# REPORT BY THE
# AUDITOR GENERAL
# OF CALIFORNIA

## A REVIEW OF THE UNIVERSITY OF CALIFORNIA'S EXECUTIVE COMPENSATION, BENEFITS, AND OFFICES

P-215

AUGUST 1992

# A Review of the University of California's Executive Compensation, Benefits, and Offices

P-215, August 1992

Office of the Auditor General
California

Kurt R. Sjoberg, Auditor General (acting)

**State of California**
**Office of the Auditor General**
**660 J Street, Suite 300, Sacramento, CA 95814**
**Telephone : (916) 445-0255**

August 26, 1992 P-215

Honorable Robert J. Campbell, Chairman
Members, Joint Legislative Audit Committee
State Capitol, Room 2163
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the University of California's executive compensation, benefits, and offices. The report indicates that the University of California (UC) needs to clarify its policies to ensure that payments for compensation, travel, and entertainment are economically prudent; that reimbursements for contributions and gifts are clearly documented and appropriately made; and that the UC provide officials approving executive compensation with accurate and complete information.

Respectfully submitted,

KURT R. SJOBERG
Auditor General (acting)

# Table of Contents

## Summary

**Results in Brief**

The University of California (UC) provides compensation and benefits for its employees. In addition to their base salaries, most UC employees receive retirement, medical, dental, life insurance, and vision benefits. Furthermore, some UC executives are accorded a wide range of supplemental compensation and benefits, including nonqualified deferred income plans, home loans, relocation incentives, moving expenses, financial and tax planning reimbursements, automobile and housing allowances, severance pay plans, supplemental retirement programs, supplemental vacation accruals, supplemental funds to cover purchases of gifts and extraordinary entertainment costs, reimbursement for charitable contributions, and funds to pay for extraordinary travel costs. We reviewed the compensation and benefits for a sample of 22 of the UC's top executives. (Appendices A and B summarize the compensation and benefits the UC's president, David Gardner, and each of the executives received during the president's tenure.) During our review, we noted, among other items, the following more significant conditions and concerns:

- The current total annual compensation of President Gardner, including his base salary and various special allowances and supplements, exceeds $452,000. The current annual compensation of the remaining 21 executives in our sample ranges from $131,293 to $316,551;

- Part of President Gardner's overall compensation includes a housing allowance that the UC pays under certain circumstances for its executives. The total housing allowance the UC has paid to President Gardner as of December 31, 1991, is $210,585. However, this amount is more than agreed upon when he first assumed his position. Specifically, as a result of restructuring his original mortgage loan in 1984, with the agreement of the chairman of the Committee on Finance, the expected present value of his allowance increased by approximately $61,800. The Committee on Finance is a committee of the Regents of the University of California (regents);

- Moreover, in 1989, the UC changed the period over which President Gardner would receive the allowance. Given President Gardner's decision to resign at approximately age 60, the benefit to him of this change is equal to the present value of five additional years of housing allowance payments, or $107,568. However, President Gardner stated on August 14, 1992, that he intends that the payments will stop when he resigns on December 31, 1992. Nevertheless, the UC is still obligated to make the payments if President Gardner changes his intentions;

- After President Gardner resigns, he will receive estimated annual retirement annuities (not including the continuation of his housing allowance) of approximately $126,249;

- The regents approved changing the vesting dates on seven of the president's retirement agreements to an earlier date of retirement than originally agreed upon. If the regents had not opted to change the dates, the UC would not have been obligated to provide the benefits, which total more than $759,000;

- The regents may have approved some salary increases that were actually larger than the regents may have believed because the information presented in the document used to propose the increases lacked sufficient detail. For seven executives under consideration for these increases in fiscal year 1984-85, the average percentage increase in actual salaries paid was 17.1 percent, yet President Gardner claimed the increases from fiscal year 1983-84 to fiscal year 1984-85 were approximately 10.8 percent;

- The UC lost approximately $111,000 on the purchase and resale of President Gardner's former residence in Utah;

- The executives frequently spend UC funds to entertain each other and other UC employees exclusively. For example, between July 1, 1990, and April 30, 1992, Senior Vice President Brady hosted 273 entertainment events; 50.5 percent of these events, including meals, were purchased for himself and other UC employees within 25 miles of the UC headquarters in Oakland. Policies governing the Administrative Fund, which paid for most of the cost of these events, do not clearly restrict this practice. However, we believe it is not economically prudent to reimburse employees for meals when the employees are so close to their offices;

- UC policy allows reimbursement for contributions, gifts, and other miscellaneous expenses its executives make on behalf of the UC. From July 1, 1991, through April 30, 1992, for the executives in our review, expenditures from the Administrative Fund for contributions totaled $2,473; for gifts totaled $11,578; and for miscellaneous expenses, including dues, totaled $21,211. However, it was not always clear whether all contributions and gifts paid for from the fund were made on behalf of the UC or on behalf of the individual making them; and

- Although UC executives accrue vacation and sick leave, we found some instances when executives failed to report vacation or health-related absences. For example, from January 1989 through April 1992, President Gardner did not report 46.5 hours of sick leave or 28 hours of vacation.

## Background

Founded in 1868, the UC currently has nine campuses that serve more than 166,000 graduate and undergraduate students. In addition to the nine campuses, the UC manages three laboratories for the United States Department of Energy. To carry out its mission, the UC employs approximately 92,500 full-time equivalent faculty and staff. Funding for the university's operations comes from a variety of sources, including the State's General Fund, the federal government, gifts, trusts, hospital revenues, endowments, and student fees. The special compensation and benefits UC executives receive, in addition to their regular base salaries and the typical benefits most UC employees receive, are administered through the University Executive Program.

Overall leadership for the UC is carried out through the Office of the President, currently located in Oakland, California. This office houses the UC president, executives, and administrative support personnel.

## Salaries

In an attempt to improve the UC's executive compensation to make it more competitive with the compensation of other executives, the regents have approved a number of salary increases since 1983. For example, we determined that, of ten of the executives in our sample, one had an increase of 10 percent, and nine had increases ranging from 21.3 percent to 40 percent between July 1983 and July 1984.

We also found, among other issues, that the regents may have approved some salary increases for fiscal year 1984-85 that were actually larger than the regents may have believed because the information presented in the document used to propose the increases lacked sufficient detail. For seven executives under consideration for these particular increases, the average percentage increase in actual salaries paid was 17.1 percent—larger than the 10.8 percent increase President Gardner claimed the executives were getting.

**Leaves of Absence**

According to their engagement calendars and leave records for January 1989 through April 1992, all six individuals we reviewed failed to report absences related to illness or medical appointments. In addition, five of the six executives failed to report vacation leave taken. For example, Vice President Baker failed to report 15.5 hours of sick leave and 64 hours of vacation.

In response to our findings, Associate Vice President West stated that the UC's current legal interpretation of wage and hour law requires that the executives should not be docked for absences of less than one day. However, UC policy does not state that executives can waive the recording of leave time taken in less than one-day increments. Moreover, we believe that if this were the case, the executives in our review would have consistently recorded their hours according to this policy. However, we found that when the executives did record their hours, they recorded them in less than one-day increments when applicable.

**President Gardner's Housing-Related Assistance and Compensation**

When President Gardner became president in 1983, he was granted an exception from occupying university housing and was provided with a housing allowance to assist in paying the costs of owning his home. In the original version of the package of housing benefits he was to receive, the UC also agreed to buy his previous home in Utah, provided him with a mortgage loan for his new home in California, and agreed to pay a cash stipend to cover his house operating expenses. However, during President Gardner's tenure, several elements of the original housing package changed, often resulting in additional benefits to President Gardner and costs to the UC. During our review, we found several areas of concern, the more significant of which we describe below.

The UC may have paid President Gardner more for the Utah home than the value of his equity in it. The UC provided him with a short-term interest-free loan of $150,000 in 1983, based on the estimated equity he held in his Utah home. This loan was considered repaid when the UC purchased this residence. However, the only appraisal report on the Utah home made near the time of the purchase indicates that President Gardner's equity in the house was closer to $135,000, or $15,000 less than the UC paid him.

Further, in reselling the Utah home, the UC incurred additional costs not agreed upon at the time of the original housing package. Specifically, the resale of the Utah home resulted in a loss to the UC of approximately $111,000, approximately 4 years and 8 months after it was purchased.

Furthermore, after the original housing package was agreed upon, President Gardner restructured his original mortgage loan in 1984 with the agreement of the chairman of the regents' Committee on Finance. While the restructuring did not change the cost to President Gardner of his loan, it did increase the overall amount of the housing allowance payments he could expect to receive from the UC. According to our analysis, the present value of President Gardner's expected housing allowance payments increased by approximately $61,800.

The amount of President Gardner's allowance changed from $1,560 per month to $2,085 per month after the president, with the agreement of the chairman of the regents' Committee on Finance, restructured his loan in 1984. The increase was made retroactive to the time of the original agreement. Thus, since he began serving as the UC president, the UC has paid President Gardner an average of $25,020 per year as his housing allowance, for a total of $210,585 through December 31, 1991.

Another change the UC made to the original housing package increased the benefits to President Gardner and the costs to the UC. In 1989, the UC changed the period during which President Gardner would receive the housing allowance (from his term as president to the period during which the mortgage loan remained outstanding). This change ensured that a decision on President Gardner's part to resign or retire early would not cause his housing allowance to end. Given that President Gardner now intends to resign at age 60, five years before his mortgage loan is paid off, the benefit to him of the 1989 decision is equal to the present value of approximately five additional years of housing allowance payments, or a total of $107,568. On August 14, 1992, President Gardner stated that he intends that the UC will stop housing allowance payments to him on December 31, 1992, when he resigns. However, the UC is still obligated to make the payments should President Gardner change his intentions.

We also determined that the support given to President Gardner during his tenure for house operating expenses, a separate compensation from the housing allowance, has averaged $39,600 per year, for a total of $333,463 through December 31, 1991.

**Housing Allowances for Other Executives**

We found that Senior Vice Presidents Brady and Frazer, and Chancellors Young and Peltason, in addition to President Gardner, received housing allowances. At present, they each receive a housing allowance of approximately $3,476 per month, or $41,710 per year.

**Moving Expenses**

The UC paid moving expenses for President Gardner and four of the eight executives in our review who were appointed during his tenure. These moving expenses averaged approximately $14,800 for each of the five executives and ranged from $9,089 to $19,810. In these five cases, an average of 50.2 percent of the expenditures was for items not reimbursable under the UC policy in effect at the time although exceptions were granted. However, moving expenses for Assistant Vice President Crawford were not approved by President Gardner as they should have been. The current policy has been expanded to include coverage of all moving expenses for new appointees. Therefore, not all exceptions under the old policy would be exceptions today.

Finally, we found that the UC inconsistently reported moving expense payments or reimbursements as taxable gross income to the executives and taxation authorities. Specifically, in one instance, the UC failed to include $5,841 of moving expense payments or reimbursements in Assistant Vice President Crawford's gross income. In another instance, because of an accounting error, the UC did not include $1,939 of moving expenses paid on behalf of Director Shank in his gross income.

**Relocation Incentives**

We determined that 2 of the 22 executives in our sample were paid relocation incentives in the form of temporary salary supplements during President Gardner's tenure. One of the executives, Assistant Vice President Crawford, received $30,059. The other, Assistant Vice President Swartz, received $758.

We found that the regents did not approve Assistant Vice President Crawford's relocation incentive even though UC policy requires the regents' approval. Instead, President Gardner and Senior Vice President Brady approved payment of the incentive. Moreover, although the regents approved the relocation incentive paid to Assistant Vice President Swartz, she did not change her place of residence by more than 50 miles from her former workplace, as required by the UC's policy.

**Special Retirement Programs**

In addition to regular contributions to the University of California Retirement Plan, the UC has provided a number of special retirement programs to the executives in our sample. The UC no longer makes contributions to some of these programs because of the Tax Reform Act of 1986. However, the contributions to those plans and earnings on them are still available to the individuals when they retire.

During our review, we found several areas of concern. For the Regents' Special Retirement Contribution program, which is no longer active, the UC changed the contribution rate from 3 percent of certain executives' salaries to 3 percent of their salaries plus housing value. The UC could not provide us with evidence that the regents approved this practice.

In addition, in reaction to the Tax Reform Act of 1986, the UC created agreements for Nonqualified Deferred Income Plans (NDIPs). However, the regents recently approved changing the vesting dates on five of the agreements with President Gardner. Thus, when he resigns on December 31, 1992, the UC will pay him an estimated $492,607 in settlement of his NDIP agreements instead of the $60,850 it would otherwise have been obligated to pay.

Moreover, the regents also approved changing the vesting dates on two other agreements President Gardner had for another retirement program. Through this program, he could receive at least $327,478. If the regents had not opted to change the dates on these agreements, the UC would not be obligated to provide benefits totaling over $759,000 under the agreements.

Although the regents have approved all the NDIPs, we found that materials presented to the regents were not always specific as to the amounts that would actually be paid. Consequently, we could not conclude that the regents knew the full extent of what they were approving or whether the UC staff correctly interpreted the regents' intent when they implemented the NDIP programs. Moreover, staff's differing interpretations of the regents' intent could result in significant differences in the amounts the regents have actually committed. For example, differences could amount to a total of $83,700 based on the NDIP balances as of July 1, 1992.

**Executive Program Severance Pay Plan**

In March 1990, the regents approved the Executive Program Severance Pay Plan (plan). Under this plan, the UC has made contributions to the plan for each of the 22 executives in our sample and some of their spouses, when the spouses were appointed associates of the UC. As of May 31, 1992, balances in the plans for the 22 executives ranged from a low of $11,059 for Secretary Smotony to a high of $67,612 for President Gardner.

## Automobiles

The UC provides executives in certain positions with several options in compensating them for automobile use for business purposes. As of April 30, 1992, eight of the executives in our sample had UC-leased automobiles, and seven executives and one spouse, who is an approved associate of the UC, received automobile allowances. The UC allows executives to use the leased vehicles for business and personal purposes. In fiscal year 1990-91, the annual cost of lease payments for automobiles ranged from as little as $4,568 for Vice President Hopper to as much as $8,482 for President Gardner.

## Entertainment

We reviewed entertainment expenditures from July 1990 through April 1992. From July 1, 1991, through April 30, 1992, the UC has paid $116,039 from its Administrative Fund for entertainment hosted by 12 of the 22 executives in our sample. Entertainment expenditures ranged from a low of $825 for Vice President Farrell to a high of $30,518 for Director Shank. Entertainment expenditures were made for a variety of events. For example, Vice President Baker hosted a reception and dinner to celebrate the wedding of an Office of the President employee at the vice president's home in Orinda in July 1990. Approximately 75 members of the Budget and University Relations staff attended this event at a cost of $2,628.

From our review of entertainment compensation for executives, we have some concerns. Specifically, we noted that several of the executives in our sample frequently entertain other employees and representatives of the Office of the President exclusively. For example, in 161 (59 percent) of 273 events Senior Vice President Brady hosted, only Office of the President employees or representatives were present. However, we believe the UC would derive greater benefit from hosting academically related meetings or entertaining official guests or potential donors than from entertaining only individuals under its employ.

Another area of concern is that, in many cases, when only the Office of the President employees and representatives were entertained, the entertainment took place within Oakland, close to the UC headquarters. For example, in 138 of the 161 cases where Senior Vice President Brady entertained only Office of the President employees or representatives, the events occurred in Oakland. We believe that it is not economically prudent to reimburse employees for meals or entertainment when they are at or in the vicinity of their workplace. However, policies governing the Administrative Fund, which paid for many of these entertainment events, do not specify restrictions in this regard.

### Contributions, Gifts, and Miscellaneous Expenses

The UC also uses the Administrative Fund to reimburse UC executives for contributions, gifts, and other miscellaneous expenses. From July 1, 1991, through April 30, 1992, for the executives in our review, expenditures from the Administrative Fund for contributions totaled $2,473; for gifts totaled $11,578; and for miscellaneous expenditures, including dues, totaled $21,211.

However, during our review, we found that it was not always clear whether all contributions and gifts paid from the Administrative Fund were made on behalf of the UC, as policy requires, or only on behalf of the individual making the contribution or gift.

### Travel

During our review of the UC's system for compensating executives for travel expenses related to business, we found several areas of concern. For example, we found that the UC's policies on general travel are not always helpful in determining whether some costs are legitimate. For instance, the UC's policy states that only those travel expenses that are "ordinary and necessary" are eligible for reimbursement, but the policy does not clearly define what is meant by this phrase. However, the Administrative Fund can be used to pay for extraordinary expenses.

In addition, executives from the Office of the President frequently used two airplanes formerly owned or leased by UCLA for travel. We found that the cost of some of these trips appeared to be excessive.

Also, we found no policies governing the use of frequent flyer miles earned while traveling on UC business, but we believe it is reasonable to expect that these types of earned miles should be used for UC business. However, we found one instance when President Gardner used frequent flyer miles earned while on UC business to purchase a round-trip flight to Hong Kong for his daughter in 1990. The value of the flight, leaving from and returning to San Francisco, was $3,880.

We also found several instances where, we believe, executives, including President Gardner, claimed unnecessary lodging expenses. For example, in July 1991, President Gardner stayed at the Four Seasons Clift Hotel in San Francisco for two nights during meetings of the regents at a cost to the UC of $370. While the trip was for official meetings, the location of the meetings was only about 10 miles from the UC's Oakland headquarters.

Moreover, some of the individuals in our review used their Administrative Fund allocations to pay for first class travel on business flights. For example, in April 1991, President Gardner flew first class from San Francisco to New York and Washington, D.C., and back to San Francisco. First class airfare was $2,228, and coach was $1,332. The difference of $896 was paid from the Administrative Fund. We believe that it does not benefit the UC when its employees choose first class travel if more economical means are available.

## Administrative Offices

In addition to reviewing the compensation and benefits of the 22 executives, we reviewed the circumstances surrounding the Office of the President's move to new administrative offices. Specifically, beginning in 1988, the Office of the President consolidated its operations in the Kaiser building in Oakland, California, from seven locations in Berkeley. The Office of the President moved from approximately 238,000 square feet of office space. Currently the office occupies more than 327,000 square feet of space in Oakland. The UC perceived the move as a way to reduce the overall long-term cost of its leased space and to resolve the organizational problems of managing a staff located on multiple sites. Further, the move provided the UC's Berkeley campus with much needed space. In addition to consolidating its operations in Oakland, the Office of the President leased an office in Irvine, California. The purpose of this office was to establish a presence in Southern California for the UC and to provide space for other university functions. The Irvine office is approximately 6,000 square feet and was designed to serve a wide variety of uses for President Gardner and other UC staff. Over the UC's five-year lease, the UC's cumulative total cost for this office, including lease payments, tenant improvements, and furnishings, exceeds $1.2 million, or an average of $240,000 per year. Because of budget considerations, the UC intends to abandon the lease when it expires in January 1993.

## Recommendations

To ensure that the UC fulfills its responsibilities to the public and governments that contribute to its funding, the UC and, as appropriate, the regents, should take the following actions in regard to its compensation and benefits for its executives:

- Ensure that any officials approving executive compensation and benefits receive accurate and complete information so that the officials can make well-informed decisions and staff can implement the decisions as the officials intended;

- Charge leave balances for unreported leave taken;

- Clarify its policy requiring leave reporting. If the UC does not expect executives to report absences of less than one day, it should reconsider the amount of sick leave it allows executives to earn;

- Ensure that the proper officials approve any compensation payments and exceptions that require approval;

- Ensure that it consistently reports all taxable compensation or reimbursements for executives to the taxation authorities;

- Ensure that it does not grant relocation incentives to executives who do not relocate as a condition of their employment;

- Clarify its policies regarding appropriate entertainment and travel expenditures and decide whether, or the extent to which, the Administrative Fund should be used to reimburse meals and lodging within the vicinity of UC employees' headquarters;

- Clarify its policies regarding whether, or the extent to which, the Administrative Fund should be used to entertain employees of the Office of the President exclusively;

- Ensure that contributions, gifts, and other miscellaneous expenses that it reimburses are clearly documented and appropriately made. This documentation should clearly show that the contributions or gifts were made on behalf of the UC and not just on behalf of the individual making the expenditure; and

- Ensure that frequent flyer bonuses that executives receive while on official business are used for the UC's benefit and not just for the individuals'.

## Agency Comments

The UC agrees with some of our recommendations and states that it will address those recommendations immediately. However, the UC disagrees with some of our conclusions and some of our concerns related to UC policies. Specifically, although we question the accuracy and sufficiency of information provided to the regents when they were approving fiscal year 1984-85 salary increases for certain executives, the UC believes that the information provided was correctly conveyed by President Gardner. Further, although the UC acknowledges that they paid two executives at rates higher than those approved by the regents, the UC believes that it paid the executives the amounts to which they were entitled and will seek retroactive approval from the regents. In addition, the UC does not agree that executives should be required to report absences in increments of less than one day or that the UC should reconsider the amount of sick leave it allows executives to accrue. Moreover, the UC does not agree that it should reevaluate its policies regarding reimbursement of extraordinary travel and entertainment expenses. Finally, the UC does not agree that it should ensure that its employees use frequent flyer awards that they earn on UC business for business purposes only.

## Introduction

The University of California (UC) was founded in 1868 as a public, state-supported institution. It was written into the state constitution of 1879 as a public trust, to be administered under the authority of a governing board known as the Regents of the University of California (regents). Presently, the regents includes 26 members, 18 of whom the governor appoints with the approval of the Senate for 12-year terms. The remaining 8 members consist of 7 ex officio members and one student member.

Under the state constitution, the regents have full powers of organization and government of the UC, subject only to the legislative control necessary to ensure the security of the UC's funds and the compliance with endowment terms and certain competitive bidding procedures. According to the state attorney general, the UC constitutes a branch of the state government equal with the legislative, judiciary, and executive branches. Also, the power of the regents to control and administer the UC is virtually exclusive.

Currently nine UC campuses are located throughout the State, eight of which offer undergraduate, graduate, and professional education. The ninth is devoted exclusively to the health sciences. The UC also owns and operates teaching hospitals and clinics on two campuses and at three other locations. Finally, the UC operates three major laboratories for the United States Department of Energy (DOE). In the fall of 1990, student enrollment at the nine campuses was 166,547 students, comprising 125,458 undergraduate and 41,089 graduate students. In fiscal year 1990-91, total full-time equivalent faculty and staff was 92,550.

The principal funding source for the UC's instructional programs is the State's General Fund. Additional important funding for research and three DOE laboratories comes from federal funds. In fiscal year 1990-91, the UC (including the DOE laboratories) had total revenues of approximately $10.2 billion, of which approximately $2.4 billion (23.5 percent) was from the State. Other funding sources were $3.3 billion (32.4 percent) from the federal government; $517.4 million (5.1 percent) from student fees and tuition; and $1.5 billion (14.7 percent) from hospital revenues. The remaining sources included private gifts, and investment income.

The UC's administrative structure is headed by a president responsible for overall policy development, planning, and resource allocations. Chancellors at each of the campuses have primary responsibility for the management of campus resource allocations and administrative activities. The regents have delegated authority to the Academic Senate to determine conditions for admission, degree requirements, and approval of courses. Finally, special faculty committees serve in an advisory capacity to the regents, the president, and the chancellors.

The UC Office of the President is headquartered in Oakland and is the center of universitywide administration, supporting all campus and DOE laboratory operations. There are five vice-presidential divisions within the Office of the President—Academic Affairs, Administration, Agriculture and Natural Resources, Budget and University Relations, and Health Affairs. Also headquartered in Oakland are the offices of the general counsel, the secretary, and the treasurer of the regents. The positions in these last offices report to the board of regents—not the president.

## Executive Compensation

Senior leadership positions in the UC are subject to a personnel system called the Executive Program (executive program) created in 1986. The executive program includes the president, vice presidents, chancellors, vice chancellors, laboratory directors and deputy directors, and certain other employees of the university. The scope of our review of executive compensation and benefits at the UC comprised 22 individuals falling within the UC executive program.

Throughout President Gardner's tenure, which extends from 1983 to the present, the issues of salary setting and overall compensation for UC management positions have been concerns of the regents. For example, in May 1984, President Gardner explained to the regents' Subcommittee on Officers' Salaries and Administrative Funds that efforts had been made to bring a greater measure of orderliness and rationale to the criteria used in fixing management salaries. Since then, President Gardner has met either in private or in closed sessions annually with the subcommittee to discuss the salary setting process for top UC managers.

In 1985, a universitywide steering committee was established to evaluate compensation, benefits, and personnel policies for management, administrative, and professional positions at the UC. A national consulting firm (Cresap, McCormick and Paget) assisted the committee and proposed that the UC develop a four-tier personnel system. In 1986, the president and the chancellors approved implementation of the system, which included the creation of the executive program. The four-tier system was designed to recognize and group together positions with different levels of responsibility and to provide compensation and benefits commensurate with such responsibility. The executive program included senior management at each campus and at the Office of the President who provide campus or universitywide leadership in policy and program direction.

## 1987 Study on Competitive Compensation

In 1986, the UC engaged Towers, Perrin, Forster and Crosby (TPF&C) to conduct a competitive compensation study to determine appropriate compensation for 28 of the UC's top executives. In brief, TPF&C compiled and analyzed compensation data for the 1986-87 academic year for senior administrative positions at a variety of academic and nonacademic organizations, including 23 universities and 18 nonacademic institutions. The universities included 12 nonstate (independent or religious) institutions, ten state ones, and one part state controlled and part independent. Among the universities surveyed were Brown University, Harvard University, Stanford University, University of Michigan, and University of Texas-Austin. The nonacademic institutions included Cedars-Sinai Medical Center, Ford Foundation, MacArthur Foundation, Michigan State Employees' Retirement System, and Wisconsin Investment Board.

The study showed that many executive positions at the UC are compensated at levels below those at the comparison organizations. For example, the TPF&C study found that the total compensation for the UC president was slightly above the median but below the average compared to the compensation for the chief executive officers of the multi-institution or prestige campus organizations. Further, the study found that the president's total compensation was below the lowest level reported by 20 publicly held corporations studied. In general, the study found that few of the 28 UC positions included in the report received total compensation at a level above the seventy-fifth percentile of the organizations studied. Based on the TPF&C study, the regents' Subcommittee on Officers' Salaries and Administrative Funds agreed to recommend a three-year adjustment of compensation for top management positions at the UC to bring the compensation to the projected median level of the study.

