the state in 2004 had an immediate visible impact on turnover among faculty. Approximately 700 faculty members retired in 2004. Of those, 432 did so in response to this legislative action which was intended to reduce the compensation base in a time of budget crisis. This turnover had a negative influence on overall faculty salary growth because, as

intended, higher-paid senior faculty left and were replaced with lower-paid junior faculty. In fact, in order to garner the anticipated savings many were replaced with temporary faculty at least for the first year.

In Table three, the audit team shows figures in the final line cited throughout this chapter as the average compensation increase for various employee groups. Although this figure does represent the average cost of compensation per employee for each group, the figure is impacted by such factors as the number of vacancies in an employee group and the replacement of terminating employees by those paid at a different rate. Thus for faculty as an example, the average increase percentage shown represents neither the percent of salary pool available for faculty increases during this period nor the actual percent of individual salary increase for continuing faculty.

It is also important to note that at least half of the growth in Management Personnel Plan (MPP) counts reflected in the findings was growth in non-state funded positions.

The ESP system does have available both data regarding the type of compensation and the fund source. This data currently lacks sufficient detail to perform monitoring of every type of pay made to employees. We will explore the addition of detail as a means of enhancing our monitoring ability. The system has made a conscious decision to decentralize operational compliance monitoring and while we agree that stronger checks and balance should be achieved, we believe it should be accomplished through improved coding and training of campus personnel.

As noted in the audit findings, a variety of reports and audits are currently utilized to monitor campus compliance with systemwide policies and guidelines. Although we agree that this process can and should be improved, we would note that the audit did not identify major violations of policy.

Also as noted in the findings, the Board of Trustees currently approves executive compensation. In an effort to improve management of compensation for highly compensated employees the chancellor will discuss with the trustees the possible expansion of their approval process to include compensation for vice presidential level positions at all campuses.

When considering the issue of comparison of compensation increases, factors which must be taken into consideration are the size of the groups, the “normal” turnover, turnover in response to the Golden Handshake program, as well as the cost of each percent of increase for each group. Each percent of increase for faculty results in an increase expenditure of \$15,659,000 while one percent for executive results in a cost of \$99,000. Obviously another important factor is the market lag for each group.

The CSU favors use of total compensation to calculate salary lag so long as it is used not only for executives but also for faculty and staff. In the highly unionized CSU environment, group to group comparisons occur on a regular basis making apple to apple comparison a necessity.

Although both California Postsecondary Education Commission (CPEC) and the legislative analyst have expressed concern about the current methodology used for faculty and executive lag calculations; these criticisms have resulted in neither a legislative mandate for change nor legislative funding to facilitate achievement of a change in methodology. In fact, the legislature did not even discuss these concerns. We are, however, committed to continue to work with all concerned parties to develop and implement an improved methodology.

CHAPTER TWO: EXECUTIVE TRANSITION AND POST EMPLOYMENT COMPENSATION

- **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.
 - **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.

- **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.
 - **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.

RESPONSE TO CHAPTER TWO FINDINGS

Discussion in this chapter reflects the improvements made in the Executive Transition Program over time. In accordance with the November 2006 action of the Board of Trustees, the university is committed to reducing the cost of such transitions while honoring the commitments made to executives at the time of hire.

The issues related to the granting of leave of absences is one example of the many situations in which executives are required to exercise judgment in matters which have financial consequences for the institution. In these instances executives must balance a variety of factors and exercise their very best judgment to make a final decision which they believe is the best for the institution.

Three of the instances of administrative leave cited in the findings represented leave for preparation of academic administrators returning to the classroom. The provision of such leave is utilized throughout higher education to insure currency of those individuals who may have been away from their academic discipline for a significant period of time. While we agree that we can and should clarify the criteria and limitations which apply to such leave, we would note that the leaves granted in these instances were judged to be in the best interest of the university by the deciding executive based on all factors.

The fourth example of a leave cited in the findings represented a commitment made to the legislature. In fact, the university responded to annual requests from the chairperson of the legislative committee which employed this individual in granting extensions of this individual's leave of absence. Although no direct work was performed for the CSU during this extended leave, the CSU and other higher education segments benefited from this individual's work with this committee.

CHAPTER THREE: MOVING AND RELOCATION COMPENSATION

- **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.
 - **RESPONSE: Agree.** The Board of Trustees will consider means of strengthening the controls related to reimbursement of relocation expenses. They will review the amount of discretion given to 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.

- **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 requirements for faculty. It should also impose similar 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 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 any outside employment. The CSU will adopt for management personnel similar requirements to those adopted for faculty.

RESPONSE TO CHAPTER THREE FINDINGS

Although the CSU is committed to making the improvements recommended in the audit, we would note that in each situation outlined in this segment of the audit, the discretion exercised resulted in a decision that was in the best interest of the university.