## 1991 Analysis of UC Compensation

In 1991, the California Postsecondary Education Commission (CPEC) requested Towers Perrin to provide a summary of the UC's overall competitive position related to salary and total compensation in 1991 for six of the UC's top management jobs. The participants in the CPEC analysis included seven university systems and 15 single-campus universities. Nonacademic institutions were not included in the study. Most of the universities in the CPEC study were the same institutions that TPF&C had studied for the 1987 UC report.

The CPEC study found that the UC president's salary was 1.6 percent higher than the median salary of the study group; further, his total compensation was found to be 28.4 percent higher than the median for the study group. The study group from which these statistics were developed included the presidents of universities such as Columbia, Harvard, Johns Hopkins, Illinois, Michigan, Pennsylvania, and Stanford. The CPEC study also found that, in 1991, the UC's senior vice president of Academic Affairs received total compensation 11.6 percent higher than the median level of the study group. Further, according to the CPEC study, total compensation paid to the UC's senior vice president of Administration was 20.2 percent higher than the median of the study group. Similarly, the total compensation paid to the UC's vice president of Budget and University Relations and to seven of the nine UC chancellors was higher than the study group median. Only the UC's vice president of Health Affairs and two chancellors received total compensation below the study group median.

## Scope and Methodology

The purpose of this audit was to evaluate the UC's programs to provide compensation and benefits to its executives. Furthermore, we reviewed the relocation to the UC's administrative offices from Berkeley, California, to the Kaiser building in Oakland, California. We also reviewed the costs associated with the UC's Office of the President located in Irvine, California.

In conducting this audit, we reviewed pertinent laws, regulations, policies, and practices of the UC related to its programs to compensate and provide benefits to its executives. We interviewed UC personnel on this subject at the Office of the President, at the Lawrence Berkeley Laboratory, and at the Irvine, Los Angeles, and Berkeley campuses. We narrowed our review of compensation and benefits to the following 22 executives:

| | |
|---|---|
| David Gardner | President |
| Herbert Gordon | Treasurer of the Regents |
| James Holst | General Counsel of the Regents |
| Ronald Brady | Senior Vice President of Administration |

| | |
|---|---|
| William Frazer | Senior Vice President of Academic Affairs |
| Patricia Small | Associate Treasurer |
| William Baker | Vice President of Budget and University Relations |
| Cornelius Hopper | Vice President of Health Affairs |
| Kenneth Farrell | Vice President of Agriculture and Natural Resources |
| Stephen Moore | Assistant Treasurer of Equity Investments |
| Richard West | Associate Vice President of Information Systems and Administrative Services |
| John Lundberg | Deputy General Counsel |
| Gary Morrison | Deputy General Counsel |
| Calvin Moore | Associate Vice President of Academic Affairs |
| Lawrence Hershman | Associate Vice President and Director of the Budget |
| Carole Swartz | Assistant Vice President of the University Benefit Program |
| Gary DeWeese | Assistant Treasurer of Real Estate |
| Edwin Crawford | Assistant Vice President of University Relations |
| Bonnie Smotony | Secretary of the Regents |
| Charles Shank | Director of the Lawrence Berkeley Laboratory |
| Charles Young | Chancellor of UC Los Angeles |
| Jack Peltason | Chancellor of UC Irvine |

To obtain background on the UC's programs to compensate its executives, we reviewed regents' standing orders and action items, correspondence, and memoranda regarding compensation and benefit issues. We also reviewed payroll and other financial records maintained by the Office of the President and the Berkeley campus on behalf of the Office of the President. We also reviewed two studies on UC compensation. One was prepared by Towers, Perrin, Forster and Crosby, the other by Towers Perrin. The UC commissioned one of the studies, and the California Postsecondary Education Commission commissioned the other.

We assessed the UC's programs to provide some executives with base compensation; medical and dental benefits; vision care; vacation and sick leave; financial and tax planning; housing; housing allowances; moving expenses; short-term home loans and long-term home loans; special and supplemental retirement programs; severance pay; vehicle allowances; reimbursements for entertainment, gifts, and contributions; and reimbursement and direct payment of travel costs. We accomplished this assessment by reviewing laws, various documents transmitted to the regents, regents' standing orders, financial records and related source documents, payroll records, contracts, and general correspondence and memoranda maintained in the Office of the President. Furthermore, to evaluate accumulation and use of vacation and sick-leave hours, we reviewed the executives' leave records and compared these records to the executives' engagement calendars.

We performed a limited review of the Office of the President's move from Berkeley to Oakland. We focused our review on identifying the size and locations of the sites vacated in Berkeley, the size of the current location in Oakland, and the costs related to tenant improvements and furnishings of the presidential suite in the Oakland location. To accomplish our task, we reviewed financial records, source documents, lease agreements, correspondence, and feasibility evaluations prepared by the UC. Moreover, to assess the costs and usage of another of the president's offices located in Irvine, we reviewed the lease agreement, purchase orders, other financial and related documents, and facility usage reports.

# Chapter 1 Salaries, Benefits, and Leaves of Absence Paid to University of California Executives

## Chapter Summary

We reviewed the regular salaries and benefits the University of California (UC) paid to the 22 executives in our sample from July 1, 1983, the first year of President Gardner's tenure, through April 30, 1992. We also reviewed the various leaves of absence for which the UC compensates its executives.

### Salaries

We determined that, as of the end of our review, base annual salaries for the executives ranged from a low of $110,800 for the secretary of the Regents of the University of California (regents) to a high of $243,500 for President Gardner. Moreover, in an attempt to improve the UC's executive compensation to make it more competitive with the compensation of other executives, the regents have approved a number of salary increases since 1983. For example, of 10 of the executives who have been in their positions since 1983, one had an increase of 10 percent, and 9 had increases ranging from 21.3 percent to 40 percent between July 1983 and July 1984.

In addition to noting this information, we also found two areas of concern. Specifically, we found that the regents may have approved some salary increases for fiscal year 1984-85 that were actually larger than the regents may have believed because the information presented in the document used to propose the increases was not in sufficient detail. The president claimed the increases were no larger than approximately 10.8 percent. However, for seven executives under consideration for these particular increases, the average percentage increase between what was actually paid in fiscal year 1983-84 and 1984-85 was 17.1 percent. Also, for six months in 1989, the UC paid two executives at a higher rate than the regents actually approved. As a result, the UC overpaid one individual by $2,468.52 and the other by $530.52.

### Benefits

The UC provides a variety of benefits to executives. We determined that the amount it spent on these benefits from July 1, 1991, through April 30, 1992, ranged from a low of $1,840 for Deputy General Counsel Morrison and Associate Vice President West to a high of $5,739 for Associate Treasurer Small and Vice President Baker.

### Leaves of Absence

According to their engagement calendars and leave records for January 1989 through April 1992, all six individuals we reviewed failed to report absences related to illness or medical appointments. In addition, five of the six executives failed to report vacation leave taken. For example, President Gardner failed to report 46.5 hours of sick leave and 28 hours of vacation. Also, Vice President Baker failed to report 15.5 hours of sick leave and 64 hours of vacation.

In response to our findings, Associate Vice President West stated that the UC's current legal interpretation of wage and hour law requires that the executive should not be docked for absences of less than one day. However, UC policy does not state that executives can waive the recording of leave time taken in less than one-day increments. Moreover, we believe that if this were the case, the executives in our review would have consistently recorded their hours according to this policy. However, we found that when the executives did record their hours, they recorded them in less than one-day increments when applicable.

## Current Salaries

The UC provides compensation and benefits to its employees. To determine salaries paid to the 22 executives in our sample, we reviewed payroll records from July 1, 1983, through April 30, 1992. We found that, as of April 30, 1992, base annual salaries for the 22 individuals in our sample ranged from a low of $110,800 for Secretary Smotony to a high of $243,500 for President Gardner. Table 1 shows the names and titles of the individuals in our review and their base salaries as of April 30, 1992.

**Table 1** **Base Annual Salaries of 22 University of California Executives April 30, 1992**

| Executive | Base Salary |
|---|---|
| President Gardner | $ 243,500 |
| Treasurer Gordon | 200,400 |
| General Counsel Holst | 170,500 |
| Senior Vice President Brady | 170,000 |
| Senior Vice President Frazer | 170,000 |
| Associate Treasurer Small | 162,900 |
| Vice President Baker | 155,000 |
| Vice President Hopper | 153,300 |
| Vice President Farrell | 148,800 |
| Assistant Treasurer Moore | 139,000 |
| Associate Vice President West | 137,700 |
| Deputy General Counsel Lundberg | 136,000 |
| Deputy General Counsel Morrison | 136,000 |
| Associate Vice President Moore | 134,600 |
| Associate Vice President Hershman | 130,500 |
| Assistant Vice President Swartz | 127,500 |
| Assistant Treasurer DeWeese | 122,600 |
| Assistant Vice President Crawford | 120,000 |
| Secretary Smotony | 110,800 |
| Director Shank | 166,000 |
| Chancellor Young | 175,000 |
| Chancellor Peltason | 162,000 |
| **Total** | **$ 3,372,100** |

## Changes in Salaries Since 1983

President Gardner took office in July 1983. As mentioned earlier, he had an interest in improving the UC's executive compensation to make it more competitive with the compensation of other executives. As a result, since 1983, the regents have approved several kinds of increases to salaries paid to the 22 executives in our review. Only 10 of these 22 individuals have been employed in their current positions since 1983. To determine the salaries paid to these individuals since that time, we reviewed their payroll records covering fiscal year 1983-84 through April 30, 1992. For those who have been employed in their current positions for less time, we only reviewed their salaries since assuming their current position up to April 30, 1992. To determine whether salary changes were properly approved, we reviewed minutes of regents' meetings covering that period.

Of the 10 executives who have been employed in their current positions since 1983, 4 received three salary increases and 4 others received two increases from July 1, 1983, through July 1, 1984. One of the 10 people, President Gardner, had an increase of 10 percent while the other 9 had increases ranging from 21.3 to 40 percent in that first year. The average increase for these 10 individuals was 26.9 percent. However, during our review of salaries, we found two areas of concern.

### Some Salary Increases Larger Than Regents May Have Known

The regents may have approved some salary increases for fiscal year 1984-1985 that were actually larger than the regents may have believed. Specifically, when proposing fiscal year 1984-85 salaries to go into effect July 1, 1984, for chancellors, vice presidents, hospital directors, and principal officers of the regents, President Gardner told the regents' Subcommittee on Officers' Salaries and Administrative Funds that, "in total, recommendations for increases to base salaries were within the 10.8 percent average approved by the State Legislature." He also provided a document to the subcommittee showing fiscal year 1983-84 salaries, proposed fiscal year 1984-85 salaries, and percentage increases from one year to the next.

However, for at least some of the individuals, the document reflected neither the salaries actually paid in fiscal year 1983-84, nor the salaries in effect at the beginning of fiscal year 1983-84, that is, on July 1, 1983. Instead, the salaries shown on the document for fiscal year 1983-84 were salaries in effect from

January 1, 1984 through June 30, 1984—after the individuals had already received at least one salary increase. This document was also presented to the regents' Committee on Finance and to the regents when they approved the fiscal year 1984-85 salaries. In fact, for seven individuals in our sample who were under consideration for President Gardner's proposed salary increases, the actual percentage increases between the amounts paid in fiscal year 1983-84 and the amounts paid in fiscal year 1984-85 ranged from a low of 14.0 percent for Senior Vice President Brady to a high of 22.5 percent for Treasurer Gordon. Moreover, the actual percentage increases between July 1, 1983, and July 1, 1984, (the effective date of the fiscal year 1984-85 salaries) ranged from a low of 21.3 percent for Senior Vice President Brady to a high of 40 percent for Senior Vice President Frazer.[1] The average percentage increase between amounts actually paid to the seven executives in fiscal year 1983-84 and those paid in fiscal year 1984-85 was 17.1 percent. The average percentage increase between salary rates paid on July 1, 1983, and July 1, 1984, for the seven individuals was 28 percent. Although the percentage increase for the seven executives between June 30, 1984, and June 30, 1985 (the end of the respective years) was 10.8 percent, it appears that the regents may not have realized how large the proportional increases were that they were approving.

In fiscal year 1984-85, 12 of the 22 individuals in our sample held the same title they currently hold. All 12 individuals received salary increases between July 1, 1984, and July 1, 1985. These increases ranged from 7.9 percent for Chancellor Young of UC Los Angeles to 30.4 percent for Assistant Treasurer DeWeese. The average percentage increase from July 1, 1984, to July 1, 1985, was 11.3 percent. Table 2 shows the lowest, highest, and average percentage increase in each fiscal year since July 1, 1983. As of April 30, 1992, 20 of the 22 individuals had not received salary increases since January 1, 1991. Two of the individuals, Deputy General Counsels Lundberg and Morrison, received their last salary increase effective July 1, 1991.

[1] Senior Vice President Frazer's increase included one increase granted due to his promotion from Academic Vice President to Senior Vice President on October 1, 1983.

## Table 2

### Annual Percentage Change in Base Salaries for 22 University of California Executives

| Period of Change | Number of Executives | Average Percentage Change | Smallest Percentage Change | Executive | Largest Percentage Change | Executive |
|---|---|---|---|---|---|---|
| July 1, 1983 to July 1, 1984 | 10 | 26.9 | 10.0 | President Gardner | 40.0[1] | Senior Vice President Frazer |
| July 1, 1984 to July 1, 1985 | 12 | 11.3 | 7.9 | Chancellor Young | 30.4[2] | Assistant Treasurer DeWeese |
| July 1, 1985 to July 1, 1986 | 14 | 7.2 | 4.9 | General Counsel Holst | 11.1 | Treasurer Gordon |
| July 1, 1986 to July 1, 1987 | 15 | 2.1 | 2.0 | Vice President Hopper<br>Secretary Smotony | 3.2 | Assistant Vice President Swartz |
| July 1, 1987 to July 1, 1988 | 16 | 8.5 | 4.9 | Secretary Smotony | 10.2 | General Counsel Holst<br>Chancellor Young |
| July 1, 1988 to July 1, 1989 | 16 | 13.71 | 12.78 | Secretary Smotony | 14.9 | Vice President Hopper |
| July 1, 1989 to July 1, 1990 | 22 | 4.7 | 0.0 | President Gardner<br>Secretary Smotony<br>Director Shank | 7.5 | Chancellor Young<br>Chancellor Peltason |
| July 1, 1990 to July 1, 1991 | 22 | 7.0 | 5.4 | AssociateTreasurer Small | 12.6 | Deputy General Counsels Lundberg and Morrison |

[1]Includes a promotion from Academic Vice President to Senior Vice President on October 1, 1983.

[2]Includes a salary increase granted when Assistant Treasurer DeWeese assumed real estate responsibilities of the former Associate Treasurer of the Regents.

### Salary Increases Paid in Excess of Those the Regents Approved

During our review of salaries, we noted two cases in which individuals were paid at rates higher than those the regents approved. The Regents' Standing Order 101.2(a)(2) requires that the regents approve employee salaries in excess of a certain amount. As of July 1989, the applicable threshold was $108,500. On July 21, 1989, the regents approved a fiscal year annual salary of $130,000 for Assistant Treasurer Stephen Moore and a fiscal year annual salary of $113,500 for Assistant Treasurer DeWeese.

In both cases, one third of the increase was supposed to be granted effective July 1, 1989, and the balance of two thirds of the increase was to be granted effective January 1, 1990. Consequently, as of July 1, 1989, Assistant Treasurer Stephen Moore should have been paid an annual salary rate of $120,663, or $10,055.25 per month. However, for July 1, 1989, through December 31, 1989, staff in the UC treasurer's office completed payroll documents that actually paid this individual $125,360, or $10,466.67 per month. The UC did not offset this amount when it implemented its January 1 increase. As a result, the UC paid him $2,468.52 more for the fiscal year than it should have.

Similarly, as of July 1, 1989, the UC should have paid Assistant Treasurer DeWeese at an annual salary rate of $108,217, or $9,018.08 per month. However, for July 1, 1989, through December 31, 1990, staff of the UC treasurer's office completed payroll documents that actually paid this individual at an annual rate of $109,278. The UC did not offset this amount when it implemented its January 1 increase. As a result, the UC paid him $530.52 more for the fiscal year than it should have.

## Benefits

UC employees, including executives, are able to select from a range of benefits, including medical, vision, dental, retirement, and life insurance benefits. Further, the UC offers annuitant health insurance, which provides medical and dental benefits to employees, including executives, after they retire. In some cases, the executive pays for the full cost of the benefits offered. In other cases, the UC contributes toward the cost of those benefits, and the employee pays the balance. Also, the UC may sometimes pay the full cost of benefits. We reviewed payroll documents to determine the cost of the UC's contributions on behalf of the 22 individuals in our sample. Table 3 shows how much the UC contributed for the various types of benefits on behalf of these executives. In addition, although we do not show this on our table, the current UC contribution for life insurance benefits is $6 per month per employee. Further, the UC sets aside amounts equal to a percentage of employees' salaries to pay for annuitant health care for current retirees. We do not know how much the UC will pay for annuitant health care for the executives in our sample, if and when they retire from the UC, because costs can change over time.

## Table 3

### University of California Expenses for Executive Benefits Fiscal Year 1990-91 and 1991-92 Through April 1992

| Executive | Health 1990-91 | Health 1991-92 | Vision 1990-91 | Vision 1991-92 | Dental 1990-91 | Dental 1991-92 | Retirement 1990-91 | Retirement 1991-92 | Total 1990-91 | Total 1991-92 |
|---|---|---|---|---|---|---|---|---|---|---|
| President Gardner | $ 5,832 | $ 3,910 | $ 114 | $ 93 | $ 649 | $ 336 | $ 4,535 | $0 | $ 11,130 | $ 4,339 |
| Treasurer Gordon | 3,255 | 2,723 | 114 | 93 | 525 | 336 | 3,187 | 0 | 7,081 | 3,152 |
| General Counsel Holst | 4,612 | 4,117 | 114 | 93 | 699 | 596 | 2,709 | 0 | 8,134 | 4,806 |
| Senior Vice President Brady | 3,639 | 3,249 | 114 | 93 | 394 | 336 | 3,365 | 0 | 7,512 | 3,678 |
| Senior Vice President Frazer | 3,639 | 3,249 | 114 | 93 | 699 | 596 | 3,365 | 0 | 7,817 | 3,938 |
| Associate Treasurer Small | 6,060 | 5,050 | 114 | 93 | 699 | 596 | 2,596 | 0 | 9,469 | 5,739 |
| Vice President Baker | 6,060 | 5,050 | 114 | 93 | 699 | 596 | 2,438 | 0 | 9,311 | 5,739 |
| Vice President Hopper | 4,612 | 4,117 | 114 | 93 | 699 | 596 | 2,436 | 0 | 7,861 | 4,806 |
| Vice President Farrell | 2,897 | 2,723 | 114 | 93 | 394 | 336 | 2,366 | 0 | 5,771 | 3,152 |
| Assistant Treasurer Moore | 4,612 | 4,117 | 114 | 93 | 699 | 596 | 2,181 | 0 | 7,606 | 4,806 |
| Associate Vice President West | 1,756 | 1,567 | 114 | 93 | 211 | 180 | 2,141 | 0 | 4,222 | 1,840 |
| Deputy General Counsel Lundberg | 4,612 | 4,117 | 114 | 93 | 699 | 596 | 2,028 | 0 | 7,453 | 4,806 |
| Deputy General Counsel Morrison | 1,756 | 1,567 | 114 | 93 | 211 | 180 | 2,028 | 0 | 4,109 | 1,840 |
| Associate Vice President Moore | 4,692 | 3,910 | 114 | 93 | 394 | 336 | 2,121 | 0 | 7,321 | 4,339 |
| Associate Vice President Hershman | 4,692 | 3,910 | 114 | 93 | 394 | 336 | 2,054 | 0 | 7,254 | 4,339 |
| Assistant Vice President Swartz | 3,639 | 3,138 | 114 | 93 | 394 | 336 | 1,983 | 0 | 6,130 | 3,567 |
| Assistant Treasurer DeWeese | 4,612 | 4,117 | 114 | 93 | 699 | 596 | 1,906 | 0 | 7,331 | 4,806 |
| Assistant Vice President Crawford | 4,692 | 3,910 | 114 | 93 | 394 | 336 | 1,877 | 0 | 7,077 | 4,339 |
| Secretary Smotony | 3,639 | 3,249 | 114 | 93 | 394 | 336 | 1,763 | 0 | 5,910 | 3,678 |
| Director Shank | 1,456 | 2,080 | 68 | 93 | 121 | 180 | 2,603 | 0 | 4,248 | 2,353 |
| Chancellor Young | 4,692 | 3,910 | 114 | 93 | 394 | 336 | 3,435 | 0 | 8,635 | 4,339 |
| Chancellor Peltason | 2,836 | 2,876 | 114 | 93 | 431 | 336 | 3,219 | 0 | 6,600 | 3,305 |
| **Total** | **$88,292** | **$76,656** | **$2,462** | **$2,046** | **$10,892** | **$9,004** | **$56,336** | **$0** | **$157,982** | **$87,706** |

## Vacation and Sick Leave and Other Leaves of Absence

UC employees are credited with vacation and sick leave. However, unlike most other UC employees, employees in the executive program are normally expected to work a minimum of 40 hours per week, and any work beyond 40 hours per week is not subject to additional compensation. These employees can accrue vacation leave up to a maximum of 48 days (384 hours) at a rate of two days per month, but once their vacation leave balances reach 384 hours, the employees cannot accrue any more hours until they use some of their balance. These employees must also schedule their vacation leave in advance and report it according to procedures. In addition, certain executive program employees earn supplemental vacation leave of 20 days after five years of consecutive service in the executive program. This type of leave must also be scheduled in advance and requires approval. If the leave is not used within an eligibility period, it is forfeited.

Further, executive program employees accrue sick leave at a rate of eight hours per month, to be used to cover illness, medical appointments, or serious illness or death of a family member or near relative. For retirement purposes, unused sick leave is converted to service credit. Eight hours of unused sick leave results in one day of service credit. Since service credit is a part of the retirement benefit formula, this additional service credit increases the employees' retirement income.

The executive program employees in our sample report their leave monthly. During our preliminary review of leave records, we found that Vice President Baker had not taken any sick leave from January 1989 through April 1992. Expecting that any individual would occasionally have appointments with physicians, we decided to review the leave records and engagement calendars for a sample of six individuals—President Gardner, Senior Vice Presidents Brady and Frazer, Vice President Baker, and Chancellors Young and Peltason. We obtained their leave records and engagement calendars from the secretaries who maintain them. We then reviewed the calendars for evidence that the individuals had either been on vacation or sick leave or that they had doctors' appointments during the regular work day, and we compared this information to their leave records.

For calendar years 1989, 1990, 1991, and 1992 through April, we found evidence in the individuals' engagement calendars that they had taken either sick or vacation leave that they did not report on their leave records. For example, we found evidence in President Gardner's calendars of 16 different occasions of absence that he did not charge against his sick or vacation leave. Specifically, although President Gardner reported taking only eight hours of sick leave during the entire three-year and four-month period, his calendars indicated that, on at least six additional occasions, he had doctors' appointments during the workday. Further, although his calendar indicates that he was absent at least five days in February 1991 for hours chargeable to sick leave, President Gardner did not charge that time against sick leave in accordance with policy. The total of the president's uncharged sick leave was a minimum of 46.5 hours.

Moreover, we noted that, although President Gardner reported taking 835 hours of vacation time during the three-year and four-month period, his calendars indicate that he was on vacation for at least an additional 28 hours. For example, generally President Gardner reports time he spends on two corporate boards as vacation. However, we found that, in December 1991, he did not charge 12 hours of vacation leave during which he was absent from the UC because of service on one of these boards. In addition, according to his calendar, he spent another 16 hours away from the UC in January 1992 because of service on the other corporate board. However, he did not charge his leave balance for this time. Even though President Gardner did not charge all his leaves of absence, he had plenty of hours available to charge against. At the end of April 1992, President Gardner had 832 hours of sick leave and 301 hours of vacation leave available to him.

For Senior Vice President Brady, we found evidence in his engagement calendars of 47 different occasions of absence that he did not charge against his sick or vacation leave. For example, although Senior Vice President Brady reported taking 31.5 hours of sick leave during our review period, we found evidence in his calendars that he did not charge against his sick leave at least 49 additional hours of absence due to illness or medical appointments.

In addition, although Senior Vice President Brady reported taking 292 hours of vacation during the period, we found that he did not charge 12 additional hours of vacation. At the end of April 1992, Senior Vice President Brady had 785.5 hours of sick leave and 384 hours of vacation (the maximum allowed) available to him.

For Senior Vice President Frazer, we found evidence in his engagement calendars of 29 different occasions of absence that he did not charge against his sick or vacation leave. For example, although Senior Vice President Frazer reported taking 85 hours of sick leave during our review period, we found evidence of at least 30.5 hours of absence due to illness or doctors' appointments that he did not charge against his sick leave. Further, although the senior vice president reported taking 402 hours of vacation during the period, we found evidence of at least 24 hours of vacation that he did not charge. As of the end of April 1992, Senior Vice President Frazer had 906 hours of sick leave and 354 hours of vacation available to him.

For Vice President Baker, we found evidence in his engagement calendars of 22 separate occasions of absence that he did not charge against his sick or vacation leave. For instance, although Vice President Baker did not report taking any sick leave during our review period, we found evidence of at least 15.5 hours of absence that he should have charged to sick leave. In addition, although Vice President Baker reported taking 920 hours of vacation during the period, we found evidence that he should have charged at least 64 additional hours against his vacation. At the end of April 1992, Vice President Baker had 1,780 hours of sick leave and 286 hours of vacation available to him.

Although Chancellor Young claimed 56.5 hours of sick leave during our review period, we found evidence in his engagement calendar that he was absent on four separate occasions because of doctors' appointments and that he did not charge these absences to his sick leave. The unreported sick leave totaled 4.5 hours. Meanwhile, during this period, Chancellor Young reported taking 413 hours of vacation. We found no indication that he underreported these vacation hours.

For Chancellor Peltason, we found evidence in his engagement calendars of 14 separate occasions of absence that he did not charge against his sick or vacation leave. Specifically, his calendars contained evidence of at least 11 hours of absence that he should have charged to sick leave and at least 6 hours of absence that he should have charged to vacation. Chancellor Peltason reported taking 30 hours of sick leave and 555 hours of vacation during our review period. As of the end of April 1992, the chancellor had 384 hours of vacation leave and 684 hours of sick leave available to him.

According to Associate Vice President West, the UC's current legal interpretation of wage and hour law requires that exempt employees should not be docked for absences of less than one day, regardless of leave balances. Otherwise, they are considered nonexempt employees and their exempt status is lost. If this status is lost, back payment of overtime wages could be required. Exempt employees are not eligible for compensation for hours worked in excess of 40 hours per week. According to Associate Vice President West, "recording of leave time for leaves of less than a day is not desirable and possibly would create a legal liability for back wages." He further stated that "recording of executive leave time is discretionary and each department determines when such recording is necessary as executive positions by their very nature and because of their exempt status require flexibility in such instances."

However, at the time of our review, the Executive Program Personnel Policies specifically stated that "sick leave is provided to continue the salary of an Executive Program member who is absent from work due to illness, disability, medical appointments, or serious illness or death of a family member or near relative." Moreover, the policy does not state that executive program members can waive the recording of leave time that is taken in less than one-day increments. Further, as stated earlier, at retirement, unused sick leave is converted to service credit, thereby increasing retirement benefit amounts and, thus, increasing UC costs. Moreover, we noted that, when they reported leave, the executives we reviewed reported it in less than one-day increments when applicable. Finally, not all of the unreported leave occurred in less than one-day increments. In fact, more than 140 of the unreported hours occurred in one-day or greater increments.

In addition to reviewing vacation and sick leave, we also reviewed other leaves of absence. The Regents' Standing Order 100.4(e) authorizes President Gardner to grant leaves of absence with or without pay, in accordance with such regulations as the president may establish. The Executive Program, Policy 16, specifies that, at the discretion of the chancellor, president, or regents, as appropriate, an executive may be granted administrative leave with full or part pay for a period not to exceed six months. Leaves of longer than six months require approval of the president or regents, as appropriate.

On March 20, 1992, the regents granted President Gardner a three-month paid leave of absence from October 1 through December 31, 1992, at his current base salary and regular benefits. December 31, 1992, is President Gardner's date of resignation. The leave will cost the UC at least $91,715, including salary, payroll benefits, additional contributions to severance, leased automobile expenses, housing allowances and expenses, and continued accrual of leave benefits. Such paid absences close to separating from the UC tend to be regarded as standard practice and seen as a form of severance pay.

# Chapter 2 Special Executive Compensation and Benefits

**Chapter Summary**

In addition to the regular salaries and benefits the University of California (UC) pays its executives, it also pays special compensation and benefits. We reviewed the housing-related assistance and compensation President Gardner and other executives in our sample have received, including their compensation for moving and relocation expenses. We also reviewed other benefits, including reimbursement for financial and tax planning assistance and contributions to various retirement and severance pay plans.

## President Gardner's Housing-Related Assistance and Compensation

When David Gardner became president in 1983, he was granted an exception from the policy that the UC president occupy university housing and was provided with a housing allowance to assist him in paying the costs of owning his home. In the original package of housing-related assistance he was to receive, the UC also agreed to buy his previous home in Utah, to provide him with a mortgage loan for his new home in California, and to pay him a cash stipend to cover his house operating expenses. However, we found several areas of concern.

For instance, during President Gardner's tenure, several elements of the original housing package changed, often resulting in additional benefits to the president and costs to the UC.

Specifically, one of the components of the original package that changed was the amount agreed upon to purchase President Gardner's Utah home. The final total cost to the UC to purchase the home was $292,232. The original agreement was for $289,172.

Moreover, the UC may have paid President Gardner more for the Utah home than the value of his equity in it. The UC provided him with a short-term interest-free loan of $150,000 in 1983, based on the estimated equity he held in his Utah home. This loan was considered repaid when the UC purchased this residence. However, the only appraisal report on the Utah home, made near the time of the purchase, indicates that President Gardner's equity in the house was closer to $135,000, or $15,000 less than the UC paid him.

Further, in reselling the Utah home, the UC incurred additional costs not agreed upon at the time of the original housing package. Specifically, the resale of the Utah home resulted in a loss to the UC of approximately $111,000, approximately 4 years and 8 months after it was purchased.

Furthermore, after the original housing-assistance package was agreed upon, President Gardner restructured his original mortgage loan in 1984, with the agreement of the chairman of the Committee on Finance—a committee of the Regents of the University of California (regents). While the restructuring did not change the cost to President Gardner of his loan, it did result in an overall increase in the housing allowance payments he could expect to receive from the UC. The amount of President Gardner's housing allowance changed from $1,560 a month to $2,085 a month after the restructuring. According to our analysis, the present value of President Gardner's expected housing allowance payment increased by approximately $61,800.

The allowance not only increased but the increase was made retroactive to the time of the original agreement. Thus, the UC has paid President Gardner an average of $25,020 per year as his housing allowance, for a total of $210,585 through December 31, 1991, since he began serving as the UC president.

Another change made to the original housing package increased the benefit to the president and the cost to the UC. In 1989, the UC changed the period during which President Gardner would receive the housing allowance (from his term as president to the period during which the mortgage loan remained outstanding). This decision ensured that a decision on President Gardner's part to resign or retire early would not discontinue his receipt of the allowance. Given that President Gardner now intends to resign at age 60 rather than at age 65, when his loan is due to be paid off, the benefit to him of the 1989 decision is equal to the present value of five additional years of housing allowance payments, or a total of $107,568. On August 14, 1992, President Gardner stated that he intends that his housing allowance payments from the UC will cease when he resigns on December 31, 1992. However, if his intentions change, the UC will still be obligated to make these payments.

We also determined that the support given to President Gardner during his tenure for house operating expenses, a separate compensation from the housing allowance, has averaged $39,600 per year, for a total of $333,463 through December 31, 1991.

### Other Executives' Home Loans

The UC offers mortgage home loans to eligible faculty and members of the University Executive Program through the UC Mortgage Origination Program. We found that 9 of the 22 executives in our review had received mortgage loans through this program. These loans averaged approximately $313,000 and ranged from $185,000 to $497,500. Eight of the loans were outstanding at the time of our review while one was paid off in 1991. Additionally, one of the 9 executives, Chancellor Young had a second home loan, amounting to $497,500, through the UCLA Foundation's Shared Appreciation Mortgage Loan Program. Meanwhile another of the 9 executives, Director Shank had a second home loan amounting to $50,000, through the UC Short-Term Home Loan Program; he paid this loan off in 1991. The details of these other executives' home loans can be found in Appendix C.

## University-Provided Housing and Housing Allowances for Other Executives

We found that four executives in the scope of our review, in addition to President Gardner, received housing allowances. Current UC policy provides that two of the executives, Senior Vice Presidents Brady and Frazer, receive housing allowances in lieu of university-provided houses because such houses are not available. Further, although current UC policy requires campus chancellors to reside in university-provided housing, the regents may grant exceptions to this policy. Chancellors Young and Peltason received such exemptions from policy and now receive cash housing allowances in lieu of university-provided houses.

At present, the four executives each receive a housing allowance of approximately $3,476 per month, or $41,710 per year. This amount is derived using a UC housing allowance model with certain assumed housing costs and factors. Although the UC does not intend that housing allowances reflect actual housing costs, we tested to see whether the amount of the housing allowance the UC pays these executives approximates the cost of their housing. Based on this test, we conclude that the amount of housing allowance the executives receive does not approximate the recipients' actual housing costs. For example, although both executives receive the same housing allowance, Senior Vice President Brady's actual annual housing costs are approximately $22,650 less than the housing allowance he receives. In contrast, Chancellor Young's actual costs are approximately $19,100 more than the allowance he receives. However, Chancellor Young's home cost significantly more than Senior Vice President Brady's.

## Moving Expenses

The UC paid moving expenses for 5 of the 22 executives in our review. These moving expenses averaged approximately $14,800 for each of the 5 executives and ranged from $9,089 to $19,810. For the five cases in total, about 50 percent of the expenditures was for items not reimbursable under the UC policy in effect at the time without specific approval of an exception. In addition, moving expenses for Assistant Vice President Crawford were not approved by President Gardner as they should have been. However, the current policy has been expanded to include coverage of all moving expenses for new appointees. Therefore, not all exceptions under the old policy would be exceptions today.

Finally, we found that the UC inconsistently reported moving expense payments or reimbursements as taxable gross income to the executives. Specifically, in one instance, the UC failed to include $5,841 of moving expense payments or reimbursements in Assistant Vice President Crawford's gross income. In another instance, because of an accounting error, the UC did not include $1,939 of moving expenses paid on behalf of Director Shank in his gross income.

### Relocation Incentives

We reviewed the payroll records of the 22 executives in our review to determine which of the executives received relocation incentives in the form of temporary salary supplements. Three of the 22 executives received such incentive payments during President Gardner's tenure. In two of the three cases, the relocation incentive was granted and paid during his tenure. One of the two executives, Assistant Vice President Swartz, received $758, and the other, Assistant Vice President Crawford, received $30,059.

We found that the regents did not approve Assistant Vice President Crawford's relocation incentive even though UC policy required the regents' approval. Instead, President Gardner and Senior Vice President Brady approved payment of the incentive. Moreover, although the regents approved the relocation incentive paid to Assistant Vice President Swartz, she did not change her place of residence by more than 50 miles from her former workplace, contrary to the UC's policy.

### Financial and Tax Planning

Another benefit the UC provides to selected executives is reimbursement for financial and tax planning up to $5,000 per calendar year. We found that, in calendar year 1991, the UC paid for financial and tax planning services for 9 of the 22 executives in our sample. The costs of these services ranged from a low of $275 for General Counsel Holst to a high of $4,275 for Director Shank.

### Special Retirement Programs

We determined that, in addition to regular contributions to the University of California Retirement System, the UC has provided a number of special retirement programs to the executives in our sample. The UC no longer makes contributions to some of these programs because of the Tax Reform Act of 1986. However, the contributions to the plans and the earnings on them are still available to the individuals when they retire.

During our review, we found several areas of concern. For the Regents' Special Retirement Contribution program, which is no longer active, the UC changed the contribution rate from 3 percent of certain executives' salaries to 3 percent of their salaries plus housing value. The UC could not provide us with evidence that the regents approved this practice.

In addition, in reaction to the Tax Reform Act of 1986, the UC created agreements for Nonqualified Deferred Income Plans (NDIPs). However, the regents recently approved changing the vesting dates on five of the agreements with President Gardner. Thus, when President Gardner resigns on December 31, 1992, the UC will pay him an estimated $492,607 in settlement of his NDIP agreements instead of the $60,850 it would otherwise have been obligated to pay.

Moreover, the regents also approved changing the vesting dates on two other agreements President Gardner had for another retirement program. Through this program, he could receive at least $327,478. If the regents had not opted to change the dates on these agreements, the UC would not be obligated to provide benefits under them.

Although the regents had approved all the NDIPs, we found that the items they approved for them were not always specific as to the amounts that would actually be paid. Consequently, we could not conclude that the regents knew the full extent of what they were approving or whether the UC staff correctly interpreted the regents' intent when they implemented the NDIP programs. Moreover, staff's differing interpretations of the regents' intent could result in significant differences in the amounts the regents have actually committed. These differences could amount to a total of $83,700 based on the NDIP balances as of July 1, 1992.

### Executive Program Severance Pay Plan

In March 1990, the regents approved the Executive Program Severance Pay Plan. Under this plan, the UC has made contributions to the plan of 5 percent of salaries for each of the executives in our sample. In addition, the UC has made an additional 5 percent contribution to the Executive Program Severance Pay Plans of Chancellors Young and Peltason as a result of their spouses being appointed associates of the UC. Further, the UC contributed an additional 5 percent of President Gardner's Salary from November 1987 until February 1991 to his plan as a result of his spouse being appointed associate of the UC. As of May 31, 1991, balances in the Executive Program Severance Pay Plans for the 22 executives in our sample ranged from a low of $11,059 for Secretary Smotony to a high of $67,612 for President Gardner.

## President Gardner's Housing-Related Assistance and Compensation

When David Gardner became president of the UC in 1983, the policy of the regents was to require the president, for the convenience of the university and as a condition of employment, to occupy university-provided housing. The reason for this policy was that the president's house was considered primarily an official residence used routinely and extensively for university meetings and conferences and for official entertainment of students, faculty, and members of the university's public. Such uses of the president's house were deemed to be an integral part of the university's mission. The UC regents provided that any exceptions to the policy would be granted only for good cause and upon specific approval of the regents.

In March 1983, the regents agreed to allow an exception to this policy for President Gardner if he found university-owned housing did not meet his family's needs. In fact, President Gardner stated that the university residence, known as the Blake House, was not suited to his family's needs, principally for reasons of privacy and security. Thus, President Gardner conditioned his acceptance of the UC presidency in 1983 on the regents' agreement to an alternative housing arrangement. In brief, the alternative arrangement stipulated that the regents would make a mortgage loan toward the purchase of a private home for President Gardner's personal use. The president stated that he would use the Blake House, near the UC Berkeley campus, for official entertaining. The regents, therefore, agreed to let President Gardner live in a private home in Orinda rather than in the Blake House already available to him and his family. We reviewed President Gardner's engagement calendar for the years 1989, 1990, and 1991, and the first six months of 1992 and found no indication that he used his private home for any official university functions during that time.

In addition, the regents' arrangement with President Gardner stipulated that he should suffer no financial disadvantage in the move from his Utah home to California. Thus, the UC provided a housing package to President Gardner. This original housing package consisted of four principal components:

1. The regents agreed to purchase President Gardner's Utah home from him at a price equal to the outstanding balance

due on his loan from the University of Utah plus $150,000. The $150,000 was estimated to be President Gardner's equity in the Utah home. Before the UC's purchase of the Utah home, the regents advanced this $150,000 loan to President Gardner, interest free, as part of a secured note that allowed him to purchase his Orinda home. President Gardner further agreed to put down $100,000 of his own funds towards the purchase of the Orinda home.

2. The regents lent President Gardner an additional $297,159, at an interest rate of 6.11 percent, towards the purchase price of the Orinda home. This interest rate was equal to the rate he enjoyed on his loan with the University of Utah. The note on the new loan was payable over 25 years.

3. The regents agreed to pay President Gardner an annual cash housing allowance equal to 6.3 percent of the original principal balance of his mortgage loan from the UC during his term as president. At the University of Utah, President Gardner also received a housing allowance equal to 6.3 percent of his loan there that covered the interest payments and a small portion of the principal due on that loan.

4. As was the case at the University of Utah, the regents agreed to pay President Gardner a cash stipend to cover his house operating expenses. The Regents' Committee on Finance stated in 1983 that this stipend would constitute taxable income to President Gardner. In 1984, Senior Vice President Brady and the chairman of the committee interpreted the committee's decision to mean that actual expenses should be adjusted upward by a predetermined factor to cover the income taxes due.

However, since this 1983 agreement, several aspects of the housing package have changed, resulting in more costs to the UC than originally expected.

### President Gardner's Utah Home

One of the components of the original housing package that changed was the amount agreed upon to purchase President Gardner's Utah home. In November 1983, the UC regents agreed to purchase President Gardner's Utah residence from him for $289,172. This amount consisted of $139,172 in cash, which was believed to be the balance due on President Gardner's loan on the property from the University of Utah and the cancellation of the $150,000 interest-free loan mentioned above. Four days after the regents approved the purchase of the property, they learned that the balance due on the University of Utah loan was actually $141,510. On November 28, 1983, the UC finally paid off the loan for $142,232, which equaled the balance due plus accrued interest. Thus, the total cost to the UC to purchase President Gardner's Utah home in 1983 was $292,232. The original agreement was for $289,172.

Moreover, the UC may have paid President Gardner more for the Utah home than the value of his equity in it. Although the UC's files contained no formal appraisal specifically related to the purchase of the home, the files did contain an appraisal report prepared for First Security Bank of Utah, dated October 26, 1983, that showed the home to have a market value of approximately $277,000. If this appraisal of the home's market value was accurate, President Gardner's equity in the property was approximately $135,000, or $15,000 less than the $150,000 the UC paid to him. The UC's current policy covering the purchase of an executive's former house requires that the UC obtain a minimum of three appraisals by separate, qualified appraisers.

Further, in reselling the Utah home, the UC incurred additional costs not agreed upon at the time of the original housing package. Specifically, subsequent events connected with the UC's resale of the Utah house effectively increased the cost to the UC of having owned the property. The following section lists these events and related information:

- In December 1983, the UC listed the home for sale with a Utah real estate firm; in March 1984, the UC renewed the listing at a price of $319,000.

- In June 1984, the UC decided not to extend its listing agreement with this firm. In August 1984, it relisted the property with a different firm. This second listing resulted in an offer that same month to purchase the home for $305,000, including a trust deed note in favor of the UC for $260,000 and a cash down payment of $45,000. The offer was about $14,000 lower than originally anticipated.

- The UC received a financial statement from the prospective buyers in September 1984. The financial statement showed that the buyer had a net worth of $43,600 and a total annual income of $56,608. Additionally, the buyer stated that he had been in his present position for only about seven months and that he had seven dependents. Thus, the buyer's cash payment on the house represented more than his total net worth, and the total interest payment due in the first year (9 percent of $260,000, or $23,400) represented 41.3 percent of his gross income. Home mortgage lenders today typically want borrowers to meet a mortgage payment to gross income ratio of no more than 28 percent and a total debt to gross income ratio of 36 percent.

- According to the UC's contract with the buyer of the Utah home, the interest rate on the note was to increase to 9.5 percent in the second year, to 10 percent in the third year, to 10.5 percent in the fourth year, and to 11 percent in the fifth year. During each of these years, the buyer was to pay interest only. Beginning in the sixth year, monthly payments of $2,476 were to be made based on a 30-year, 11 percent, amortization of the principal balance of $260,000; the balance of approximately $240,000 in unpaid principal was to be due in full in the fifteenth year.

- The regents' treasurer's office accepted the offer to purchase the Utah home on September 7, 1984, presumably after reviewing the buyer's financial statement.

- The sale of the home closed on September 7, 1984. The UC realized net cash proceeds on the sale, after commissions and other selling expenses, of $21,256.

- In September 1987, Assistant Treasurer DeWeese learned that the buyer of the home had listed it with a realtor to sell for $289,000. However, although the home was listed at $289,000, it had been appraised at $240,000 and, the realtor believed, would probably sell for $235,000. According to the realtor, such a sale would result in the original buyers of the home having approximately $220,000 left to pay towards their $260,000 note with the UC.

- In October 1987, Assistant Treasurer DeWeese agreed to consider taking less than the outstanding balance on the loan but asked that any sale of the home for less than the outstanding balance be subject to the UC's approval.

- In November 1987, the realtor informed the UC that the home would probably sell for $195,000 to $210,000.

- In January 1988, the UC learned of an agreement to sell the home to a buyer for $200,000, which would result in a payoff of approximately $190,000 on the $260,000 note receivable.

- However, the offer did not result in a sale. In June 1988, the UC considered two other offers, finally accepting a cash offer of $175,000. The payoff to the UC on its $260,000 note was to be $159,827. The UC received a check for $159,790 as its payoff in July 1988 and instructed its accounting department to deposit the proceeds in the Searles Fund. The Searles Fund is an endowment, the earnings of which can be used to pay for UC expenses that cannot be paid for with state funds. Senior Vice President Brady approved the settlement of the outstanding contract for less than its full amount.

Based on the above information, the purchase and resale of President Gardner's Utah home resulted in the following cash expenditures and receipts:

| | | |
|---|---|---|
| Original Purchase from President Gardner | | $ 292,232 |
| Less: Sale of Home to First Buyer | $ 21,256 | |
| Resale and Settlement of Debt | $159,790 | (181,046) |
| UC Loss on Purchase and Resale of Residence | | $ 111,186 |

Thus, apart from the interest income the UC received on its note, the transaction resulted in a loss to the UC of $111,186.

### The UC's Mortgage Loan to President Gardner

The UC originally provided President Gardner with a mortgage loan for $447,159 (consisting of the $150,000 interest-free loan and $297,159 at 6.11 percent interest) on July 29, 1983, to purchase his Orinda home. The note was secured by a deed of trust on the home. The statement to President Gardner from the title company showed that $382,159 of the loan amount was paid to the title company towards the purchase price of the house and transaction closing costs. As agreed, the remaining $65,000 was paid directly to President Gardner for improvements to be made to the Orinda residence.

As stated earlier, the loan total included $150,000 interest free, to be paid off when the UC purchased President Gardner's Utah home. The UC cancelled this portion of the loan when it purchased the home in November 1983. Thus, at that time, President Gardner had a remaining principal balance on his mortgage loan with the UC of $297,159. As agreed, the interest rate on the remaining loan amount was 6.11 percent, with interest and principal payable according to a 25-year amortization schedule.

According to a letter from the chairman of the regents' Committee on Finance to Senior Vice President Brady, the chairman approved a change in the structure of President Gardner's loan in July 1984 following consultation with President Gardner, the chairman of the regents, and the chairman of the regents' Subcommittee on Officers' Salaries and Administrative Funds. At that time, the UC decided to treat a $100,000 deposit that President Gardner had made towards the purchase of his Orinda home as a prepayment against the mortgage loan principal rather than as a down payment on the purchase price of the house. Thus, for the purposes of amortizing the repayment of the loan, the loan principal balance was increased from $297,159 to $397,159.

The restructuring of President Gardner's loan had several simultaneous effects. Specifically, the larger principal balance increased the president's monthly mortgage payments by $651, from $1,935 to $2,586, yet as a result of the $100,000 prepayment credited toward the principal, the term to pay off the loan decreased from 300 months to 174 months, or 14.5 years from the original 25 years. Thus, the present value of the mortgage payments under the restructured loan was exactly the same as it had been originally. In addition, the restructuring increased the amount of the housing allowance payments he received because those payments were calculated as 6.3 percent of the principal amount of his mortgage loan. (Details of this change in the housing allowance stipend are discussed in the next section of this chapter.)

### President Gardner's Housing Allowance

As discussed in the previous section, after the original housing package was agreed upon, President Gardner restructured his original mortgage loan with the agreement of the chairman of the regents' Committee on Finance. While the restructuring did not ultimately change the cost to the president of his mortgage loan, it did result in an overall increase in the housing allowance payments he could receive from the UC.

Specifically, as agreed by the regents in 1983, the UC paid President Gardner a housing allowance in the amount of 6.3 percent per year of the original principal amount of his loan ($297,159) from the UC. Thus, from August 1983 until June 1984, the UC paid President Gardner a housing allowance of $1,560 per month, based on an annual amount equal to 6.3 percent of $297,159. The regents intended the housing allowance to be part of a total arrangement that replicated, as nearly as possible, the housing arrangement President Gardner had with the regents of the University of Utah. As stated earlier, at Utah, the 6.3 percent annual figure covered the interest payments and a small part of the principal owing under the loan. Under the UC arrangement, President Gardner was to pay the balance of the mortgage payments, approximately $4,500 per year on a principal amount of $297,159, from his own resources.

In July 1984, when the loan was restructured, the housing allowance increased by $525 a month to a total of $2,085 per month. The new allowance was based on an annual amount equal to 6.3 percent of $397,159, which was the new loan principal balance. However, the restructuring did not result in a decrease in the period over which the allowances would be paid. According to our analysis, the present value of the total increase in President Gardner's expected housing allowance payments ($525 a month for 15 years assuming President Gardner remained as president until he was 65) at the time of the restructuring was approximately $61,800. The larger housing allowance was made retroactive to August 1, 1983. Thus, the UC has paid President Gardner an average of $2,085 per month (or $25,020 per year) as his housing allowance since he began serving as president of the UC.

Another change was made to the original housing package that increased the benefits to President Gardner and the costs to the UC. Originally, the UC was to provide the housing allowance to President Gardner only during his term as president. In 1989, however, the UC changed the period during which it would pay the allowance to the period that his loan with the UC remained outstanding. As noted above, through the loan restructuring, the loan term changed from 25 years to 174 months or 14.5 years, and so President Gardner is currently due to pay off his loan in February 1998 when he is approximately 65 years old. Thus, this 1989 change of the period over which the UC would pay President Gardner the housing allowance created a potential benefit to him if he should choose to resign or retire before he reached the age of 65. Under the original housing allowance arrangement, an early separation from the UC would have resulted in the termination of the housing allowance; under the new arrangement, the allowance will continue to age 65 even if President Gardner leaves the UC early. Since President Gardner has now decided to resign at approximately age 60, we may quantify the benefit to him of the 1989 change. Under his agreement with the UC, President Gardner will receive approximately 60 additional housing allowance payments of $2,085 each. Discounting these additional payments at the interest rate he pays on his loan, the present value of the 1989 change was $107,568. This amount represents the benefit to President Gardner and the cost to the UC of the 1989 change in the housing allowance arrangement between them. Although on August 14, 1992, President Gardner stated that he intends that his housing allowance payments will cease when he separates from the UC on December 31, 1992, the UC is still obligated to make the payments should President Gardner change his intentions.

## Reimbursement for President Gardner's Housing Expenses

President Gardner's original housing assistance package also included reimbursement of expenses he incurred at his Orinda home. As with the housing allowance paid to President Gardner, the UC's reimbursement of housing expenses was meant to replicate a similar arrangement at the University of Utah. The operating expenses to be covered were utilities, cleaning, maintenance and repair of buildings and grounds, and insurance, excluding contents insurance. The specific operating expense items the UC has reimbursed to President Gardner have included utilities (gas, electric, telephone, water, garbage, television, and security); home improvements, such as the purchase of louvers; house cleaning; gardening; landscaping; pool maintenance; association dues; tree shaping; and miscellaneous other items.

The UC has paid President Gardner an agreed-upon fixed amount every month towards his housing expenses. Then, semiannually, the UC has made adjustments to the total paid to President Gardner over the preceding six-months. Adjustments are made by determining the total of the expenses actually incurred over the period, adjusting that total by a factor for income taxes, and reconciling the resulting amount to the payments already made to President Gardner. As stated earlier, the factor for income taxes is intended to offset the income tax President Gardner would have to pay for the UC's reimbursement to him of housing expenses. Initially, the factor for taxes was two (meaning that President Gardner was paid two times the actual amount of his housing expenses). Because of changes in the tax law, the factor was changed in 1988 to 1.594. The factor was changed again in 1990 to 1.597. The agreed-upon monthly payments have also been periodically adjusted to reflect changes in the levels of President Gardner's actual housing expenses.

Beginning in fiscal year 1987-88, the UC's payment of President Gardner's housing expenses have included reimbursement of property taxes on the Orinda house. The original housing assistance package granted to President Gardner stated that he would be responsible for these property taxes. However, in 1987, Senior Vice President Brady told the chairman of the Committee on Finance that it had been an oversight not to include property taxes in the original recommendation. Consequently, in June 1987, the chairman of the committee, in consultation with the chairman of the regents and the chairman of the Subcommittee on Officers' Salaries and Administrative Funds, authorized the payment of President Gardner's property taxes. The authorization to pay the property taxes was to be effective January 1, 1988. However, the UC erroneously paid the property taxes for July through December 1987, as well. The approximate amount of this overpayment was $2,926. The UC has stated that it intends to correct the error by deducting the overpayment from President Gardner's 1992 housing support reimbursement. The UC appropriately did not adjust President Gardner's property taxes upward by the income tax factor it applied to the payments for other housing expenses.

The tax-adjusted housing expenses (including the unadjusted property taxes since fiscal year 1987-88) the UC has reimbursed to President Gardner totaled $333,463 for August 1, 1983, through December 31, 1991. This represents a monthly average payment of approximately $3,300 and an annual average payment of $39,600. The highest amount paid for a full calendar year was $52,688 in 1985; the lowest amount was $33,875 in 1988.

## Other Executives' Home Loans

The UC offers mortgage home loans to eligible faculty and executive program members through the UC Mortgage Origination Program. To determine which of the 22 executives within the scope of our audit had mortgage loans with the UC, we interviewed the director of the Office of Real Estate Management and Loan Programs in the Office of the President. According to the director, 9 of the 22 executives within our scope have received mortgage loans through the program. These loans averaged approximately $313,000 and ranged from $185,000 to $497,500. In addition, as we discussed earlier, President Gardner has a mortgage loan from the UC, but his loan was not made under the program. (See Page 36 for a discussion of the details of President Gardner's mortgage loan.)

In addition to his Mortgage Origination Program loan, Chancellor Young had a second home loan amounting to $497,500 through the UCLA Foundation's Shared Appreciation Mortgage Loan Program. Finally, Director Shank had a second home loan amounting to $50,000 through the UC Short-Term Home Loan Program; he paid off this loan in 1991. Appendix C describes the details of these executives' home loans.

## University-Provided Housing and Housing Allowances for Other Executives

In 1974, the UC regents affirmed a policy of providing housing to the president and the vice president of the UC as well as to the chancellors of the campuses. The policy required these individuals to occupy the university-provided housing as a condition of employment for the convenience of the UC. The UC instituted the policy because it believed that the houses of these individuals were primarily official residences that are used routinely and extensively for UC meetings and conferences and for official entertainment of students, faculty, and members of the UC's public. Such uses of these residences were deemed to be an integral part of the UC's mission.

The regents updated the policy on university-provided housing in 1984, specifying the purposes that exceptions to the general policy should serve. Specifically, the 1984 policy stated that the regents' approval of an exception should serve the following purposes:

- To ensure that the alternative arrangement will enable the officer to perform properly the duties of the position during and after normal working hours;
- To match, for recruitment or retention purposes, an existing or proposed housing arrangement at another institution; and
- To provide reasonable housing assistance, as circumstance or need requires.

In 1991, the policy was again amended to provide senior vice presidents with housing allowances in lieu of university residences since such residences were not available. The 1991 policy retained the same stated purposes for granting exceptions.

The sample of UC executives in our review included five individuals who are subject to the UC's policies on university-provided housing. These individuals are as follows:

- President Gardner,
- Senior Vice President Brady,
- Senior Vice President Frazer,
- Chancellor Young, and
- Chancellor Peltason.

The regents granted President Gardner an exception to the UC policy at the time he was hired in 1983, creating a unique housing assistance package for him. (See pages 31 and 32 of this chapter for a description of President Gardner's housing assistance package.) In addition, at the time of our review, Senior Vice Presidents Brady and Frazer each received a housing allowance in lieu of a university-provided house, as specified in the UC's policy. Finally, both Chancellors Young and Peltason also received housing allowances in lieu of university-provided houses, having been granted exemptions from the policy by the regents. Thus, none of the five individuals we reviewed lived in a university-provided house at the time of our review.

Although all five of the executives received a cash housing allowance at the time of our review, three of them lived in university residences for some period before receiving exemptions from the UC's general policy. These three were Senior Vice President Frazer, Chancellor Young, and Chancellor Peltason. When these executives lived in university residences, they received a noncash credit (called a housing perquisite) for the imputed value of the accommodations provided.

The UC determines the amount of both the cash housing allowance and the noncash housing perquisite through the use of a housing allowance model. The model incorporates certain assumed costs and factors related to owning and maintaining a house. These include the cost of a mortgage loan, property taxes, insurance, utilities and maintenance, and an adjustment for appreciation in the value of the house. Further, the UC model currently includes a maximum home purchase price of $444,000 and home size of 3,000 square feet, an assumed 20 percent down payment, and an assumed mortgage loan rate of 10 percent. From 1984 to 1987, the UC model set the amount of a housing allowance or perquisite at $37,040 per year. In 1987, at President Gardner's request, the UC revised the assumed factors and costs used in the model and recomputed the amount of the housing allowance resulting in an increase to $39,480 per year. Finally, in 1990, President Gardner, the chairman of the regents, and the chairman of the Subcommittee on Officers' Salaries and Administrative Funds consulted with the chairman of the Committee on Finance and decided to again adjust the assumptions in the model. Since January 1, 1991, the amount of the housing allowance has been increased to $41,710 per year.

### Data on Housing Perquisites and Allowances for Specific Executives

In the following sections, we discuss the specifics of university-provided housing and housing allowances for those executives in our review, other than the president, who are subject to the UC's housing policies.

**Senior Vice President Brady:** The UC has paid Senior Vice President Brady a cash housing allowance since 1982. Thus, before David Gardner became the president of the UC, the UC had granted Senior Vice President Brady an exception to its policy requiring senior vice presidents to live in university-provided housing. We reviewed the housing allowance amounts Senior Vice President Brady received during fiscal year 1990-91 and the first ten months of fiscal year 1991-92. We found that he received the set amounts for the cash housing allowance during this period, as described above.

**Senior Vice President Frazer:** When the UC appointed Senior Vice President Frazer in 1983, President Gardner recommended that he receive suitable housing. Specifically, Senior Vice President Frazer was to live at Morgan House, a university-owned residence in Berkeley. In May 1991, the regents approved a recommendation that an exception be granted to the policy on university-provided housing to allow an alternative housing arrangement for Senior Vice President Frazer. Senior Vice President Frazer made the recommendation on behalf of the president because Senior Vice President Frazer had recently purchased a private residence in Berkeley in anticipation of returning to teaching in the fall of 1992. As a teacher, he would not be entitled to live in Morgan House. Senior Vice President Frazer moved into his private residence in Berkeley in the fall of 1991. We reviewed the housing perquisites and allowance amounts Senior Vice President Frazer received during fiscal year 1990-91 and the first ten months of fiscal year 1991-92. We found that he received the credit for the non-cash housing perquisite at the set amounts described above until August 1991. Further, he received the set amount of the cash housing allowance from September 1991 until April 1992, the most current month we reviewed.

**Chancellor Young:** Charles Young has been the chancellor at UC Los Angeles (UCLA) since 1968. Until 1991, he lived in the University House on the Los Angeles campus. However, in March 1991, President Gardner recommended that an exception be granted to the policy on university-provided housing to allow an alternative housing arrangement for Chancellor Young. President Gardner made this recommendation because of the age and poor condition of the UCLA University House. In March 1991, the regents approved the recommended exception to policy. Chancellor Young purchased a new home in Thousand Oaks, California, in July 1991, and, beginning in August 1991, he began receiving a monthly cash housing allowance in lieu of the university-provided house. We reviewed Chancellor Young's payroll records for fiscal year 1990-91 and for the first ten months of fiscal year 1991-92. We found that he received the credit for the non-cash housing perquisite at the set amounts until July 1991. Further, he received the set amount of the cash housing allowance from August 1991 until April 1992, again, the most current month we reviewed.

**Chancellor Peltason:** The UC regents appointed Jack Peltason as chancellor of UC Irvine in 1984. At that time, the regents approved a recommendation that President Gardner be allowed to grant Chancellor Peltason an exception to the UC policy requiring chancellors to live in university-provided housing if Chancellor Peltason determined that available university-owned housing was not suitable. Chancellor Peltason lived at the UC Irvine University House during his first year as chancellor. However, in September 1985, he purchased a private residence in Irvine and began receiving a chancellor's housing allowance in lieu of the university-provided house. Chancellor Peltason has continued to receive a chancellor's housing allowance since that time. We reviewed the housing allowance Chancellor Peltason received during fiscal year 1990-91 and the first ten months of fiscal year 1991-92. We found that he received the set amounts for the cash housing allowance during this period.

## Reasons for Executive Housing Allowances

The UC's policy on university-provided housing states that exceptions to the requirement that certain executives live in university residences may only be granted for good cause. When exceptions are granted, the terms and conditions of the subsequent arrangement should accomplish three purposes. In brief, these purposes are as follows: to ensure that the alternative arrangement will enable the executive to perform the duties of the executive position both during and after normal working hours; to provide, as required for recruitment and retention, a housing arrangement competitive with an existing or proposed situation at another institution; and to provide a reasonable level of housing assistance, as circumstance or need dictates. As we mentioned, excluding President Gardner, four of the executives in our review received a cash housing allowance based on the UC housing allowance model as the alternative to a university-provided house.

However, in the cases of the senior vice presidents, the cash housing allowance appears not to serve the first of the purposes stated in the UC policy. The UC stated in 1991 that the need for the senior vice presidents to have an official residence for entertaining and university-related business has diminished over time. In addition, we reviewed the engagement calendars of Senior Vice Presidents Brady and Frazer for the years 1989 through 1991. The calendars showed no occasions on which either executive hosted university functions at their private residences although Senior Vice President Frazer hosted such functions at his former university-provided house. Thus, at least in these two cases, the cash housing allowance appears not to serve the purpose of enabling the executives to perform their duties both during and after working hours.

Similarly, for each of the four executives, the cash housing allowance appears not to serve the second stated purpose of providing a competitive housing situation. The amount of the allowance that each executive receives is derived from the UC's housing allowance model and is the same for all four executives. The amount they receive, therefore, does not appear to be related to any housing allowance amount received or proposed at other institutions. In addition, we found no evidence that any existing or proposed situations at other institutions served as the basis for these housing allowances.

The third stated purpose for paying a cash housing allowance (that is, to provide reasonable housing assistance) appears to be the most relevant one for these executives. However, we found that the amount of the housing allowance that these executives receive is unrelated to the actual cost of maintaining their homes. Moreover, the UC does not intend for the housing allowances to be based on actual costs.

We reviewed the actual costs and factors relating to the current housing arrangements for each of the four executives in our review to determine if the housing allowance they receive approximates the real cost of their housing. However, we found that even though the executives received the same housing allowance, the four executives had housing arrangements that were very different from each other. For example, while the purchase price of Senior Vice

President Brady's home was $230,000, Chancellor Young's home cost $1.17 million. Further, three of the four executives paid an initial mortgage interest rate lower than the rate assumed in the UC housing allowance model.

To test whether the amount of housing allowance these executives received approximates the cost of their housing, we used the UC model and real, rather than assumed, home purchase prices, home sizes, and annual mortgage payments to estimate the actual housing costs that two of the executives incur annually.

Based on our test, we found that Senior Vice President Brady's actual annual housing costs, as derived using the UC model with real data, are approximately $22,650 less than the housing allowance he receives. In contrast, Chancellor Young's annual housing costs, derived using the UC model with real data, are approximately $19,100 more than the housing allowance he receives. (However, Chancellor Young's home cost significantly more than Senior Vice President Brady's.) Thus, we conclude that the housing allowance does not approximate recipients' actual housing costs.

## Moving Expenses

We found that the UC paid for or reimbursed moving and relocation expenses for five of the executives in our scope. For the five cases in total, an average of 50.2 percent of the expenditures was for items not reimbursable under the UC policy in effect at the time without specific approval for an exception. The expenses in all but one instance were properly approved as exceptions. Payment of moving expenses for one executive was not approved by President Gardner as it should have been.

The current policy, in place since January 1989, states that the UC will pay for an executive's moving expenses under certain circumstances. For example, the UC will pay moving expenses when the individual is newly hired and lives outside a reasonable commuting distance from the workplace. In addition, the UC will pay moving expenses when an executive is transferred or promoted to a position at a new location that is not within a reasonable commuting distance of the old location.

The current policy also states that the UC may pay or reimburse certain moving expenses, including (but not limited to) the following items:

- Transporting household goods and personal effects;
- Moving the executive and members of the executive's household to the new residence (including coach airfare, meals, and lodging en route from the old to the new residence);
- Driving or shipping the executive's automobile(s) to the new residence;
- Packing, unpacking, and installing household goods;
- Storing and insuring household goods for 30 days after their removal from the old residence; and
- House hunting costs at the new work location, including travel, meals and lodging during such travel, and temporary lodging up to a maximum of 30 consecutive days after approval of employment.

In addition, the UC policy states that the president may authorize the UC's purchase of an executive's former residence when it is in the UC's best interests. Finally, chancellors and laboratory directors are responsible for approving the use of funds for moving expenses for executives under their direction. At the Office of the President, the president himself is considered to be the chancellor. In 1988, President Gardner delegated this authority to Senior Vice President Brady.

The policy preceding the current one was less inclusive. Specifically, the preceding policy stated that the only reimbursable moving expenses were for the following: actual and necessary expenses for packing, insuring, transporting, storing (for a limited number of days), and unpacking and installing household goods; and actual travel and meal expenses for the executive and the executive's family while en route, not to exceed the cost of coach airfare and the UC's allowance for individual meals. Additionally, the policy stated that the UC would pay such expenses for existing UC executives who are required to relocate or who accept a position at a higher level at a site outside a reasonable commuting distance of the old location. Further, the policy stated that the UC may pay such expenses for existing UC executives who accept a new position at the same or a lower level at a new location. Finally, the policy stated that the UC may pay only one half of these expenses for new executive program members who relocate from a distance. The old policy also granted authority to the chancellors for approving the use of funds for moving expenses and for making exceptions to the payment of one half of expenses for new appointees.

We reviewed personnel, payroll, and accounting records at the UC to determine the extent to which the UC had paid for moving expenses for the executives within the scope of our audit. We limited the review to President Gardner and to those executives who had been appointed during President Gardner's tenure. Eight of the executives within our scope were appointed after President Gardner began his tenure. However, the UC promoted three of these eight either from positions within the offices of the regents or from the UC Berkeley campus, both of which are located in the Bay Area, and so it was not necessary for the executives to relocate. Additionally, one executive within our scope who was hired from outside the UC already lived in the Bay Area and, therefore, did not have to relocate to assume her position. The remaining four executives in our scope whom the UC appointed during President Gardner's tenure relocated from homes that were not within a reasonable commuting distance of their new work locations. The UC reimbursed some moving expenses for these executives as well as for President Gardner after his appointment as the UC President in 1983. These four executives (listed with their old places of residence) are as follows:

- Chancellor Peltason (Washington, DC);
- Assistant Vice President Crawford (La Jolla, CA);
- Vice President Farrell (Reston, VA); and
- Director Shank (Holmdel, NJ).

We reviewed available UC records to determine the total amount of moving expenses the UC paid for these five executives, including President Gardner. In the cases of President Gardner and Chancellor Peltason, whose appointments occurred in 1983 and 1984, respectively, not all records were available. However, based on information from available records, we were able to determine that the UC paid or reimbursed moving expenses for these five executives in the following amounts:

| | |
|---|---|
| President Gardner | $ 9,089 |
| Chancellor Peltason | 15,768 |
| Assistant Vice President Crawford | 16,524 |
| Vice President Farrell | 19,810 |
| Director Shank | 12,582 |
| Total | $73,773 |

Of the total of $73,773 in moving expenses paid for the five executives, we determined that the UC paid $59,737 from the UC General Fund and $12,582 from the Lawrence Berkeley Laboratory Director's Office General Expense fund. We were unable to obtain documentation for the funding source of the remaining $1,454.

We reviewed the specific relocation expenses that the UC paid to determine if the payments were allowable under the policy in effect at the time or were approved as exceptions to the UC's policy. We found that, for all five cases, some portion of the total paid was for items beyond those allowed under the UC policy in effect at the time. However, the expenses in all but one instance were properly approved as exceptions. Specifically, these expenses were as follows:

**President Gardner:** In March 1983, the chairman of the regents stated that the UC would pay the cost of President Gardner's move to the Bay Area. The UC policy at that time allowed for payment of one half of actual moving expenses for new appointees although exceptions could be granted. Thus, because the UC paid for all of President Gardner's moving expenses to the Bay Area, one half of the total (approximately $4,315) was paid as an approved exception to policy. Further, in 1985, the UC paid $460 for moving expenses related to the move of a member of President Gardner's family from Utah to Davis, California. Although the chairman of the regents stated that the UC would pay the cost of President Gardner's move to the Bay Area in 1983, the records we reviewed showed no approval for paying for the move of a family member to another city in 1985. However, the UC accounting records indicate that this payment was approved as an exception. Thus, the UC paid approximately $4,775, or 52.5 percent, of President Gardner's claimed moving expenses as approved exceptions to existing policy.

**Chancellor Peltason:** In 1984, President Gardner stated that the UC would pay the cost of Chancellor Peltason's move to California. As noted above, the UC policy in effect at that time allowed for payment of one half of actual moving expenses for new appointees unless an exception was approved. Thus, because the UC paid for all of Chancellor Peltason's moving expenses to California, one half of the total (approximately $7,884) was paid as an approved exception to policy.

**Assistant Vice President Crawford:** In 1986, Vice President Baker approved payment for all of Assistant Vice President Crawford's moving expenses to the Bay Area. The UC policy at that time allowed for the payment of one half of actual moving expenses for new appointees, including moving costs; up to 60 days of storage costs; travel expenses; and costs of meals. Exceptions to the one-half-of-expenses policy were allowable if approved by the chancellor. In this instance, Vice President Baker approved the exception. The UC stated to us that Vice President Baker may have discussed the exception with Senior Vice President Brady. However, Vice President Baker should have had

President Gardner, as the chancellor of the UC Office of the President, approve the exception. Thus, because the UC paid all of Assistant Vice President Crawford's actual moving expenses, one half of the total (approximately $5,120) was paid as an exception to policy and without proper approval.

Further, the UC paid a total of $6,284 for certain other relocation expenses for Assistant Vice President Crawford that were not covered under existing UC policy. Specifically, the UC paid $1,350 in airfare for eight weekend trips between the Bay Area and San Diego; $4,026 for lodging and per diem over five months in Berkeley; $299 for storage of household goods beyond the 60-day limit in the UC policy at that time; and $609 for house hunting costs.

Thus, the UC paid approximately $11,400, or 69 percent, of Assistant Vice President Crawford's claimed expenses as exceptions to existing policy and without appropriate approvals for the exceptions.

**Vice President Farrell:** In 1986, President Gardner approved payment for Vice President Farrell's moving expenses to the Bay Area. As stated above, the UC policy in effect at that time allowed for the payment of one half of actual moving expenses for new appointees although the chancellor could approve exceptions. Thus, because the UC paid all of Vice President Farrell's actual moving expenses, one half of the total (approximately $8,900) was paid as an approved exception to policy.

Further, the UC paid a total of $2,006 for certain other relocation expenses for Vice President Farrell that were not covered under existing UC policy although these exceptions were also approved. Specifically, the UC paid $756 for travel and expenses related to a weekend house hunting trip, $327 for temporary lodging and meals at the time of relocation, and $923 for storage of household goods beyond the 60-day limit in the UC policy at that time. Thus, the UC paid approximately $10,900, or 55.1 percent, of Vice President Farrell's relocation expenses as approved exceptions to existing policy.

**Director Shank:** In 1989, President Gardner stated that the Lawrence Berkeley Laboratory would manage reimbursement of Director Shank's moving expenses to the Bay Area. The UC policy in 1989 allowed for reimbursement of all necessary moving expenses incurred during the move. However, Director Shank also received reimbursement for $2,043 in costs that were not covered by the policy. Specifically, he received reimbursement for $1,881 for airfare, ground transportation, and per diem related to three house-selling trips to New Jersey and $162 for an airfare upgrade to first class. Senior Vice President Brady authorized payment of the house-selling trip costs, and a staff person at the laboratory approved payment of the cost of the upgrade.

In total, for five executives, we found that the UC paid or reimbursed approximately $37,000 in claimed moving and relocation expenses that were for items beyond those allowed under the UC policy in effect at the time. This amount represents 50.2 percent of the total of $73,773 in claimed expenses the UC paid for these five executives. In all but one instance, the exceptions were properly approved. The current policy has been expanded to include coverage of all moving expenses for new appointees. Therefore, not all exceptions under the old policy would be exceptions today.

Finally, we reviewed the available records and documents to determine whether the UC recorded the amount of moving expense payments so that they would be included in the executives' gross income for tax purposes. We found that the UC inconsistently reported moving expense reimbursements as taxable gross income to the executives. Specifically, in two cases, a portion of the moving and related expenses the UC paid for the executives concerned was not included in the individuals' gross incomes. According to the director of Accounting Services at UC Berkeley, $5,841 of relocation expenses paid to or on behalf of Assistant Vice President Crawford in late 1986 and early 1987 was not included in his taxable gross income. In addition, in 1991, because of an apparent accounting error, the Lawrence Berkeley Laboratory did not include $1,939 of moving expenses paid on behalf of Director Shank in his gross income for that year.

## Relocation Incentives

Two executives in our sample were granted and paid relocation incentives during President Gardner's tenure. However, the regents did not approve the incentive of one of the executives, as required, as part of the executive's total compensation. The other executive received an approved incentive, but she did not change her place of residence by more than 50 miles as UC policy requires. Specifically, the UC's Executive Program Personnel Policy 31, entitled "Relocation Incentive—Temporary Salary Supplement," provides for the payment of a temporary salary supplement to qualified individuals hired into the Executive Program from outside the UC. Such a supplement is considered a relocation incentive and is not meant to offset or reimburse the actual costs of relocation. The amount and conditions of payment of the incentive is at the discretion of the president, the chancellors, or the laboratory directors, who assess the need to offer such an incentive. However, because relocation incentives are a component of total compensation, they should be included in the salary recommendations for officers that the regents approve.

According to the policy, executives who receive a temporary salary supplement must have changed their place of residence by more than 50 miles from the former workplace. Further, the relocation incentive is not to exceed 25 percent of the executive's base annual salary at the new location. Payment of the incentive is generally made over four years, with 40 percent of the salary supplement paid in the first year, 30 percent in the second year, 20 percent in the third year, and 10 percent in the fourth year. This schedule may be modified based on individual circumstances. In addition, the limit of 25 percent of annual base salary is subject to exception upon approval of the Executive Program Committee or the chairman of the Executive Program Committee acting for the committee.

Funds for payment of the temporary salary supplements may include funds from available UC's General Fund balances for UC General Fund-supported positions. If the position is not supported by UC General Funds, then the supplement is to come from other appropriate sources.

We reviewed the payroll records of the 22 executives in our sample to determine which of them received temporary salary supplements. We found that 3 of the 22 executives received temporary salary supplements during President Gardner's tenure. The 3 executives (listed with the amounts of the supplements they received) are as follows:

| | |
|---|---|
| Secretary Smotony | $20,000 |
| Assistant Vice President Crawford | $30,059 |
| Assistant Vice President Swartz | $ 758 |

The UC approved Secretary Smotony's relocation incentive before the start of President Gardner's tenure; therefore, we did not review the circumstances of the approval. Of the $20,000 salary supplement approved for Secretary Smotony, the UC paid $10,500 during President Gardner's tenure, as follows:

| | |
|---|---|
| Fiscal Year 1983-84 | $ 5,166 |
| Fiscal Year 1984-85 | 3,664 |
| Fiscal Year 1985-86 | 1,670 |
| Total | $10,500 |

The UC granted and paid the other two relocation incentives during President Gardner's tenure. For each of these, we reviewed the circumstances surrounding the granting of the incentive, the time period over which the temporary salary supplement was paid, and the source of the funds for the payments.

### Assistant Vice President Crawford

In August 1986, Vice President Baker wrote to Senior Vice President Brady regarding the proposed appointment of Assistant Vice President Crawford to the position of assistant vice president of University Relations. In the memo, Vice President Baker proposed that Assistant Vice President Crawford be paid a relocation allowance totaling $30,000 to be paid over four years, in addition to a starting salary of $90,000 per year. Thus, the proposed temporary salary supplement equalled 33.3 percent of Assistant Vice President Crawford's base salary. Although this exceeded the percentage allowed in the UC policy, Senior Vice President Brady, as chair of the Executive Program Committee, approved the proposal. A few days later, Vice President Baker wrote to Assistant Vice President Crawford to inform him that he would receive the $30,000 relocation allowance as well as payment for all moving expenses from La Jolla to the Bay Area. Vice President Baker sent copies of the letter to President Gardner and Senior Vice President Brady.

In September 1986, the UC regents officially appointed Assistant Vice President Crawford as the UC's Assistant Vice President of University Relations. President Gardner's salary recommendation to the regents' Committee on Finance for Assistant Vice President Crawford mentioned the amount of his annual salary, but did not refer to the temporary salary supplement. Since Assistant Vice President Crawford was an officer, the salary recommendation to the regents should have included the incentive.

The UC agreed that the relocation incentive should have been included in the salary item the regents approved in September 1986. In October 1986, President Gardner approved the temporary salary supplement at an Executive Program Committee meeting, as an exception to policy. However, it is not clear whether the exception was that the regents had not approved the supplement or that the amount of the supplement exceeded the limit of 25 percent of base salary.

According to Assistant Vice President Crawford's payroll records, the UC paid the relocation incentive to him over 49 months, at the rate of $1,000 per month in the first year, $750 per month during the second year, $500 per month during the third year, and $250 per month during the fourth year. Because Assistant Vice President Crawford started in the middle of October 1986, the payments in October of each year were for odd amounts. For example, in October 1989, the UC paid 19 days of the incentive at the $500 monthly rate and the remaining 12 days at the $250 monthly rate. The resulting total payment for that month was $409. Apparently because of the odd amounts paid in each October, the total amount that the UC paid to Assistant Vice President Crawford in temporary salary supplements was $30,059. As with Assistant Vice President Crawford's regular salary, all payments of the temporary salary supplement were funded from the UC General Fund. Finally, since Assistant Vice President Crawford lived and worked in the San Diego area before working for the UC, the relocation incentive complied with the UC's 50-mile relocation requirement.

### Assistant Vice President Swartz

In February 1985, the UC regents appointed Assistant Vice President Swartz as Assistant Vice President of the University Benefit Program. President Gardner's recommendation to the regents' Committee on Finance asked that the committee approve a monthly relocation incentive for Assistant Vice President Swartz for February 18, 1985, through June 30, 1985, or 133 days, at an annual rate of $2,029, which is the equivalent of $5.56 per day.

Thus, Assistant Vice President Swartz should have received a total of $739 ($5.56 X 133 days). According to payroll records, however, she received a total of $758 over that period. The UC made the payments from a fund entitled UC Retirement System Funds Appropriated. Assistant Vice President Swartz's regular pay is paid partially from the same fund.

Assistant Vice President Swartz's personnel records showed that, at the time of her appointment at the UC, she worked in San Francisco and lived in Marin County, California. According to 1991 UC tax records, Assistant Vice President Swartz still lives in Marin County. Thus, we conclude that she did not change her place of residence by more than 50 miles from San Francisco, contrary to the UC's policy for relocation incentives.

## Financial and Tax Planning

Another benefit the UC provides to selected executives is reimbursement for financial and tax planning. The president, chancellors, and laboratory directors may receive up to $5,000 per fiscal year. Vice presidents and principal officers of the regents may receive up to $2,500 per fiscal year. Covered services include tax planning, estate planning, and income tax preparation. The UC reports the amounts reimbursed under this program as taxable income on the executives' W-2 forms. Table 4 shows the individuals from our sample who received this benefit and the amounts they received in calendar years 1990 and 1991. In calendar year 1991, the costs of these services ranged from a low of $275 for General Counsel Holst to a high of $4,275 for Director Shank.

**Table 4 Cost of Financial and Tax Planning Services for Nine Executives in Our Sample Calendar Years 1990 and 1991**

| Executive | 1990 | 1991 |
|---|---|---|
| President Gardner | $ 6,305 | $ 3,500 |
| General Counsel Holst | 290 | 275 |
| Senior Vice President Frazer | 0 | 1,255 |
| Vice President Baker | 1,081 | 1,569 |
| Vice President Hopper | 1,460 | 2,150 |
| Secretary Smotony | 1,125 | 1,100 |
| Director Shank | 3,928 | 4,275 |
| Chancellor Young | 1,800 | 2,300 |
| Chancellor Peltason | 2,977 | 1,915 |
| **Total** | **$18,966** | **$18,339** |

## Special Retirement Programs

In addition to the regular contributions to the University of California Retirement System, the UC has developed a number of special retirement systems for which only individuals in specific job categories are eligible. The following section describes the special retirement programs for which the individuals in our review have been eligible.

As we discuss in the next sections, we found several areas of concern. For the first retirement program we discuss, which is no longer active because of changes in the tax law, the UC changed the contribution rate from 3 percent of certain executives' salaries to 3 percent of their salaries plus housing value. The UC could not provide us with evidence that the regents approved this practice.

In addition, in reaction to the Tax Reform Act of 1986, the UC created agreements for Nonqualified Deferred Income Plans (NDIPs). The regents recently approved changing the vesting dates on five of the six agreements with President Gardner. Thus, when President Gardner resigns on December 31, 1992, the UC will pay him an estimated $492,607 in settlement of his NDIP agreements instead of the $60,850 it would otherwise have been obligated to pay.

Moreover, the regents also approved changing the vesting dates on two other agreements the president had for another retirement program. Through this program, he could receive at least $327,478. If the regents had not opted to change the dates on these agreements, the UC would not be obligated to provide benefits totaling over $759,000 under the agreements.

Although the regents have approved all the NDIPs, we found that the items they approved for them were not always specific as to the amounts that would actually be paid. Consequently, we could not conclude that the regents knew exactly what they were approving or that the UC staff correctly interpreted the regents' intent when they implemented the NDIP programs. Moreover, staff's differing interpretations of the regents' intent could result in significant differences in the amounts the regents have actually committed. These differences could amount to a total of $83,700 based on the NDIP balances as of July 1, 1992.

### The Regents' Special Retirement Contribution

Over time, the regents have approved several programs through which the UC has made commitments to provide certain executives with retirement benefits beyond the regular retirement plans the UC offers. Before July 1973, the UC had provided a special contribution of 3 percent of faculty members', academic deans', and academic provosts' salaries toward retirement benefits for those individuals. This program is known as the Regents' Special Retirement Contribution. In July 1973, the regents approved extending the Regents' Special Retirement Contribution to chancellors, vice presidents, and the principal officers of the regents. At that time, President Hitch was not included in the program because, according to the minutes of the Subcommittee on Officers' Salaries and Contingent Funds, "he felt that he was well compensated." Although the State had funded this contribution for faculty, the State refused to fund a similar contribution for top administrators. Consequently, the UC made the executives' contributions from the Searles Fund.

In 1978, the UC extended this benefit to the principal vice chancellor at each campus and to the laboratory directors. In September 1982, the regents voted to extend the program to the principal deputy director of each laboratory. In September 1983, the regents extended the program to the associate treasurer. As of July 1, 1984, the UC made this retirement contribution on the current president's behalf. Moreover, as of July 1984, the UC applied the 3 percent contribution rate to individuals' salaries plus housing value or housing allowance. Although on June 26, 1984, President Gardner informed the chancellors and members of his cabinet that this was to be the case, and we found reference to this practice in minutes of the Subcommittee on Officers' Salaries and Administrative Funds dated July 16, 1987, the UC could not provide us with evidence that the regents approved this practice as required by the regents' bylaws.

In fiscal year 1984-85, 11 of the 22 individuals in our review were employed in their current positions and were eligible for this contribution. At the time, contributions to their special retirement benefits under this program ranged from a low of $1,980 for

Secretary Smotony to a high of $6,061 for President Gardner. In fiscal year 1987-88, contributions made on behalf of 20 of the 22 individuals in our review who were employed in their current positions ranged from a low of $2,739 for Secretary Smotony to a high of $7,142 for President Gardner. As discussed later in this chapter, the UC discontinued these contributions in 1988 because of changes in the tax law. Also, as discussed later in this chapter, depending on the individual, the UC either added this contribution percentage to base salary rates or included it in a new deferred income plan in January 1989.

### The Flexible Benefits Plan

In July 1979, the regents approved the Flexible Benefits Plan through which the UC contributed an amount equal to 2 percent of salaries to tax deferred retirement programs on behalf of employees in the University Management Program. The regents increased this contribution to 2.5 percent of salaries in July 1980 and to 3 percent of salaries in July 1981. Again, since July 1984, the UC has applied these contribution rates to individuals' salaries plus housing value. Because this contribution is at the same rate as the Regents' Special Retirement Contribution, the range of the contribution amounts is the same as discussed for that program. The UC also discontinued this program in 1988 because of changes in the tax law but increased base salaries of recipients by 3 percent in January 1989.

### Supplemental Retirement Contributions

In September 1983, the regents approved making an additional contribution to tax deferred annuity plans on behalf of the general counsel of the regents, the secretary of the regents, the treasurer of the regents, two of the chancellors, and six vice presidents. The regents continued to approve supplemental contributions to retain the UC's competitive position in relation to comparable positions at other universities and to establish more equitable total compensation relationships among the university's executives. In fiscal year 1983-84, these supplemental contributions ranged from $2,000 for the vice presidents to $5,000 for Treasurer Gordon and Chancellor Young. In 1987-88, the contributions ranged from $2,500 for Vice President Farrell to $14,500 for Treasurer Gordon. Table 5 shows the individuals in our sample who were eligible for this contribution and the amounts contributed in each year from fiscal years 1983-84 through 1987-88. The UC discontinued these contributions in 1988 also because of changes in the tax law. However, as discussed in the next section, in January 1989, the UC included a supplemental contribution in a new deferred compensation agreement.

**Table 5** **Supplemental Retirement Contributions Fiscal Year 1983-84 Through 1987-88**

| Executive | 1983-84 | 1984-85 | 1985-86 | 1986-87 | 1987-88 | Total |
|---|---|---|---|---|---|---|
| President Gardner | N/A | N/A | N/A | $ 7,500 | $ 13,000 | $ 20,500 |
| Treasurer Gordon | $ 5,000 | $ 6,000 | $ 6,000 | 12,000 | 14,500 | 43,500 |
| General Counsel Holst | N/A | N/A | N/A | 6,000 | 8,500 | 14,500 |
| Senior Vice President Brady | 2,000 | 2,500 | 7,500 | 5,500 | 12,000 | 29,500 |
| Senior Vice President Frazer | 2,000 | 2,500 | 2,500 | 2,500 | 5,000 | 14,500 |
| Associate Treasurer Small | N/A | N/A | N/A | 3,000 | 5,500 | 8,500 |
| Vice President Baker | 2,000 | 7,000 | 10,500 | 10,500 | 13,000 | 43,000 |
| Vice President Hopper | 2,000 | 2,200 | 2,500 | 2,500 | 5,500 | 14,700 |
| Vice President Farrell | N/A | N/A | N/A | N/A | 2,500 | 2,500 |
| Secretary Smotony | 3,500 | 5,850 | 5,850 | 7,850 | 10,350 | 33,400 |
| Chancellor Young | 5,000 | 10,500 | 10,500 | 10,500 | 14,000 | 50,500 |
| Chancellor Peltason | N/A | 5,000 | 5,000 | 5,000 | 8,000 | 23,000 |
| **Total** | **$21,500** | **$41,550** | **$50,350** | **$72,850** | **$111,850** | **$298,100** |

### The Special Supplemental Retirement Program

In July 1985, the regents approved yet another retirement benefit for a select group of people. President Gardner proposed this additional benefit as a way to provide deferred compensation to those executives "who, by virtue of their individual circumstances, find themselves at a significant financial disadvantage either as a result of accepting appointments to University executive positions in the latter stages of their careers or as a result of continuing in a University executive position in the face of more lucrative employment offers, or for whom the University needs to manage the effective date of retirement." The regents limited eligibility for the Special Supplemental Retirement (SSR) program to the principal officers of the regents and the president, vice presidents, chancellors, and directors of the laboratories. Selection of the individuals who would receive this benefit was to be recommended by the president and approved by the chairman of the regents, the chairman of the Committee on Finance, and the chairman of the Subcommittee on Officers' Salaries and Administrative Funds. The maximum annual benefit payable under the SSR program is 15 percent of the recipient's highest average paid compensation for any three years of service. A recipient can receive the benefit for up to 180 months (15 years), but in no case longer than the actual term of employment covered by the agreement. All rights to the SSR benefit are to be contingent upon satisfactory completion of the specified employment requirements. The only exceptions that would permit payment of the SSR benefit if the employment obligations were not fulfilled would be involuntary separation because of death or disability. The source of funds for this benefit is the President's Discretionary Fund.

Of the individuals in our sample, only four have SSR agreements: President Gardner, Senior Vice President Brady, Chancellor Young, and Chancellor Peltason. President Gardner has two SSR agreements. The first agreement, entered into in February 1986, specified that President Gardner would serve until July 1, 1998. This agreement provides for a monthly SSR for a time equal to his service as president. The benefit is calculated at one twelfth of 15 percent of his highest average permissible compensation. The second SSR agreement, entered into in

July 1988, also specifies that the agreed date of retirement is July 1, 1998. The benefit to be provided is to be a supplemental benefit payment equal to the difference between President Gardner's basic retirement plan benefit that he would receive if the Internal Revenue Code limits were not applied and the maximum benefits from the basic plan permitted by the Internal Revenue Code.

President Gardner has announced that he will resign effective December 31, 1992—more than five years before the agreed date of separation specified in the SSR agreements. However, the regents approved changing his SSR vesting date to December 31, 1992. If the regents had not opted to change the SSR agreements' vesting dates, the UC would not be obligated to provide benefits under either of the agreements. Since the regents did agree, the UC estimates it will pay President Gardner either $3,502.08 per month for 114 months for a total of $399,237 or a lump-sum amount of approximately $306,000 (the present value of possible future payments) for the first SSR agreement. In addition, according to the UC, the maximum benefit permitted by the Internal Revenue Code, Section 415, from the University of California Retirement Plan (UCRP) would be approximately $104,771 in 1993. The UC estimates that, absent the Internal Revenue Code restrictions, and assuming an April 1993 retirement date, the president would receive approximately $126,249 annually from the UCRP. Consequently, the UC will pay the president an initial annual stipend of $21,478, ($126,249 minus $104,771). The annual amount will be adjusted to reflect current limits.

Senior Vice President Brady has one SSR agreement dated July 1, 1985. The agreement specifies that the agreed date of retirement will be July 1, 1995, and provides for a monthly benefit of 10 percent of one twelfth of the three highest average years' annual base salaries, plus housing value, multiplied by 120, and discounted to present value to equal the present value of 120 monthly payments. The discount rate to be applied will be equal to the California Municipal Bond Index, or equivalent, at the time of retirement. On May 4, 1992, Senior Vice President Brady wrote to President Gardner that he will resign from his position effective July 1, 1993. If he does resign on that date and the regents do not approve an exception, thereby refusing to change the vesting date as they did for President Gardner, the UC will not be obligated to provide him benefits under his SSR agreement.

Like President Gardner, Chancellor Young has two SSR agreements. The first, entered into in July 1986, specifies that the agreed date of retirement for the chancellor will be July 1, 1997. The monthly benefit to be provided is 10 percent of one twelfth of the three highest average years' annual base salaries, plus housing value, multiplied by 132, and discounted to present value to equal the present value of 132 payments. Again, the discount rate to be applied will be equal to the California Municipal Bond Index, or equivalent, at the time of Chancellor Young's retirement. The second SSR agreement, entered into in February 1992, specifies that Chancellor Young's retirement date will be July 1, 1999. This SSR agreement between Chancellor Young and the UC is similar to President Gardner's second agreement. Specifically, it will provide a supplemental retirement benefit equal to the difference between Chancellor Young's basic retirement plan benefit that he would receive if Internal Revenue Code limits were not applied and the maximum benefits from the basic plan permitted by the Internal Revenue Code. The UC estimated that the annual benefit amount would be $77,769.

Chancellor Peltason also has a similar retirement compensation agreement from his role as chancellor that was approved by the regents on March 15, 1984. This agreement was made as a part of his appointment as chancellor of UC Irvine and predates the establishment of the SSR program. However, the agreement provides for a monthly supplemental retirement benefit of one twelfth of 10 percent of his final annual salary rate for the same number of months as he serves as chancellor. The agreement specifies that he must serve until mandatory retirement. As of April 3, 1992, Chancellor Peltason's date of mandatory retirement is September 30, 1995, and the agreement has been modified to include his upcoming service as president.

## Nonqualified Deferred Income Plans

The Tax Reform Act of 1986 contained provisions that placed nondiscrimination rules on the UC's contributions to certain of its deferred income plans. As a result of this new law, the UC opted to discontinue, by January 1, 1989, the contributions the UC had previously made through the Regents' Special Retirement Contribution and the Supplemental Retirement Contribution plan. According to the UC, if it continued to make these contributions, these highly compensated employees would be subject to taxes on the employer contributions. On September 17, 1987, President Gardner recommended to the Subcommittee on Employee Benefit and Retirement Programs that, effective January 1, 1989, the UC add an amount equal to the Flexible Benefits Plan contribution to each individual's base salary and that an amount equal to the 3 percent Regents' Special Retirement Contribution be added to each individual's base salary except for those individuals who were eligible for a proposed NDIP.

The UC opted to create NDIPs to avoid the taxation burden imposed by the Tax Reform Act. However, for the UC to avoid this tax burden on the NDIPs, the contractual arrangement between the regents and an individual had to contain substantial risk-of-forfeiture provisions if the individual did not fulfill the terms of the agreement. Specifically, the individual must remain in an eligible position until an agreed-upon future date to become vested. The minimum vesting period was five years or a specified retirement date within that period. At the end of the vesting period, the recipient would receive a lump-sum payment of the benefit, which included accrued interest on the amounts contributed annually.

On September 18, 1987, the regents approved the establishment of NDIPs and specified that eligibility for them is limited to the president, vice presidents, chancellors, laboratory directors, principal officers of the regents , and the associate treasurer. The regents also approved an initial NDIP agreement, effective January 1, 1988, in an amount equal to 5 percent of the base salaries on July 1, 1987, of the president, vice presidents, chancellors, and the general counsel, and an amount equal to 7.6 percent of the base salary on July 1, 1987, of the treasurer.

Also on September 18, 1987, the regents approved NDIP agreements effective January 1, 1989, for the president, vice presidents, chancellors, laboratory directors, the principal officers of the regents, and the associate treasurer. These agreements would include an amount equal to the 3 percent Regents' Special Retirement Contribution and the amount of the Supplemental Retirement Contribution that would be approved in July 1988.

Since establishing the initial NDIPs, the regents have approved additional NDIP agreements effective July 1, 1988; July 1, 1989; and July 1, 1990. In addition, the regents approved adjustments to the July 1989 NDIP contributions for President Gardner and Director Shank. These agreements were effective July 1, 1989, and September 1, 1989, respectively. Table 6 shows the individuals in our sample who have been eligible for NDIPs and the total amounts accrued on their behalf in each year from fiscal year 1987-88 through 1991-92.

**Table 6** **Annual Credit to NDIPs for University of California Executives Fiscal Year 1987-88 Through 1991-92**

| Executive | 1987-88 | 1988-89 | 1989-90 | 1990-91 | 1991-92 | Total |
|---|---|---|---|---|---|---|
| President Gardner | $10,287 | $ 56,297 | $ 95,192 | $115,226 | $121,237 | $ 398,239 |
| Treasurer Gordon | 11,430 | 49,750 | 63,403 | 78,712 | 82,753 | 286,048 |
| General Counsel Holst | 6,300 | 35,510 | 42,303 | 54,485 | 57,297 | 195,895 |
| Senior Vice President Brady | 6,442 | 40,929 | 52,439 | 65,362 | 68,745 | 233,917 |
| Senior Vice President Frazer | 6,442 | 33,640 | 44,553 | 56,908 | 59,857 | 201,400 |
| Associate Treasurer Small | 0 | 16,846 | 22,127 | 32,466 | 34,236 | 105,675 |
| Vice President Baker | 5,715 | 36,759 | 45,649 | 57,327 | 60,293 | 205,743 |
| Vice President Hopper | 5,715 | 28,797 | 37,035 | 47,985 | 50,471 | 170,003 |
| Vice President Farrell | 5,611 | 25,161 | 32,883 | 43,211 | 45,450 | 152,316 |
| Secretary Smotony | 0 | 18,864 | 20,410 | 27,811 | 29,302 | 96,387 |
| Director Shank | 0 | 0 | 9,934 | 19,768 | 20,649 | 50,351 |
| Chancellor Young | 6,546 | 43,457 | 55,392 | 68,850 | 72,416 | 246,661 |
| Chancellor Peltason | 5,819 | 34,935 | 45,518 | 57,513 | 60,496 | 204,281 |
| **Total** | **$70,307** | **$420,945** | **$566,838** | **$725,624** | **$763,202** | **$2,546,916** |

President Gardner will resign effective December 31, 1992. His NDIP agreements specified that he would become vested in his first NDIP on January 1, 1993; in his second NDIP on July 1, 1993; in his third NDIP on January 1, 1994; in his fourth NDIP and the adjusting NDIP on July 1, 1994; and, in his fifth NDIP on July 1, 1995. As with the SSR program discussed above, the regents approved changing the vesting dates for five of President Gardner's NDIPs to December 31, 1992. The UC estimates that, on January 1, 1993, it will pay President Gardner a total of $492,607 in settlement of its NDIP agreements with him instead of the $60,850 it would otherwise have been obligated to pay. Meanwhile, on July 20, 21, and 22, 1992, the UC paid Chancellor Peltason $204,280.66 in settlement of his vested NDIP agreements.

Although the regents approved specific percentage rates to be applied when calculating the amounts to be credited each year to individuals' NDIPs, we could not conclude the regents knew what amounts they were approving. In fact, because the various components of executive compensation are taken up at different times during a regents' meeting or at different meetings, the regents may not clearly understand the total impact of what they are approving. For example, as stated above, on September 18, 1987, the regents approved NDIPs in the amount of specific percentages of base salaries for July 1, 1987, for several individuals. These NDIPs were effective January 1, 1988. However, at an earlier meeting than the one on September 18, on July 17, 1987, the regents approved salary increases for fiscal year 1987-88 for the individuals in our review. At this time, they specified that 40 percent of the increases for 10 of the individuals would go into effect on July 1, 1987, and 60 percent of the increases would go into effect on January 1, 1988. Similar phased salary increases occurred for at least one of the executives in our review in two other of the base years used for calculating the NDIP credit amounts. As a further complication, the regents on three occasions, approved additional equity adjustments to selected executives' salaries. For example, also during the meeting on July 17, 1987, the regents approved additional increases, known as equity adjustments, to the salaries of all of the NDIP recipients in our sample except the president. These equity adjustments were to go into effect on January 1, 1988. In sum, at the meeting on

July 17, 1987, the regents approved three different rates of pay for many executives. One of these rates was never actually paid. In fact, we noted that, on at least two occasions, members of the regents have requested that compensation issues be presented to them as a complete package so that they know the size of each individual's total compensation.

Moreover, the minutes of the regents' meetings regarding such issues as the discussion and approval of NDIPs are sometimes lacking sufficient detail, such as which of several salary rates that are in effect during a year is to be used to calculate the amount of NDIP credits. Consequently, when staff implement some of the recommendations, they may or may not be correctly interpreting the regents' intent.

For example, when the UC calculated the amounts to be credited annually to the executives' first NDIP, it did not apply the percentages to the salaries in effect on July 1, 1987. Instead, the UC applied the percentages to the overall approved salary rate for fiscal year 1987-88, without regard to how the implementation of the salary increases was phased and exclusive of any equity adjustments. However, neither the regents' item on the NDIP the regents approved nor the discussion of the item, as evidenced by the minutes of the meetings, supports the UC's implementation of the 1987-88 NDIP. With one exception, the regents' items and minutes for the other NDIPs based on salary amounts were not specific about what salary amounts the UC should use in calculating NDIP credit amounts.

In addition, the staff's differing interpretations of the regents' intent can have a significant effect on the financial commitment made. For example, if, when the regents' items did not specify otherwise, the UC had applied the NDIP percentages to the lowest rates being paid during the fiscal year, President Gardner's NDIP balances would have totaled approximately $442,000 as of July 1, 1992—$10,700 less than his balance of approximately $452,700. Table 7 shows the actual NDIP balances as of July 1, 1992; what the balances would have been had the UC, when not directed otherwise, applied percentages to the lowest rates being paid; and the differences in the UC's obligation under the two scenarios.

**Table 7** **Effect of Differing Interpretations of the Regents' Intent for Executive Nonqualified Deferred Income Plans As of July 1, 1992**

| Executive | Actual Balance | Minimum Balance | Difference |
|---|---|---|---|
| President Gardner | $ 452,700 | $ 442,000 | $10,700 |
| Treasurer Gordon | 313,000 | 302,400 | 10,600 |
| General Counsel Holst | 215,300 | 208,200 | 7,100 |
| Senior Vice President Brady | 256,900 | 249,600 | 7,300 |
| Senior Vice President Frazer | 224,400 | 217,100 | 7,300 |
| Associate Treasurer Small | 117,400 | 114,000 | 3,400 |
| Vice President Baker | 225,200 | 218,700 | 6,500 |
| Vice President Hopper | 189,300 | 183,700 | 5,600 |
| Vice President Farrell | 171,000 | 164,400 | 6,600 |
| Secretary Smotony | 101,900 | 99,000 | 2,900 |
| Director Shank | 58,700 | 57,000 | 1,700 |
| Chancellor Young | 270,300 | 262,900 | 7,400 |
| Chancellor Peltason | 226,100 | 219,500 | 6,600 |
| **Total** | **$2,822,200** | **$2,738,500** | **$83,700** |

## Executive Program Severance Pay Plan

As mentioned above, the UC lost the ability to make employer contributions to executives' tax deferred accounts as a result of the discrimination provisions of the Tax Reform Act of 1986. However, as a result of the Technical and Miscellaneous Revenue Act (TAMRA) of 1988, the UC was able to develop a severance plan to replace the previous deferred compensation programs. In March 1990, the regents approved an Executive Program Severance Pay Plan that provided variable benefits depending upon the executives' level and salary. All of the individuals in our sample earned credit at 5 percent of their salaries. In addition, interest accrues at the rate of interest equal to the return for each quarter on the UC's Short-Term Investment Pool.

Further, in September 1990, the regents approved a special augmentation to the Executive Program Severance Pay Plan to recognize the important contribution certain executives' spouses, called associates, have made to the UC. The executives consist of certain chancellors and the president. This augmentation was to be from zero to 5 percent of the respective chancellor's or president's salary, retroactive to the date of the associate's appointment.

Chancellors Young and Peltason each earn an additional 5 percent credit as a result of their spouses being appointed associates. President Gardner also earned an additional credit of 5 percent from November 1, 1987, when his wife was appointed associate, until February 1991, when his wife died.

The balance of each individual's Executive Program Severance Pay Plan is payable to the individual upon separation from the UC unless the executive is involuntarily discharged for cause. Table 8 shows each of the 22 individuals in our review and their Executive Program Severance Pay Plan balances as of May 31, 1992.

**Table 8** **Executive Program Severance Pay Plan Balances as of May 31, 1992**

| Executive | Balance |
|---|---|
| President Gardner | $67,612 |
| Treasurer Gordon | 19,814 |
| General Counsel Holst | 17,011 |
| Senior Vice President Brady | 16,963 |
| Senior Vice President Frazer | 16,963 |
| Associate Treasurer Small | 16,134 |
| Vice President Baker | 15,424 |
| Vice President Hopper | 15,296 |
| Vice President Farrell | 14,849 |
| Assistant Treasurer Moore | 13,824 |
| Associate Vice President West | 13,661 |
| Deputy General Counsel Lundberg | 13,112 |
| Deputy General Counsel Morrison | 13,112 |
| Associate Vice President Moore | 13,400 |
| Associate Vice President Hershman | 12,988 |
| Assistant Vice President Swartz | 12,650 |
| Assistant Treasurer DeWeese | 12,163 |
| Assistant Vice President Crawford | 11,924 |
| Secretary Smotony | 11,059 |
| Director Shank | 14,942 |
| Chancellor Young | 62,165 |
| Chancellor Peltason | 54,391 |

# Chapter 3 Other Executive Benefits

## Chapter Summary

For a sample of the 22 executives in our sample, we reviewed the University of California's (UC) compensation for automobile use, extraordinary entertainment, contributions, purchases of gifts and other miscellaneous items, and extraordinary travel.

### Automobiles

The UC provides executives in certain positions with three options in compensating them for automobile use for business purposes. The executives can receive a monthly automobile allowance, a UC-leased automobile, or mileage reimbursement. If executives opt for a UC-leased automobile, the UC also pays for vehicle registration fees, gas, insurance, and maintenance on the vehicle.

As of April 30, 1992, eight of the executives in our sample had UC-leased automobiles, and seven executives and one spouse received automobile allowances. In fiscal year 1990-91, the cost of lease payments for automobiles ranged from as little as $4,568 for Vice President Hopper to as much as $8,482 for President Gardner.

### Entertainment

The UC reimburses executives for entertainment expenses from a variety of funds. However, one of the primary sources of funds for entertainment is the Administrative Fund. From July 1, 1991 through April 30, 1992, the UC has paid $116,039 from its Administrative Fund for entertainment hosted by 12 of the

22 executives in our sample. Entertainment expenditures ranged from a low of $825 for Vice President Farrell to a high of $30,518 for Director Shank. Entertainment expenditures were made for a variety of events. For example, Vice President Baker hosted a reception and dinner to celebrate the wedding of an Office of the President employee at the vice president's home in Orinda in July 1990. Approximately 75 members of the Budget and University Relations staff attended this event at a cost of $2,628.

From our review of entertainment compensation for executives, we have some concerns. Specifically, we noted that several of the executives in our sample frequently entertain other employees and representatives of the Office of the President exclusively. For example, for 161 (59 percent) of 273 events Senior Vice President Brady hosted, only Office of the President employees or representatives were present. Although the UC's policies do not specify that entertainment funds should be spent primarily on individuals outside the hosts' immediate work environment, we believe the UC would derive greater benefit from hosting academically related meetings or entertaining official guests or potential donors than from entertaining only individuals under its employ.

Another area of concern is that, in many cases, when only the Office of the President employees and representatives were entertained, the entertainment took place within Oakland, close to the UC headquarters. For example, in 138 of the 161 cases where Senior Vice President Brady entertained only Office of the President employees or representatives, the events occurred in Oakland. In many cases, these entertainment events were reimbursed from the Administrative Fund. Although UC's policies governing entertainment and the Administrative Fund contain no such restrictions, we believe that it is not economically prudent to reimburse employees for meals or entertainment when they are at or in the vicinity of their workplace.

## Contributions, Gifts, and Miscellaneous Expenses

The UC also uses the Administrative Fund to reimburse UC executives for contributions, gifts, and other miscellaneous expenses. From July 1, 1991, through April 30, 1992, for the executives in our review, expenditures from the Administrative Fund for contributions totaled $2,473; for gifts totaled $11,578; and for miscellaneous expenditures, including dues, totaled $21,211.

However, during our review, we found that it was not always clear whether all contributions and gifts paid for from the Administrative Fund were made on behalf of the UC, as policy requires, or only on behalf of the individual making the contribution or gift.

## Travel

The Administrative Fund can be used to pay for extraordinary travel costs. However, during our review of the UC's system for compensating executives for travel expenses related to business, we found several areas of concern. For example, we found that the UC's general policies on travel are not always helpful in determining whether some costs are legitimate. For instance, the UC's policy states that only those travel expenses that are "ordinary and necessary" are eligible for reimbursement, but the policy does not clearly define what is meant by this phrase.

In addition, executives from the Office of the President frequently used two airplanes owned or leased at different times by UCLA for travel. Although we could not determine the cost of all executive trips, we found that the cost of some trips appeared to be excessive.

Also, we found no policies governing the use of frequent flyer miles earned while traveling on UC business, but we believe it is reasonable to expect that these types of earned miles should be used for UC business. However, we found one instance when President

Gardner used frequent flyer miles earned while on UC business to purchase a round-trip flight to Hong Kong for his daughter in 1990. The value of the flight, leaving from and returning to San Francisco, was $3,880.

We also found several instances where, we believe, executives, including President Gardner, claimed unnecessary lodging expenses. For example, in July 1991, President Gardner stayed at the Four Seasons Clift Hotel in San Francisco for two nights at a cost to the UC of $370. While the trip was for official meetings, the location of the meetings was only about 10 miles from the UC's Oakland headquarters.

Moreover, some of the individuals in our review used their Administrative Fund allocations to pay for first class travel on business flights. For example, in April 1991, President Gardner flew first class from San Francisco to New York and Washington, D.C., and back to San Francisco. First class airfare was $2,228, and coach was $1,332. The difference of $896 was paid from the Administrative Fund. We believe that it does not benefit the UC when its employees choose first class travel if more economical means are available.

### Automobile Allowances and Leases

The UC's policy on travel by automobile generally offers two options to its employees. When traveling by automobile for UC business, employees may use UC-owned automobiles and be reimbursed for parking, tolls, and, in some cases, emergency repairs to the UC-owned automobile. If employees use their own automobile, they may be reimbursed for mileage. The current rate is 24 cents per mile, or when an employee can document that actual costs exceed that, up to as much as 30 cents per mile. Mileage payments are not allowed for miles driven between the individuals' homes and their work headquarters.

In contrast, the UC offers three options to certain of its executives. According to UC policy, only individuals in positions of the president, the senior vice presidents, the vice president of Health Affairs, the vice president of Agriculture and Natural Resources, the vice president of Budget and University Relations, the principal officers of the Regents of the University of California (regents), the chancellors, the principal vice chancellors, the vice chancellors for Development, hospital directors, the associate treasurer of the regents, and the associates (spouses) of the president and chancellors are eligible for these options. The president must approve exceptions to this policy.

The first option provides the executive with a UC-leased automobile. Associates of the president and chancellors are not eligible for this option. The UC will lease an American manufacturer's automobile and will provide insurance coverage. The UC establishes a maximum amount allowed for the lease payment annually. The UC also pays vehicle registration fees and maintenance costs. Further, the UC provides the executive with a State of California gas credit card and pays for the charges made against that card. In addition, the executive has the option of obtaining gas from a UC garage or of being reimbursed for gas purchases made personally. The UC reports a portion of the annual lease value of the vehicle and a portion of fuel costs associated with an executive's personal use of the leased automobile as taxable compensation paid to the executive. To determine the taxable amount, the UC requires executives to annually report what percentage of the total miles driven were for personal use.

Under the second option, the UC will pay executives a monthly allowance, the amount of which the president approves annually.

According to Senior Vice President Brady, President Gardner concluded that it would be appropriate for the cost to the UC of this option and the first option would be identical. Under the second option, the UC reports the amount of the allowance paid as taxable compensation to the taxation authorities.

The third option available to executives is essentially that outlined in the UC's travel policy, mileage reimbursement. This option is also available to individuals who have opted for either of the first two options when their leased automobiles are not available to them or when the executives' travel costs exceed the amounts of their cash allowances.

To determine how much the UC spent on automobile allowances and leases on behalf of the individuals in our sample, we reviewed payroll records for those receiving allowances and reviewed lease and gas charge card documents for those receiving leased automobiles. We did not review any mileage reimbursements the individuals may have received.

### Amounts Paid for Automobile Allowances and Leases

We found that two exceptions to the policy regarding who is eligible to receive automobile allowances or leased automobiles had been granted. Senior Vice President Brady granted both of these exceptions on behalf of President Gardner. The first was granted in October 1988 to Assistant Vice President Swartz, and the second was granted in September 1991 to Deputy General Counsel Lundberg. Table 9 shows the amounts paid to, or on behalf of, the individuals in our sample, in fiscal year 1990-91 and 1991-92 through April, for automobile allowances or for leased automobiles. In addition, the table shows the amounts the UC spent for charges on state gas cards, other gas expenses, and insurance. Also, where available, the amounts include registration fees. Because the UC does not maintain centralized records of amounts spent on leased automobile maintenance, we do not include these costs. The table also shows the type of vehicle leased and the percentage of personal use the individuals reported for the 1991 reporting period.

## Table 9

### Executive Automobile Allowance and Lease Expenses Fiscal Year 1990-91 and 1991-92 Through April 1992

| | | | 1990-91 | | | 1991-92 | | | |
|---|---|---|---|---|---|---|---|---|---|
| Individual | Lease or Allowance | Description of Auto | Lease or Allowance Amount | Other | Total | Lease or Allowance Amount | Other | Total | Percentage of Personal Use for 1991[1] |
| President Gardner | L | Buick Park Avenue | $ 8,482 | $2,212 | $ 10,694 | $ 7,194 | $1,182 | $ 8,376 | 47.4 |
| Mrs. Gardner | A | | 2,093 | | 2,093 | 0 | | 0 | |
| Treasurer Gordon | L | Buick Park Avenue | 5,750 | 696 | 6,446 | 5,720 | 1,270 | 6,990 | 81.3 |
| General Counsel Holst | L | Mercury Sable | 5,151 | 880 | 6,031 | 4,293 | 433 | 4,726 | 88.5 |
| Senior Vice President Brady | A | | 7,212 | | 7,212 | 6,758 | | 6,758 | |
| Senior Vice President Frazer | A | | 7,212 | | 7,212 | 6,758 | | 6,758 | |
| Associate Treasurer Small | A | | 7,212 | | 7,212 | 6,758 | | 6,758 | |
| Vice President Baker | A | | 7,212 | | 7,212 | 1,977 | | 1,977 | |
| | L | Jeep Cherokee[2] | | | 0 | 4,351 | 1,062 | 5,413 | 71.2 |
| Vice President Hopper | L | Oldsmobile Delta Royal Brougham | 4,568 | 966 | 5,534 | 3,807 | 838 | 4,645 | 75.0 |
| Vice President Farrell | L | Pontiac 6000 | 4,845 | 892 | 5,737 | 4,038 | 623 | 4,661 | 25.3 |
| Deputy General Counsel Lundberg | A | | | | 0 | 5,440 | | 5,440 | |
| Assistant Vice President Swartz | A | | 7,212 | | 7,212 | 6,758 | | 6,758 | |
| Secretary Smotony | L | Ford Thunderbird | 6,662 | 1,011 | 7,673 | 5,551 | 709 | 6,260 | 82.6 |
| Director Shank | A | | 7,212 | | 7,212 | 6,758 | | 6,758 | |
| Chancellor Young | A | | 7,212 | | 7,212 | 6,758 | | 6,758 | |
| Chancellor Peltason | L | Chrysler New Yorker | 6,713 | 802 | 7,515 | 5,594 | 530 | 6,124 | 1.9 |
| Mrs. Peltason | A | | 3,972 | | 3,972 | 3,682 | | 3,682 | |
| **Total** | | | $98,720 | $7,459 | $106,179 | $92,195 | $6,647 | $98,842 | |

[1]The reporting period for 1991 was January 1, 1991, through October 31, 1991.

[2]This vice president obtained a leased vehicle on September 20, 1991.

## Entertainment

The UC's policy on entertainment states that "there are occasions in which judicious extension of hospitality is in the best interest of the University. While such hospitality should be in keeping with the accepted standards of the educational community, it is essential that the expenditure of University funds for entertainment be prudent and compatible with the University's status as a tax-supported institution." The policy further states that authorities may only approve spending UC controlled funds on entertainment when, in the best judgment of the approving authority, the occasion is significant in the affairs of the UC and is not of the type that the responsible individual would normally undertake in a personal rather than an official capacity. Such official occasions include instances when the UC is host or sponsor of a meeting of a learned society or organization or when the UC is host to official guests or to prospective appointees. Official guests are persons not otherwise employed by, or compensated by, the UC. Another appropriate occasion is when administrative meetings are held that are directly concerned with the official business of the UC. When meals are involved, they must be a necessary and integral part of the business meeting, not a matter of personal convenience. Finally, occasional special events associated with the academic program and involving faculty, administrators, students, or all of these parties are appropriate.

The UC uses a number of funds to pay for entertainment, including the UC's General Fund. However, one of the primary sources of funds used for entertainment is the UC's Administrative Fund. The portion of the Administrative Fund allocated to the individuals in our review comes from the Searles Fund, the Overhead on Federal Grants and Contracts Fund, and the Department of Energy Overhead Fund. However, the Administrative Fund expenditures are not limited by UC policies on entertainment since the fund can reimburse expenses that otherwise would not be covered. For instance, the UC's Accounting Manual specifies that, expenses associated with the furnishing of food, services, or other minor items to employees as a minimal fringe benefit are reimbursable from the Administrative Fund. These benefits, because they are minimal in value and provided infrequently, are not reportable as taxable income to the employees receiving the benefit. Such minimal fringe benefits include occasional office parties, group meals, or picnics for employees; traditional, noncash birthday or holiday gifts with a low market value; occasional theater or sporting event tickets; coffee, doughnuts, and soft drinks; and flowers, fruit, books, or similar items provided to employees under special circumstances, such as employee illness, outstanding performance, retirement, or family crisis. However, Administrative Funds must be used for a recognized business purpose such as for the promotion of goodwill for the UC's benefit.

Each year, the regents approve allocations from the Administrative Fund to the general counsel of the regents, the treasurer of the regents, and the secretary of the regents. In addition, the regents approve an allocation for the use of some of the officers of the UC. The president then allocates a portion of these funds to the vice presidents, chancellors, laboratory directors, and other UC administrators. These individuals may share these allocations with other individuals as appropriate. In addition to entertainment, Administrative Funds may be used to reimburse for gifts, charitable donations, travel, and other miscellaneous expenses, such as club dues. These types of expenditures will be discussed later in this chapter.

We summarized the amounts spent on entertainment through Administrative Fund allocations for the individuals in our sample as reported on their summary reports for fiscal year 1990-91 and 1991-92 through April 1992. Although, as stated before, several funds are used for entertainment, these summary reports were the most complete, central source we could find to review these kinds of expenditures. As can be seen on Table 10, for fiscal year 1991-92 through April 1992, expenditures for entertainment paid for by the Administrative Fund for individuals in our sample ranged from a low of $825 to a high of $30,518.

**Table 10** **Summary of Administrative Fund Expenditures for Entertainment Fiscal Year 1990-91 and 1991-92 Through April 1992**

| Executive | 1990-91 | 1991-92 |
|---|---|---|
| President Gardner | $ 30,965 | $ 21,490 |
| Treasurer Gordon | 6,089 | 3,669 |
| General Counsel Holst | 9,500 | 7,177 |
| Senior Vice President Brady | 12,856 | 7,055 |
| Senior Vice President Frazer | 13,028 | 10,150 |
| Vice President Baker | 22,859 | 14,676 |
| Vice President Hopper | 5,198 | 3,675 |
| Vice President Farrell | 2,692 | 825 |
| Secretary Smotony | 3,645 | 3,604 |
| Director Shank | 35,959 | 30,518 |
| Chancellor Young | 6,500 | 10,671 |
| Chancellor Peltason | 15,879 | 2,529 |
| **Total** | **$165,170** | **$116,039** |

These individuals frequently hosted a variety of entertainment events including business lunches and parties for Office of the President employees and others. For example, President Gardner hosted 14 events at the university-owned Blake House, each of which cost more than $1,000. For instance, he hosted a dinner for vice presidents, chancellors, and the academic council in October 1990 at a cost of $2,598, exclusive of 11 bottles of wine that came from the Blake House wine supply. Twenty-seven individuals attended this event. Purchases of wine and other alcoholic beverages for the Blake House supply were also funded through the Administrative Fund. For example, in August 1990, President Gardner's allocation from the Administrative Fund paid $4,133 for wine for the Blake House.

President Gardner also hosted a number of less expensive events. One less expensive event he hosted at Blake House was a "tasting dinner" in preparation for a subsequent dinner to be held for Chancellor Helmut Kohl and his wife from Germany and Governor and Mrs. Wilson. The tasting dinner—attended by President Gardner, one of his daughters and her husband, President Gardner's secretary and her husband, the Blake House housekeeper and her husband, and the administrative secretary in charge of Blake House—cost $701, including sample flower arrangements. The subsequent event was not paid for through the Administrative Fund, so it was not included in this review.

Vice President Baker hosted a reception and dinner to celebrate the wedding of an Office of the President employee at the vice president's home in Orinda in July 1990. This event was attended by approximately 75 members of the Budget and University Relations staff at a cost of $2,628. In addition, Senior Vice President Frazer hosted the Academic Affairs office Christmas party held at the Kaiser building from 3:00 to 5:00 p.m. on December 17, 1991, at a cost of $1,243. The UC's Office of the President is located in the Kaiser building.

Other entertainment events included several tailgate parties hosted by Vice President Baker. These tailgate parties, some of which cost more than $400, were attended by individuals such as UC alumni; representatives from the Department of Finance, the treasurer's office and the Legislative Analyst's Office; and members of the press and the regents—all of whom could benefit the UC. Another type of event the Administrative Fund paid for included dinners. For example, Vice President Baker hosted a dinner costing $53 with Associate Vice President Hershman in Berkeley on December 13, 1990, to discuss budget cuts.

Other entertainment expenditures included the purchase of tickets for sporting or other cultural events. Sometimes these tickets were given to individuals such as employees of the State Department of Finance and their families, but often they were given to employees of the Office of the President.

## Executives Frequently Entertain Other Employees and Representatives of the Office of the President

We reviewed in detail all of the entertainment expenses paid for by the Administrative Fund as reported by President Gardner, Senior Vice Presidents Brady and Frazer, and Vice President Baker for fiscal year 1990-91 and 1991-92 through April 1992. In addition, we reviewed selected travel and credit card claims that included entertainment expenses for that period. We noted that, as we discuss in more detail later, several of the executives in our sample frequently entertained other Office of the President employees exclusively. Although provisions are made for entertaining UC employees and although the policies do not specify that entertainment funds should be spent primarily on individuals outside the hosts' immediate work environment, we believe the UC would derive greater benefit from hosting academically related meetings or entertaining official guests or potential donors than from entertaining only individuals under its employ. Moreover, it appeared that the frequency of these types of entertainment exceeded the guidelines that define what is considered minimal benefits.

Further, as we also discuss in more detail later, we found that, in many cases, when only Office of the President employees and representatives were entertained, the entertainment took place within Oakland. Although the UC's policies for the Administrative Fund have no restrictions on reimbursement for meals or entertainment at or near the employment headquarters, the UC's policy and regulations governing general travel specify that meal expenses incurred "within the vicinity" of a UC employee's headquarters or residence will not be reimbursed. The same policy and regulations state that an exception may be allowed for actual luncheon costs if an employee is authorized to attend a conference or meeting that includes a formal luncheon as part of the agenda. The policy does not define what is meant by "within the vicinity" of headquarters. However, for comparative purposes, the California Code of Regulations, Title 2, Section 599.616, which applies to state employees, prohibits payment of meal expenses incurred within 25 miles of an employee's headquarters. Although UC employees are not bound by these regulations, we believe they provide a reasonable definition of what is "within the vicinity" of headquarters and prudent guidance for reimbursement of meals.

During our review of the reports of Administrative Fund expenditures and credit card and travel claims, we reviewed expenses for 248 entertainment events President Gardner reported in fiscal year 1990-91 and 1991-92 through April 1992. The total cost of the 248 events was $50,769, or an average of $205 per event. The costs ranged from $2 for one of the president's working lunches in Oakland to $4,747 for a tea in September 1990 at Blake House. This tea, honoring the wife of the new chancellor of UC Berkeley, was attended by President Gardner's wife and approximately 500 other individuals.

In 172 (69.4 percent) of the 248 events President Gardner or his wife hosted, only employees or representatives of the Office of the President were present. (We considered spouses, other family members, and UC consultants to be representatives of the Office of the President.) However, the total cost of these events was only $14,838, or 29.2 percent of the cost of all of the 248 events. The average cost was $86.27 while the average cost of events in which President Gardner entertained at least one person who was not an employee or representative of the Office of the President was $473.

For 170 (98.8 percent) of the 172 events that were attended only by employees or representatives of the Office of the President, the events occurred within 25 miles of the Office of the President in Oakland. Further, 162 of these events were in Oakland itself. Of the 162 events, 148 were working or business lunches at an average cost of $12.99. Forty-four of these business lunches included expenses for Senior Vice President Brady, and 29 included expenses for Vice President Frazer, both of whom report directly to President Gardner. Again, as we stated earlier, we believe the UC would derive greater benefit from hosting academically related meetings or entertaining official guests or potential donors than from entertaining only individuals under its employ.

Senior Vice President Brady reported at least 273 entertainment events in fiscal year 1990-91 and 1991-92 through April 1992. The total cost of the 273 events he hosted was $37,004, or an average of $135.55 per event. The least expensive of the entertainment events was $6.25 for beverages in Oakland with a former counsel to the regents while discussing a personnel issue. The most expensive of these events was $2,377 for a holiday dinner in December 1990 for Senior Vice President Frazer, 12 of his senior managers, and some of their spouses. This event was held at the Lakeview Club Restaurant on the top floor of the Kaiser building in Oakland. Although it is not affiliated with the UC, the restaurant is often used by UC executives for business entertaining.

In 161 (59 percent) of the 273 events Senior Vice President Brady hosted, only Office of the President employees or representatives were present. The total cost of the 161 events was \$16,677, or an average of \$103.58, while the average cost of events that included at least one person from outside the Office of the President was \$181.49.

For 138 (85.7 percent) of the 161 events attended only by Office of the President employees or representatives, the events occurred within 25 miles of the Office of the President in Oakland. Further, 135 of these events were in Oakland itself. Of these 135 events, 124 were business or working lunches at an average cost of \$39.51. Forty-eight of these business lunches were attended by Assistant Vice President Swartz, and 2 were attended by Associate Vice President West. Both of these individuals report directly to Senior Vice President Brady.

Senior Vice President Frazer reported at least 117 entertainment events in fiscal year 1990-91 and 1991-92 through April 1992. The total cost of the 117 events was \$21,166, or an average of \$180.91 per event. The least expensive of the entertainment events was \$2.94 for one of his working lunches in Oakland. The most expensive of these events was \$2,219 for a retirement reception at Morgan House, owned by the university at this time, for two former Office of the President staff in March 1991. The reception was attended by approximately 200 guests. Because the guest list was not available, we were not able to determine how many guests were either Office of the President employees or their representatives.

In 71 (60.7 percent) of the 117 events Senior Vice President Frazer hosted, only Office of the President employees or representatives were present. The total cost of the 71 events was \$6,521, or an average of \$91.85. The average cost of entertainment events that included at least one individual from outside the UC was \$318.36. Sixty (84.5 percent) of the 71 events that were attended only by Office of the President employees or their representatives occurred within 25 miles of the Office of the President in Oakland. Further, all but one of the 60 events were in Oakland itself.

Fifty-three of these events were business lunches at an average cost of $30.67. Fifteen of these business lunches were attended by Associate Vice President Moore who reports directly to Senior Vice President Frazer.

In addition, we reviewed expenses for 237 entertainment events Vice President Baker reported for fiscal year 1990-91 and 1991-92 through April 1992. The total cost of the 237 events was $52,014, or an average of $219 per event. The costs ranged from $5.42 for beverages in Berkeley with the chancellor of UC Davis to $4,044 for a Christmas lunch for 101 Budget and University Relations staff in Oakland on December 17, 1990.

In 101 (42.6 percent) of the 237 events Vice President Baker hosted, the only people present were employees or representatives of the Office of the President. The total cost of these events was $27,075, or 52.1 percent of the cost of the 237 events Vice President Baker hosted. The average cost of these events was $268.07 while the average cost of events where at least one individual other than an employee or representative of the Office of the President was entertained was $183.38. For 83 (82.2 percent) of the 101 events that were attended only by Office of the President employees or their representatives, the events occurred within 25 miles of the Office of the President in Oakland. Further, 66 of these events were in Oakland itself. Twenty-three were business lunches at an average cost of $109.17. Six of these business lunches were attended by either Associate Vice President Hershman or Assistant Vice President Crawford—both of whom report directly to Vice President Baker.

### Contributions, Gifts, and Miscellaneous Expenses

The UC also uses the Administrative Fund to reimburse UC executives for contributions, gifts, and other miscellaneous expenses. According to the UC Administrative Fund policy as outlined in the UC Accounting Manual, the Administrative Fund may be used for contributions and gifts made to individuals or organizations when the gifts or contributions are made on behalf of the UC. The business reason for making the gift, or the nature of the business benefit derived or expected to be derived by the UC, must be substantiated on the Administrative Fund Gift, Contribution, and Miscellaneous Report. In most cases, the promotion of goodwill is an acceptable business purpose with respect to such gifts. For fiscal year 1990-91 and 1991-92 through August 5, 1991, gifts were limited to $25 in a given year. However, after August 5, 1991, the UC's policy was revised to state that the cost of gifts had to be reasonable in relation to the actual or expected benefits. Further, the revised policy states that the title or occupation of the gift recipient must be identified to establish that person's business relationship with the UC. Gifts made for a personal or other nonbusiness reason are not reimbursable from the Administrative Fund. In addition, according to the Administrative Fund policy, certain miscellaneous expenses, otherwise not provided for, that an employee incurs in the performance of his or her official UC responsibilities may be reimbursed from the Administrative Fund.

Table 11 shows the individuals in our sample who made these types of expenditures from their Administrative Fund allocations and the amount they spent in fiscal year 1990-91 and 1991-92 through April 1992.

**Table 11** **Summary of Administrative Fund Expenditures for Contributions, Gifts, Dues, and Miscellaneous Fiscal Year 1990-91 and 1991-92 Through April 1992**

| Executive | 1990-91 | 1991-92 |
|---|---|---|
| **President Gardner** | | |
| Contributions | $ 445 | $ 1,163 |
| Gifts | 213 | 1,014 |
| Dues | 2,409 | 2,101 |
| Miscellaneous | 245 | 693 |
| **Total** | **$ 3,312** | **$ 4,971** |
| **Treasurer Gordon** | | |
| Contributions | $ 630 | $ 150 |
| Gifts | 175 | 200 |
| Dues | 2,164 | 160 |
| Miscellaneous | 22 | 167 |
| **Total** | **$ 2,991** | **$ 677** |
| **General Counsel Holst** | | |
| Contributions | $ 0 | $ 0 |
| Gifts | 249 | 471 |
| Dues | 1,077 | 915 |
| Miscellaneous | 414 | 288 |
| **Total** | **$ 1,740** | **$ 1,674** |
| **Senior Vice President Brady** | | |
| Contributions | $ 0 | $ 0 |
| Gifts | 0 | 20 |
| Dues | 995 | 957 |
| Miscellaneous | 233 | 266 |
| **Total** | **$ 1,228** | **$ 1,243** |
| **Senior Vice President Frazer** | | |
| Contributions | $ 110 | $ 0 |
| Gifts | 242 | 266 |
| Dues | 990 | 1,290 |
| Miscellaneous | 266 | 157 |
| **Total** | **$ 1,608** | **$ 1,713** |
| **Vice President Baker** | | |
| Contributions | $ 175 | $ 50 |
| Gifts | 5,006 | 6,103 |
| Dues | 1,481 | 1,485 |
| Miscellaneous | 304 | 500 |
| **Total** | **$ 6,966** | **$ 8,138** |

| Executive | 1990-91 | 1991-92 |
|---|---|---|
| **Vice President Hopper** | | |
| Contributions | $ 75 | $ 100 |
| Gifts | 393 | 96 |
| Dues | 1,008 | 955 |
| Miscellaneous | 826 | 323 |
| **Total** | **$ 2,302** | **$ 1,474** |
| **Vice President Farrell** | | |
| Contributions | $ 0 | $ 200 |
| Gifts | 862 | 713 |
| Dues | 1,355 | 1,052 |
| Miscellaneous | 1,538 | 1,061 |
| **Total** | **$ 3,755** | **$ 3,026** |
| **Secretary Smotony** | | |
| Contributions | $ 0 | $ 0 |
| Gifts | 35 | 168 |
| Dues | 1,080 | 1,035 |
| Miscellaneous | 84 | 19 |
| **Total** | **$ 1,199** | **$ 1,222** |
| **Director Shank** | | |
| Contributions | $ 0 | $ 0 |
| Gifts | 1,382 | 659 |
| Dues | 515 | 765 |
| Miscellaneous | 266 | 868 |
| **Total** | **$ 2,163** | **$ 2,292** |
| **Chancellor Young** | | |
| Contributions | $ 540 | $ 785 |
| Gifts | 965 | 1,358 |
| Dues | 3,555 | 3,820 |
| Miscellaneous | 212 | 504 |
| **Total** | **$ 5,272** | **$ 6,467** |
| **Chancellor Peltason** | | |
| Contributions | $ 0 | $ 25 |
| Gifts | 1,024 | 510 |
| Dues | 2,653 | 1,690 |
| Miscellaneous | 2,526 | 140 |
| **Total** | **$ 6,203** | **$ 2,365** |
| **Totals** | | |
| Contributions | $ 1,975 | $ 2,473 |
| Gifts | 10,546 | 11,578 |
| Dues | 19,282 | 16,225 |
| Miscellaneous | 6,936 | 4,986 |
| **Total** | **$38,739** | **$ 35,262** |

## Contributions

During our review, we found it was not always clear whether the contributions paid from the Administrative Fund were made on behalf of the UC, as required by UC policy, or only on behalf of the individual. The Administrative Fund Gift, Contribution, and Miscellaneous Reports we reviewed rarely specified the business benefit derived or expected to be derived by the UC from contributions and gifts, as required by UC policy. Without this substantiation, the person reviewing such expenses cannot determine whether the costs are reasonable in relation to the actual or expected benefits of such contributions or gifts.

For instance, the following table shows examples of contributions President Gardner made that the Administrative Fund ultimately paid for. Although these contributions appear to be for charitable causes, in several cases we were unable to confirm from the records whether they were specifically made on behalf of the UC.

**Table 12** **Selected Contributions President Gardner Made Fiscal Year 1990-91 and 1991-92**

| Date | Amount | Contribution Made to: |
|---|---|---|
| October 1990 | $100 | Commonwealth Club of California |
| November 1990 | 25 | United Way |
| January 1991 | 25 | Pappy's Boys |
| January 1991 | 25 | World Affairs Council |
| January 1991 | 25 | Museum Society of San Francisco |
| January 1991 | 25 | UC Marching Band |
| May 1991 | 25 | Bay Area Tumor Institute |
| October 1991 | 68 | Friends of the San Francisco Symphony |
| November 1991 | 100 | World Affairs Council |
| December 1991 | 100 | UC Berkeley Graduate School of Education |
| December 1991 | 100 | Arthur G. James Cancer Hospital and Research Institute |
| December 1991 | 50 | City of Berkeley Holiday Fund |
| March 1992 | 100 | California Shakespeare Festival |
| **Total** | **$768** | |

In addition, in January 1991 and 1992, Chancellor Young paid a $600 entry fee for the annual Friends of Golf Invitational Tournament, $500 of which was a tax deductible contribution. The tournament is a one-day event held each year at the Bel Air Country Club. The Friends of Golf is a nonprofit organization that raises money for intercollegiate and high school golf programs, in general, and for UCLA, in particular. However, it was unclear whether the contributions were officially made on behalf of the UC.

In June 1991, Treasurer Gordon made contributions of $100 to the California Alumni Association, $100 to the Order of the Golden Bear, and $175 to the UC Berkeley Athletic Department. All of these amounts were originally paid with personal checks and later reimbursed from the Administrative Fund. In addition, letters prepared on UC letterhead by the treasurer's administrative assistant that accompanied each of the three contributions stated that the enclosed checks were from the individual and did not state that the contributions were made on behalf of the UC.

### Gifts Made to Individuals

We noted several instances when the Administrative Fund was used to buy, or contribute toward, gifts for various individuals. As was the case with contributions, it was not always clear that gifts paid for from the Administrative Fund were made on behalf of the UC. Many of the gifts in our review paid for from the Administrative Fund were for UC employees or their families. For example, several gift expenditures were related to Office of the President employees' losses from the 1991 Oakland fire. Specifically, Vice President Baker used the Administrative Fund for gifts related to the Oakland fire. Three of these gifts were for Assistant Vice President Crawford, and one was for Senior Vice President Brady. Also, Treasurer Gordon used the Administrative Fund to buy gift certificates totaling $150 for two Office of the President employees who were victims of the Oakland fire. Additionally, Vice President Hopper used the Administrative Fund in contributing $70 to a shower for the assistant vice president of Employee and Labor Relations and Senior Vice President Brady's wife who sustained losses in the Oakland fire. In addition to using the Administrative Fund, some employees of the Office of the President donated their personal funds in assisting UC fire victims. Other types of expenditures made included contributions to gifts for Office of the President employees for Secretary's Day, retirements, baby showers, and weddings. Also, four of the individuals we reviewed used the Administrative Fund to purchase Christmas cards.

On the other hand, some of the gifts in our review were for individuals outside the UC. For example, five of the executives we reviewed made annual cash contributions from the Administrative Fund to the employee bonus fund of the Lakeview Club Restaurant for Christmas bonuses for its employees. Contribution amounts ranged from $25 to $50. Furthermore, Chancellor Peltason gave cash gratuities totaling $300 to be divided between a waiter and other student employees at the University Club Restaurant, a restaurant and meeting place he uses for business entertaining. In addition, in August 1991, Vice President Farrell spent $575 from the Administrative Fund on 15 engraved sterling silver bookmarks to be used as goodwill gifts for visiting dignitaries. Another of the individuals we reviewed used the Administrative Fund to help purchase a wedding gift for President Gardner's daughter.

However, based on the documentation reviewed, it is not always clear that gifts made to individuals or organizations outside the UC are made on behalf of the UC. For example, it was not clear whether the wedding gift purchased partially with Administrative Fund money for President Gardner's daughter was presented on behalf of the UC.

### Miscellaneous Expenditures

During our review of Administrative Fund reports, we noted several different types of miscellaneous expenditures. Some of these were membership dues for a number of organizations. For example, 11 of the individuals in our sample who receive an Administrative Fund allocation use the Administrative Fund to pay monthly dues to clubs they use for business entertaining. The current annual dues for these clubs range from $1,140 to $2,820.

As another example of miscellaneous expenditures, Vice President Farrell used the Administrative Fund to pay $232 every three months for the rental of four artworks for his office. Further, certain individuals used the Administrative Fund to pay annual fees for credit cards used for charging business expenses and to purchase professional publications.

In addition, in March 1991, Vice President Hopper purchased formal wear at a cost of $508 and dress shoes at a cost of $241, for a total of $749, which was ultimately paid from the Administrative Fund. The items were purchased for several formal occasions during the year when the vice president represented the UC. Vice President Baker approved the purchase in advance.

**Travel**

We found that the UC's policies on travel are not always helpful in determining whether some costs are legitimate. Specifically, the UC's Policy and Regulations Governing Travel (Business and Finance Bulletin G-28) states that all official travel must be properly authorized, reported, and reimbursed in accordance with the policy, except as otherwise noted. Also, UC employees traveling on official business must observe normally accepted standards of propriety in the type and manner of expenses they incur. The policy further states that only those travel expenses that are "ordinary and necessary" to accomplish the official business purpose of the trip are eligible for reimbursement. These policies apply to all official UC travel.

Although the UC's Policy and Regulations Governing Travel states that only those travel expenses that are "ordinary and necessary" to accomplish the business purpose of the trip are eligible for reimbursement, the policy does not clearly define what expense amounts are considered "ordinary and necessary." Moreover, several sources of funds are used to reimburse travel expenses including, but not limited to, the General Fund, Office of the President - Common Fund, and the Administrative Fund. Therefore, even though the UC's Administrative Fund Reporting Procedures state that travel expenses reimbursed from the

Administrative Fund are those that have been incurred in an official capacity and that exceed the amount reimbursable under the UC's travel regulations, it is not clear how to determine which amounts being claimed for reimbursement exceed the amounts reimbursable under the UC's travel regulations.

Table 13 shows the amounts spent by each of the executives we reviewed who were reimbursed by the Administrative Fund for travel expenses. The amounts shown represent reimbursements from the Administrative Fund in excess of amounts that are reimbursable under the UC's travel regulations. The totals also include amounts spent for spouses to accompany the executives on UC business.

**Table 13** **Administrative Fund Travel Expenditures Fiscal Year 1990-91 and 1991-92 Through April 1992**

| Executive | 1990-91 | 1991-92 | Total |
|---|---|---|---|
| President Gardner | $ 4,579 | $ 608 | $ 5,187 |
| Treasurer Gordon | 0 | 0 | 0 |
| General Counsel Holst | 668 | 0 | 668 |
| Senior Vice President Brady | 1,099 | 1,530 | 2,629 |
| Senior Vice President Frazer | 240 | 492 | 732 |
| Vice President Baker | 7,085 | 5,284 | 12,369 |
| Vice President Hopper | 492 | 1,025 | 1,517 |
| Vice President Farrell | 732 | 349 | 1,081 |
| Secretary Smotony | 0 | 0 | 0 |
| Director Shank | 3,162 | 6,819 | 9,981 |
| Chancellor Young | 11,430 | 9,552 | 20,982 |
| Chancellor Peltason | 0 | 0 | 0 |
| **Total** | **$29,487** | **$25,659** | **$55,146** |

## Use of Airplanes Leased and Owned by UCLA

We were asked to review costs related to executives' use of airplanes leased and owned by UCLA. Although we were unable to determine the costs of all executive trips, we found that the cost of some trips appeared to be excessive.

In September 1988, UCLA purchased a Piper Cheyenne 400 aircraft at a cost of $1,850,000. It sold the plane in June 1990 for $1,570,000. At a cost of $2,828,875, UCLA also purchased a Lear Jet, which it owned from March 1990 until August 1991 when it was sold for $2,065,000. The aircraft was sold to reduce expenses. UCLA purchased the planes for use by the UCLA Medical Center for organ transplant trips, but it anticipated that use would be divided equally between the UCLA Medical Center, the UCLA Office of the Chancellor, the Office of the President, and other UC and non-UC campuses and medical centers.

Before the purchase of the first aircraft, the UCLA had a short-term lease with the Piper Company for the use of the aircraft. According to a letter to Senior Vice President Brady from Administrative Vice Chancellor Schultze of UCLA in September 1988, in calendar year 1987, a total of 25 trips were made in the UCLA-leased aircraft by members of the regents and the Office of the President, 16 trips were made by a group of two or more chancellors and other UC officials to and from council of chancellors' and regents' meetings, and 8 trips were made by UCLA officials only. The administrative vice chancellor thought that the use of the leased aircraft over the previous three years had demonstrated the significant value of having an aircraft available for UC use.

During fiscal year 1987-88, UCLA charged users for each trip. In fiscal years 1988-89, 1989-90, and 1990-91, UCLA distributed the charges to users based on the approximate percentage of use during each year. The approximate percentages used to distribute shared costs at each year-end are outlined below.

**Table 14** **Distribution of Airplane Shared Costs and Approximate Percentage of Use of UCLA Airplane Fiscal Year 1988-89 Through 1990-91**

| Fiscal Year | Office of the President | UCLA | Medical Center |
|---|---|---|---|
| 1988-89 | | | |
| Distribution of Shared Costs | $156,240 | $229,538 | $192,889 |
| Approximate Usage | 27.0% | 39.7% | 33.3% |
| 1989-90 | | | |
| Distribution of Shared Costs | $ 52,602 | $177,474 | $241,585 |
| Approximate Usage | 11.0% | 38.0% | 51.0% |
| 1990-91 | | | |
| Distribution of Shared Costs | $ 42,399 | $ 55,966 | $ 55,996 |
| Approximate Usage | 25.0% | 37.5% | 37.5% |

As can be seen in Table 14, Medical Center uses ranged from approximately 33 percent to 51 percent of total use. Medical Center uses were primarily for organ transplants and patient transport.

The following are examples of airplane usage. We have included estimated costs for each trip made during fiscal year 1987-88:

- On May 11, 1988, the UCLA plane flew from Santa Monica to Santa Ana to pick up Senior Vice President Brady and fly him to Oakland. Senior Vice President Brady had been in Irvine attending UC-related meetings. The estimated trip cost was $1,160.

- On May 16, 1988, the UCLA plane flew from Santa Monica to Oakland to pick up Senior Vice President Brady and two other Office of the President staff to fly them to San Diego to attend meetings at UC San Diego. Later the same day, Senior Vice President Brady and the two other individuals were flown back to Oakland, and the plane then returned to Santa Monica. The total estimated cost was $3,770 to fly three people round-trip between Oakland and San Diego.

- On June 7, 1988, the UCLA plane flew from Santa Monica to Oakland, where, at 7:30 a.m. on June 8, it was used to fly President Gardner, Senior Vice President Brady, Vice President Baker, and two other Office of the President staff from Oakland to Santa Ana to attend a chancellors' meeting at UC Irvine. The plane returned the same individuals to Oakland at 5:40 p.m. At 6:00 p.m., the plane flew President Gardner from Oakland to Santa Maria and returned to Santa Monica. At 9:30 p.m., the plane flew President Gardner from Santa Monica to Oakland via Concord. The total estimated trip cost for June 7 and 8, 1988, was $5,075.

We do not have estimates of the cost of trips after fiscal year 1987-88 because, beginning in fiscal year 1988-89, airplane costs were distributed to users based on the approximate percentage of use during the year.

### Use of Frequent Flyer Miles

We found one instance in which President Gardner used frequent flyer awards earned while on UC business for his own personal benefit. The UC does not have guidelines governing the use of frequent flyer miles earned while on official UC business.

On the occasion we noted, President Gardner used frequent flyer awards earned while traveling on UC business to purchase a round-trip flight to Hong Kong for his daughter in 1990. The value of the round-trip flight from San Francisco to Hong Kong was $3,880.

According to a letter from the UC controller, the UC's Policy and Regulations Governing Travel specifically does not address frequent flyer awards for several reasons. One of the reasons cited in the letter is that the UC suffers no economic loss as a result of the award of frequent flyer mileage to UC travelers. However, the UC can save money when travelers use frequent flyer awards for travel on UC business. In addition, for comparative purposes, frequent flyer awards state employees receive while traveling on official business are the property of the State.

### Payment for Lodging in San Francisco

During our review of travel expense claims, we found several instances where, we believe, executives, including President Gardner, claimed unnecessary lodging expenses. The UC's Policy and Regulations Governing Travel specify that lodging expenses incurred "within the vicinity" of an employee's headquarters or residence must not be reimbursed. Although the policy does not define what is meant by "within the vicinity," we reviewed the

California Code of Regulations, Title 2, Section 599.616, for comparative purposes. This code section applies to state employees and prohibits payment of lodging expenses incurred within 25 miles of an employee's headquarters. While UC employees are not bound by these regulations, we believe they provide a reasonable definition of what is "within the vicinity" of headquarters and provide prudent guidance for the reimbursement of travel expenses. Furthermore, the UC's travel policy states that reimbursement of daily subsistence expenses for lodging must be based on actual amounts incurred. For state employees, the current California Code of Regulations, Section 599.619, limits the amount that will be reimbursed for lodging expenses to $79 a night, plus tax. The individual must pay any excess.

We reviewed the travel expense claims filed during fiscal year 1990-91 and 1991-92 through April 1992 for each of the executives in our sample to determine whether the expenses were properly authorized, reported, and reimbursed in accordance with the UC's policy.

In our review of travel expense claims filed, we noted numerous instances when lodging expenses were claimed for accommodations within 25 miles of the employee's headquarters. For example, on several occasions when attending meetings held in San Francisco, which is approximately 10 miles from the UC's Oakland headquarters, President Gardner claimed reimbursement for lodging expenses incurred. In July 1991, for instance, he stayed at the Four Seasons Clift Hotel in San Francisco for two nights at a cost to the UC of $370. The room rate was $165 per night plus tax. The purpose of the trip was to attend regents' meetings, Academic Council meetings, and a chancellors' meeting.

Senior Vice President Brady also claimed reimbursement for lodging expenses incurred in San Francisco. For example, on November 14 and 15, 1990, he stayed at the Four Seasons Clift Hotel to attend a regents' meeting. The total cost to the UC for two nights was $457, which included a room rate of $175 per night plus tax, parking of $19 per night, and a charge for use of the minibar.

In addition, we noted several instances when Vice President Hopper claimed reimbursement for lodging expenses incurred in San Francisco. In contrast, on several occasions in 1985, he drove home at the end of the day and did not stay overnight in San Francisco. Table 15 provides examples of the difference in cost to the UC between when Vice President Hopper drove home from San Francisco at the end of the day and when he stayed overnight.

**Table 15** **Examples of Vice President Hopper's Trips to San Francisco**

| Date | Place of Lodging | Total Cost to the UC | Purpose |
|---|---|---|---|
| June 20, 1985 | N/A | $ 10.50 | Regents' Meeting |
| June 21, 1985 | N/A | 0.00 | Regents' Meeting |
| November 7, 1985 | N/A | 8.00 | Health Science Committee Meeting |
| November 8, 1985 | N/A | 12.00 | |
| March 15, 1989 | Four Seasons Clift Hotel | 215.03 | Regents' Meeting |
| July 19, 1989 | Parc Fifty Five Hotel | 122.95 | Regents' Meeting |
| November 15, 1989 | Four Seasons Clift Hotel | 200.15 | Regents' Meeting |
| November 16, 1989 | Four Seasons Clift Hotel | 261.76 | Regents' Meeting |
| May 16, 1990 | Four Seasons Clift Hotel | 270.92 | Regents' Meeting |
| November 14, 1990 | Four Seasons Clift Hotel | 217.52 | Regents' Meeting |
| February 13, 1991 | Four Seasons Clift Hotel | 234.08 | Regents' Meeting |
| September 19, 1991 | Four Seasons Clift Hotel | 255.10 | Regents' Meeting |

We noted that President Gardner, Senior Vice President Brady, Vice President Hopper, and Secretary Smotony all obtained reimbursement for lodging in San Francisco.

## First Class Travel

Some of the individuals in our review used their Administrative Fund allocations to pay for first class travel. The UC's travel regulations state that, as a general rule, all travelers must use the most economical mode of transportation. However, the president may approve exceptions in advance. In addition, the UC's Administrative Fund Reporting Procedures state that the Administrative Fund may be used to reimburse travel expenses incurred in an official capacity that exceed the amounts reimbursable under the UC's travel regulations. However, we believe that it does not benefit the UC when its employees choose first class travel if more economical means are available. For example, President Gardner used the Administrative Fund to pay for the difference between coach and first class airfare. Specifically, in April 1991, he flew first class from San Francisco to New York and Washington, D.C., and back to San Francisco. First class airfare was $2,228, and coach was $1,332. The difference of $896 was paid from the Administrative Fund. In November 1991, President Gardner flew first class from San Francisco to Honolulu for a ground breaking and dedicating ceremony. First class airfare was $1,892 and coach was $1,284. The difference of $608 was paid from the Administrative Fund.

In addition, Vice President Baker used the Administrative Fund to purchase upgrade certificates that can be used for first class travel. For example, in January 1991, he used the Administrative Fund to purchase 12 upgrade certificates for a total of $240.

On another occasion, President Gardner rented a limousine during a trip to Washington D.C. for himself, Vice President Baker, and the UC's director of Federal Government Relations. The total rental cost of $777 was paid from the UC's General Fund.

### Reimbursement for Meals for Which the UC Had Already Paid

During our review, we found two instances when the UC reimbursed executives for meals it had already paid for. When UC employees travel for business, they are entitled to reimbursement for the cost of meals and incidental expenses up to a maximum daily amount. In lieu of submitting receipts for the actual cost of meals, employees may request reimbursement at the per diem rate. According to the UC's Policy and Regulations Governing Travel, this maximum amount has been $37 per day since July 1, 1990. As a guideline, the per diem rate comprises $5.50 for breakfast, $9.50 for lunch, $17.00 for dinner, and $5.00 for incidental expenses such as tips or laundry.

However, during our review of entertainment and travel expenses, we noted that two executives had submitted claims for meal reimbursement, at the maximum daily amount, that had already been paid for by another executive. Specifically, Assistant Vice President Swartz attended a business meeting in Los Angeles in September 1990. She submitted a travel claim requesting the maximum allowance for meals and incidental expenses for 22 hours, beginning at 4:30 p.m. on September 19 and ending at 2:30 p.m. on September 20. However, according to Senior Vice President Brady's expense records, on September 19, 1990, at a cost of $136, or $34 per person, and using his UC corporate credit card, he had purchased dinner for Assistant Vice President Swartz, another Office of the President employee, and an employee of the Lawrence Berkeley Laboratory.

Similarly, Senior Vice President Frazer traveled to Washington, D.C., in January 1991, to attend a Department of Energy meeting. For January 7, he submitted a travel claim requesting the maximum reimbursement allowed for meals. However, according to Senior Vice President Brady's expense records, he had purchased dinner for Senior Vice President Frazer, General Counsel Holst and the UC's director of Federal Government Relations on January 7, 1991, at a cost of $129, or approximately $32 per person.

# Chapter 4 University of California Administrative Offices

**Chapter Summary**

We reviewed the University of California's (UC) relocation of its Office of the President to Oakland, California, and its establishment of additional offices in Irvine, California.

## Office of the President Kaiser Building

The UC's Office of the President is currently located at the Kaiser building in Oakland in approximately 327,800 square feet of leased space. The Office of the President relocated to this space from 238,000 square feet of office space located in six leased sites and one university-owned site in Berkeley. The relocation was carried out for three principal reasons:

- To reduce the overall long-term cost of the Office of the President's leased space;
- To resolve the organizational problems of managing a staff situated at multiple sites; and
- To allow the UC Berkeley campus to occupy the 135,000 square feet of space in University Hall in Berkeley that the Office of the President had occupied.

According to the UC, it currently pays an average net rent for the Kaiser building, weighted for various lease terms and floor areas, of $13.76 per square foot per year.

According to information the UC provided, the UC has funded approximately $11 million of the cost of improvements to the Kaiser building. Although the average UC funding for improvements to the Kaiser building was $35.20 per square foot, funding for improvements to 8,800 square feet in the executive suite on the 22nd floor was $93.48 per square foot. Finally, according to the UC, the furniture in the executive suite cost approximately $315,000. The executive suite houses 24 employees, including the immediate offices of the president and the two senior vice presidents.

### Office of the President Southern California Conference Facility

Our review of the various costs associated with maintaining and furnishing the UC Office of the President's Irvine facility indicated the following:

- Rent payments from February 1988 through June 1992 totaled $569,238;
- Rent liability under the remainder of the lease through January 31, 1993, is $107,142;
- The UC's share of the initial costs of tenant improvements to the facility was $259,588; and
- The inventory of furnishings and office equipment in the facility at June 30, 1991, was valued at $293,249.

We also reviewed usage records for the Irvine facility from when it opened through June 1992. These indicated that a total of 674 meetings or events had taken place at the Irvine facility during that period. The allocated cost of rent, improvements, furnishings, and equipment per meeting over this period was $1,665. While the furnishings and equipment will continue to have value after January 31, 1993, when the facility closes, this figure does not account for certain other costs of maintaining the facility, such as utilities, supplies, and the salary of the office manager, or the direct costs of hosting events there, such as airfare and catering.

## Office of the President Kaiser Building

The Regents of the University of California (regents) entered into a lease with Kaiser Aluminum and Chemical Corporation in November 1987 for space in the Kaiser building to be used as administrative offices for portions of the Office of the President. As the UC reported in June 1987, the UC's decision to begin negotiations for a lease of the Kaiser building followed upon the review of 23 proposals for sites in various Bay Area locations, of which the Kaiser building proposal had been the most responsive. The initial lease was for approximately 130,000 square feet on five floors of the Kaiser building. Since that time, the UC has expanded the total of leased space it occupies in the Kaiser building to approximately 327,800 square feet on 14 floors and the basement. The lease term for most of this space (316,000 square feet) ends in 1998.

### The UC's Decision To Relocate

Before the relocation of the Office of the President staff to the Kaiser building, the staff was located in University Hall (adjacent to the UC Berkeley campus) and at six leased sites in Berkeley, for a total of 238,000 square feet. The decision to relocate a portion of the staff in 1987 was based on economic and managerial considerations. Specifically, in July 1987, according to Senior Vice President Brady, the UC was spending an average of $13.50 per square foot per year for approximately 106,000 square feet of leased space in Berkeley, spread over six locations; further, he estimated that the cost of this space (and additional leased space, up to 150,000 square feet) would average $15 to $17 per square foot over ten years. In contrast, the UC believed that a long-term lease at the Kaiser building would cost approximately $13 per square foot per year, averaged over ten years, and would allow for the orderly consolidation of the Office of the President in one location. Although he indicated at that time that there was no specific plan to relocate more than one third of the Office of the President's staff to the Kaiser building, the regents' Committee on Grounds and Buildings had earlier stated an objective of ultimate consolidation of all Office of the President functions in a single location.

The regents authorized execution of the initial lease for 126,000 square feet at the Kaiser building in September 1987. The first move of about 300 staff took place in April 1988. (As staff relocated to the Kaiser building, they were paid a cash relocation allowance of $250 each; our review of payroll records showed that 17 executives in our review, including President Gardner, received this allowance.) Then, in May 1988, President Gardner recommended that the regents approve an amendment to the lease that would gradually increase the total space the Office of the President would lease in the Kaiser building to 251,000 square feet by December 1990. These additions to the amount of space the UC would lease at the Kaiser building resulted, in part, from UC Berkeley's critical need for space on its campus. Specifically, President Gardner believed that moving the Office of the President to the Kaiser building, rather than maintaining the space at University Hall in Berkeley, would contribute to efficiencies of operation while freeing up space in University Hall for UC Berkeley's use. By 1991, the UC's plans described a four-phase relocation to the Kaiser building that would include occupancy of more than 290,000 square feet. As of March 1992, UC records show occupancy of 327,771 square feet.

### Current Kaiser Building Occupancy

The configuration of the various Office of the President divisions in the Kaiser building as of March 1992 was as follows:

| | |
|---|---|
| President's Immediate Office | 5,271 square feet |
| Senior Vice President of Academic Affairs | 35,872 square feet |
| Senior Vice President of Administration | 172,499 square feet |
| Vice President of Agriculture and Natural Resources | 27,874 square feet |
| Vice President of Budget and University Relations | 25,617 square feet |
| Vice President of Health Affairs | 9,795 square feet |
| General Counsel of the Regents | 22,542 square feet |
| Secretary of the Regents | 3,752 square feet |
| Treasurer of the Regents | 13,605 square feet |
| Unassigned/Building Management | 7,941 square feet |
| Basement Uninterrupted Power Source | 968 square feet |
| Mall Conference Space | 2,035 square feet |
| Total | 327,771 square feet |

The UC now estimates that the average net rent for the Kaiser building space over the various lease terms is $13.76. As noted above, the Office of the President paid approximately $13.50 net rent per square foot for the space it formerly leased in Berkeley. Further, Senior Vice President Brady estimated that the cost of leased space in Berkeley over ten years would be $15 to $17 per square foot. Nonetheless, we noted that the Office of the President occupied only 238,000 square feet of space in Berkeley compared to approximately 327,800 square feet in the Kaiser building. Further, only about 106,000 of the square feet in Berkeley was leased space; the remainder was in University Hall, which the UC owned.

However, a comprehensive cost-benefit analysis of the Office of the President's relocation to the Kaiser building must consider other factors in addition to the total cost of rent before and after the move. For example, President Gardner estimated that the UC would save $500,000 annually by leasing the vacated University Hall space to the UC Berkeley campus, which had a critical need to expand some facilities off the central campus. Additionally, the relocation of the Office of the President to the Kaiser building was intended to have organizational as well as economic benefits to the UC, which must be considered. However, such a comprehensive analysis of the Kaiser relocation was not within the scope of our audit.

### Improvements and Furnishings for the Kaiser Building

We requested data from the UC regarding the costs incurred to improve the Office of the President's leased space in the Kaiser building. According to information Associate Vice President West provided to us, the UC has funded approximately $11 million of the improvements to 311,000 square feet of the leased Kaiser building space as of July 1992. Kaiser Aluminum and Chemical Corporation contributed an additional $6.5 million to the improvement of the space.

The costs of these improvements varied from floor to floor. The UC's share of improvement costs averaged $35.20 per square foot based on information the UC provided. However, the cost ranged from $0.70 per square foot for approximately 25,000 square feet of space on the 12th floor (subleased from a previous tenant) to $120 per square foot for 20,300 square feet for the 3rd floor data center. Improvements to the executive suite on the 22nd floor, which occupies 8,797 square feet, cost the UC $93.48 per square foot, or a total of $822,344. Further, according to the UC, the furniture in the executive suite cost approximately $315,000. The executive suite houses 24 employees, including the immediate offices of President Gardner and Senior Vice Presidents Brady and Frazer.

## Office of the President Southern California Conference Facility

In May 1987, President Gardner recommended to the Committee on Finance that the UC regents enter into an agreement to lease approximately 6,100 square feet of office space in Irvine, California. Located in a 12-story building near the UC Irvine campus, the office space was primarily for the use of President Gardner and his senior officers. Because the president and his officers met frequently with persons and groups in the Southern California area, President Gardner believed that leasing the facility would permit scheduling of such meetings in a more coordinated, effective, and efficient manner.

Specifically, the UC's stated reasons for leasing the Irvine facility were as follows:

- To provide an attractive meeting space with responsive support equipment and services for UC academic and scientific programs;

- To provide access to approved public organizations that complement the mission of the UC; and

- To provide access to community groups that enhance the role of the UC as a responsive neighbor in the community and the City of Irvine.

In addition, the UC believed that it could hold meetings of campus representatives in the leased space, rather than renting conference space at airport hotels. Finally, President Gardner anticipated being in residence in Southern California periodically, and it was expected that the establishment of the Irvine office would encourage development of stronger ties with the UC's constituencies there.

The facility consists of 6,074 square feet and includes the following: a reception area; a large conference room that can accommodate up to 35 people; two smaller conference rooms, each of which can accommodate 12 people; a large (1,200 square foot) office for the president's use; three smaller private offices; a kitchen equipped to serve catered meals and refreshments; and a file and storage room. In addition, the Irvine facility has audio-visual equipment as well as equipment for document reproducing, teleconferencing, electronic mailing, telecopying, and word processing.

### The Irvine Facility's Lease, Rent, and Tenant Improvements

The UC leases the Irvine facility from the Irvine Office and Industrial Company. Under the basic terms of the 60-month lease, which was dated September 14, 1987, and continues until January 31, 1993, the UC paid no rent during the first year. Thereafter, rent was charged at a monthly rate of $10,447 during the second year and $15,306 during the third, fourth, and fifth years. Based on these rental amounts, we calculated the total lease payments for the Irvine facility through June 1992 to be approximately as follows:

| | | |
|---|---|---|
| Year One | (February 1988-January 1989) | $ 0 |
| Year Two | (February 1989-January 1990) | 125,364 |
| Year Three | (February 1990-January 1991) | 183,672 |
| Year Four | (February 1991-January 1992) | 183,672 |
| Year Five | (February 1992-June 1992) | 76,530 |
| Total | | $569,238 |

The remaining seven lease payments under the lease (through the January 1993 termination date) would be at the monthly rate of $15,306, thereby totaling an additional $107,142. During the first 60-month term of the lease, the UC did not have to pay for additional operating expenses such as property taxes and some utilities.

The lease also stipulated that the UC and the landlord would share the cost of tenant improvements to the facility. The Irvine Office and Industrial Company agreed to pay for all standard improvements and a portion of above-standard improvements. The portion it would pay for the latter was divided between a maximum of $74 per square foot for improvements to the 1,200 square foot president's office and $14 per square foot for improvements to the remaining 4,149 square feet. According to information the UC provided, the total cost for tenant improvements to the facility was $567,087, or approximately $93 per square foot, based on the total of 6,074 square feet. Of this total, the Irvine Office and Industrial Company paid $307,499, and the UC paid $259,588. The UC further reported to us that approximately 98 percent of the UC's portion of tenant improvements was paid out of the Reserve for President's Use fund. The remaining 2 percent was paid out of state funds.

Based on our review of the Irvine facility lease and the additional information the UC provided, the total cost to the UC of rent and improvements to the facility from February 1988 through June 1992 was $828,826.

### The Irvine Facility's Furnishings and Office Equipment

We visited the Irvine facility in July and reviewed inventory records for furnishings and equipment located there. The records we reviewed were dated as of June 30, 1991, and included a brief description of each item as well as its value. The total value of the furnishings located at the Irvine facility at that date was $197,554. These furnishings included the following: two Iranian carpets valued at a total of $44,854; two credenzas valued at a total of $15,179; 38 swivel chairs valued at a total of $31,198; and a variety of tables, chairs, desks, and other items valued at a total of $106,323. The total value of the office equipment at the Irvine facility at that date was $95,695. The equipment included the following: a communications controller valued at $36,845; a security system valued at $17,326; a telephone system control station valued at $12,033; and a variety of computer, video, telefax, and other equipment valued at a total of $29,491.

In addition, records at the Irvine facility identified a variety of other items in inventory valued at less than $500 each. Since the report did not assign specific values to these items, we were unable to determine their total value. However, the inventory report indicated that the facility was equipped with twelve Wedgewood Bone China place settings; various quantities of brandy snifters, sherry cordial glasses, crystal white and red wine glasses, crystal iced tea glasses, crystal cocktail glasses, and stemmed and plain water glasses; two sets of flatware; and a variety of kitchen utensils, cookware, coffee pots, and other items. Finally, we noted that the UC Los Angeles Wight Art Gallery had lent several artworks under a loan agreement to the Irvine facility. For example, the agreement for June 1 to December 31, 1991, identified six paintings on loan to the Irvine facility, including works by Gainsborough, Constable, and Van Ruisdael. The six paintings were insured for a total of $275,000.

Our review of the inventory records at the Irvine facility indicated that the furnishings and office equipment there at June 30, 1991, had a total value of at least $293,249. This figure does not include the value of those furnishings for which cost information was not reported in the records we reviewed. It should be noted that the furnishings and equipment at the facility will continue to have a useful life after the Irvine facility is closed.

## Usage of the Irvine Facility

During our visit to the Irvine facility, we also reviewed reports that summarized the usage of the facility since it opened. These reports identified events and meetings scheduled at the facility and the names of the individuals hosting the functions. In addition, the reports summarized the number of events and meetings held at the facility each year and the particular campus or Office of the President division that sponsored each event. Based on the information in these reports, the Irvine facility was used for 45 meetings in fiscal year 1987-88; for 175 meetings in fiscal year 1988-89; 150 in fiscal year 1989-90; 177 in fiscal year 1990-91; and 59 in the first half of fiscal year 1991-92. A separate report indicated that 68 conferences or meetings were held in the facility in the second half of fiscal year 1991-92. Thus, a total of 674 functions have taken place at the Irvine facility from its opening through June 30, 1992.

Information in the Irvine facility usage reports indicated that the 606 functions that took place there from its opening through December 1991 were split among the campuses and Office of the President divisions as follows:

| | |
|---|---|
| Campus Events | 91 |
| Office of the President Events | 515 |

Among the functions held at the Irvine facility in 1991 were eight conferences titled "Human Options," hosted by a member of the regents; a meeting of the External/Internal Audit Committee, hosted by the UC controller; the UC Davis Regents Scholarship Interviews; several meetings of vice chancellors; and a meeting of Home Loan Coordinators. From the opening of the facility until December 31, 1991, usage records indicate that President Gardner or his wife hosted a total of eight functions at the Irvine facility. The last of these was in June 1990.

Of the 91 campus-sponsored events that occurred at the facility, the UC Irvine campus sponsored 72. The events sponsored by the Office of the President were divided among six divisions of the Office, as follows:

| | |
|---|---|
| Immediate Office of the President | 18 |
| Academic Affairs | 178 |
| Administration | 261 |
| Budget and University Relations | 34 |
| Health Affairs | 19 |
| Agriculture and Natural Resources | 5 |
| Total | 515 |

Thus, based on a percentage of total use, the campuses and divisions of the Office of the President used the facility as follows:

| | |
|---|---|
| UC Irvine | 11.9% |
| Other Campuses | 3.1 |
| Immediate Office | 3.0 |
| Academic Affairs | 29.4 |
| Administration | 43.1 |
| Budget and University Relations | 5.6 |
| Health Affairs | 3.1 |
| Agriculture and Natural Resources | 0.8 |
| Total | 100.0% |

During the course of our audit, the UC notified the Irvine Office and Industrial Company that it did not plan to renew the five-year lease and that it would be willing to arrange for occupancy of a new tenant by December 1, 1992. The UC stated that an extremely difficult budgetary climate precluded extending the lease. Our review of usage reports and associated correspondence relating to the period from July through December 1991 indicates that the Office of the President was aware of a decline in facility usage as well.

# Chapter 5 Recommendations to the University of California

The University of California (UC) has a number of responsibilities to the public and governments that contribute to its funding. However, during our review of the UC's compensation of its executives, we noted several areas of concern. To assist the UC to ensure that it fulfills its responsibilities, we make the following observations and recommendations.

With regard to salaries and other forms of compensation, we noted that the Regents of the University of California (regents) may have approved some salary increases that were larger than the regents may have believed. In addition, although the regents approved several Nonqualified Deferred Income Plans, the regents' items they approved for them were not always specific as to the amounts that would actually be paid. Moreover, staff's differing interpretations of the regents' intent could result in significant differences in the amounts the regents have actually committed. To resolve these kinds of problems, we suggest the UC take the following action:

- Ensure the regents receive accurate and complete information so that they can make well-informed decisions and staff can implement the decisions as the regents intended.

In addition, we noted that, for six months, the UC paid two individuals at a rate higher than that approved by the regents. We suggest the UC take the following actions:

- Pay individuals only the amounts that have been properly approved; and

- Recover the overpayments made to the two individuals.

With regard to vacation and sick leave, we noted that, according to their engagement calendars and leave records, all six of the executives whose leave we reviewed failed to report absences related to illness or medical appointments. In addition, five of the six failed to report vacation leave. According to the UC, executives should not report leave for absences of less than one day. However, its formal policy makes no such statement. We suggest the UC take the following actions:

- Charge leave balances for unreported leave taken; and

- Clarify its policy requiring executive leave reporting. If the UC does not expect executives to report absences of less than one day, it should reconsider the amount of sick leave it allows executives to earn.

We also noted that when the UC sold President Gardner's former Utah residence, it may not have been prudent in qualifying the purchaser for a mortgage loan. We suggest the UC take the following action:

- When qualifying individuals outside the UC's employ for home loans, exercise prudence in assessing the borrower's ability to repay the loan.

In addition, we noted that the UC did not always obtain proper approval when paying executives' moving and relocation expenses and when granting relocation incentives. Further, the UC did not always properly account for reimbursed moving expenses as taxable income to the recipient. Furthermore, the UC granted a relocation incentive to one individual who did not have to relocate as a condition of employment. We suggest the UC takes the following actions:

- Ensure that the proper officials approve any compensation payments and exceptions that require approval;

- Ensure that all reimbursements of moving and relocation expenses are accounted for as taxable income to the recipient;
- Issue corrected W-2 or 1099 forms to the two executives whose original gross income did not reflect all moving expense reimbursements; and
- Ensure it does not grant relocation incentives to individuals who do not relocate as a condition of employment.

Further, we noted that the UC's policies regarding entertainment and travel do not provide specific guidance as to what are "ordinary and necessary" expenses. Furthermore, it appears that some Administrative Fund and other expenditures for entertainment and travel may not be in the UC's best interest. We suggest the UC's regents take the following actions:

- Reevaluate and clarify policies regarding appropriate entertainment and travel expenditures and decide whether, or the extent to which, the Administrative Fund should be used to reimburse meals and lodging within the vicinity of UC employees' headquarters;
- Reevaluate and clarify policies regarding whether, or the extent to which, the Administrative Fund should be used to entertain employees of the Office of the President exclusively; and
- Consider establishing a maximum lodging amount that the UC will reimburse.

Furthermore, we were unable to determine whether all contributions and gifts paid for by the Administrative Fund were made on behalf of the UC, as policy requires, or made only on behalf of the individual authorizing the contribution or gift. We suggest the UC take the following action:

- Ensure that all contributions, gifts, and other miscellaneous expenses that it reimburses are clearly documented and appropriately made. Documentation should clearly show that contributions and gifts were made on behalf of the UC and not just on behalf of the individual authorizing the expenditure.

Finally, we found no policies governing the use of frequent flyer miles earned while traveling on UC business. We suggest the UC take the following action:

- To save money, ensure that any frequent flyer bonuses that executives receive while on official business are used for the UC's benefit and not just for the individuals'.

We conducted this review under the authority vested in the auditor general by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,

Kurt R. Sjoberg

KURT R. SJOBERG
Auditor General (acting)

Date: August 24, 1992

Staff: Thomas A. Britting, Audit Manager
Ann K. Campbell
Thomas P. Roberson
Cynthia A. Sanford

# Appendix A Summary of Compensation and Benefits David Gardner, President, University of California

| | Actual Cost July 1, 1991 to April 30, 1992 | Annualized Rate Fiscal Year 1991-92 |
|---|---|---|
| **Current Compensation and Benefits** | | |
| Base Salary | $202,917 | $243,500 |
| Medical Insurance | 3,910 | 4,692 |
| Life Insurance | 71 | 86 |
| Dental Insurance | 336 | 403 |
| Vision Care | 93 | 112 |
| UC Retirement System | 0 | 0 |
| Nonqualified Deferred Income Plan | | 121,237[a] |
| Housing Allowance | 20,850 | 25,020[b] |
| Housing Maintenance | | 35,596[c] |
| Executive Program Severance | 10,146 | 12,175 |
| Associate Program Severance | 0 | 0 |
| Leased Vehicle | 8,376 | 10,051[d] |
| **Total** | **$246,699** | **$452,872** |
| **Retirement Package Annual Benefits** | | |
| UC Retirement Annuity | 104,771[e] | |
| Special Supplemental Retirement Annuity | 21,478[e] | |
| Housing Allowance | 0[f] | |
| Annuitant Health Benefit | 0[g] | |
| **Total** | **$126,249** | |
| **Retirement Package Lump-Sum Benefits** | | |
| Supplemental Retirement | 20,500 | |
| Special Supplemental Retirement | 306,000 | |
| Executive Program Severance | 74,714 | |
| **Total** | **$401,214** | |

[a]This figure is the actual amount for fiscal year 1991-92.

[b]On a pretax basis, President Gardner's housing allowance will contribute approximately $210,550 towards the principal balance of his mortgage loan. Therefore, over the life of the loan, the UC will have contributed this amount towards President Gardner's equity in the Orinda home.

[c]Housing maintenance information for calendar year 1991. Information for 1992 was unavailable.

[d]Leased vehicle amounts include business expenses as well as personal expenses. In calendar year 1991, President Gardner reported using his leased vehicle for personal purposes 47.4 percent of the total.

[e]Amounts are estimated by the UC based on a hypothetical retirement date of April 1993.

[f]As of August 14, 1992, President Gardner has stated that he does not intend to accept housing allowance payments after he resigns his position on December 31, 1992. However, should he change his intentions, the regents have committed themselves to paying him an annual housing allowance of $25,020 until he repays his mortgage loan.

[g]Retirees are currently entitled to annuitant health benefits. We did not determine what the cost of these benefits would be if President Gardner receives them when he retires.

Continued on Next Page

| | |
|---|---|
| **One-Time Loans, Compensation, and Benefits** | |
| Mortgage Loan | $297,159 |
| Short-Term Home Loan Program | 0 |
| Other Home Mortgage | 0 |
| Other Loans | 0 |
| Home Purchase | |
| Balance of University of Utah Loan | 142,232 |
| Estimated Equity | 150,000[h] |
| Moving Expenses | 9,089 |
| Relocation Incentive | 0 |
| Home Loan Restructure | 61,800[i] |
| Revised Payment Period for Housing Allowance | 107,568[j] |
| Kaiser Relocation Allowance | 250 |
| Nonqualified Deferred Income Plans | 492,607[k] |

[h] This amount may have exceeded President Gardner's actual equity by $15,000, based on the home's appraised value.

[i] This is the estimated present value of the benefit to President Gardner of his 1984 decision to restructure his home loan.

[j] This is the estimated present value of the benefit to President Gardner of the 1989 decision to change the period over which he receives a housing allowance.

[k] UC estimate of amounts to be paid on January 1, 1993.

# Appendix B Summary of Compensation and Benefits for 21 of the University of California's Top Executives

## Herbert Gordon, Treasurer of the Regents

| | Actual Cost July 1, 1991 to April 30, 1992 | Annualized Rate Fiscal Year 1991-92 |
|---|---|---|
| Current Compensation and Benefits | | |
| Base Salary | $167,000 | $200,400 |
| Medical Insurance | 2,723 | 3,268 |
| Life Insurance | 71 | 86 |
| Dental Insurance | 336 | 403 |
| Vision Care | 93 | 112 |
| UC Retirement System | 0 | 0 |
| Nonqualified Deferred Income Plans | | 82,753[a] |
| Housing Allowance | 0 | 0 |
| Housing Maintenance | 0 | 0 |
| Executive Program Severance | 8,350 | 10,020 |
| Associate Program Severance | 0 | 0 |
| Leased Vehicle | 6,990 | 8,388[b] |
| **Total** | **$185,563** | **$305,430** |

| | |
|---|---|
| One-Time Loans, Compensation, and Benefits Since August 1, 1983 | |
| Mortgage Origination Program | $ 0 |
| Short-Term Home Loan Program | 0 |
| Other Home Mortgage | 0 |
| Other Loans | 0 |
| Home Purchase | 0 |
| Moving Expenses | 0 |
| Moving Incentive | 0 |
| Home Loan Restructure | 0 |
| Kaiser Relocation Allowance | 250 |

[a]This figure is the actual amount for fiscal year 1991-92.

[b]Leased vehicle amounts include business expenses as well as personal expenses. In calendar year 1991, Treasurer Gordon reported using his leased vehicle for personal purposes 81.3 percent of the total.

## James Holst, General Counsel of the Regents

| | Actual Cost July 1, 1991 to April 30, 1992 | Annualized Rate Fiscal Year 1991-92 |
|---|---|---|
| Current Compensation and Benefits | | |
| Base Salary | $142,083 | $170,500 |
| Medical Insurance | 4,117 | 4,940 |
| Life Insurance | 71 | 86 |
| Dental Insurance | 596 | 715 |
| Vision Care | 93 | 112 |
| UC Retirement System | 0 | 0 |
| Nonqualified Deferred Income Plans | | 57,297[a] |
| Housing Allowance | 0 | 0 |
| Housing Maintenance | 0 | 0 |
| Executive Program Severance | 7,104 | 8,525 |
| Associate Program Severance | 0 | 0 |
| Leased Vehicle | 4,726 | 5,671[b] |
| **Total** | **$158,790** | **247,846** |

| | |
|---|---|
| One-Time Loans, Compensation, and Benefits Since August 1, 1983 | |
| Mortgage Origination Program | $ 0 |
| Short-Term Home Loan Program | 0 |
| Other Home Mortgage | 0 |
| Other Loans | 0 |
| Home Purchase | 0 |
| Moving Expenses | 0 |
| Relocation Incentive | 0 |
| Home Loan Restructure | 0 |
| Kaiser Relocation Allowance | 250 |

[a]This figure is the actual amount for fiscal year 1991-92.

[b]Leased vehicle amounts include business expenses as well as personal expenses. In calendar year 1991, General Counsel Holst reported using his leased vehicle for personal purposes for 88.5 percent of the total.

## Ronald Brady, Senior Vice President, Administration

| | Actual Cost July 1, 1991 to April 30, 1992 | Annualized Rate Fiscal Year 1991-92 |
|---|---|---|
| Current Compensation and Benefits | | |
| Base Salary | $141,667 | $170,000 |
| Medical Insurance | 3,249 | 3,899 |
| Life Insurance | 71 | 86 |
| Dental Insurance | 336 | 403 |
| Vision Care | 93 | 112 |
| UC Retirement System | 0 | 0 |
| Nonqualified Deferred Income Plans | | 68,745[a] |
| Housing Allowance | 34,758 | 41,710 |
| Housing Maintenance | 0 | 0 |
| Executive Program Severance | 7,083 | 8,500 |
| Associate Program Severance | 0 | 0 |
| Vehicle Allowance | 6,758 | 8,110 |
| **Total** | **$194,015** | **$301,565** |

| | |
|---|---|
| One-Time Loans, Compensation, and Benefits Since August 1, 1983 | |
| Mortgage Origination Program | $209,050 |
| Short-Term Home Loan Program | 0 |
| Other Home Mortgage | 0 |
| Other Loans | 0 |
| Home Purchase | 0 |
| Moving Expenses | 0 |
| Relocation Incentive | 0 |
| Home Loan Restructure | 0 |
| Kaiser Relocation Allowance | 0 |

[a]This figure is the actual amount for fiscal year 1991-92.

## William Frazer, Senior Vice President, Academic Affairs

| | Actual Cost July 1, 1991 to April 30, 1992 | Annualized Rate Fiscal Year 1991-92 |
|---|---|---|
| Current Compensation and Benefits | | |
| Base Salary | $141,667 | $170,000 |
| Medical Insurance | 3,249 | 3,899 |
| Life Insurance | 71 | 86 |
| Dental Insurance | 596 | 715 |
| Vision Care | 93 | 112 |
| UC Retirement System | 0 | 0 |
| Nonqualified Deferred Income Plans | | 59,857[a] |
| Housing Allowance | 27,806 | 34,758 |
| Housing Maintenance | 0 | 0 |
| Executive Program Severance | 7,083 | 8,500 |
| Associate Program Severance | 0 | 0 |
| Vehicle Allowance | 6,758 | 8,110 |
| **Total** | **$187,323** | **$286,037** |

| | |
|---|---|
| One-Time Loans, Compensation, and Benefits Since August 1, 1983 | |
| Mortgage Origination Program | $450,000 |
| Short-Term Home Loan Program | 0 |
| Other Home Mortgage | 0 |
| Other Loans | 0 |
| Home Purchase | 0 |
| Moving Expenses | 0 |
| Relocation Incentive | 0 |
| Home Loan Restructure | 0 |
| Kaiser Relocation Allowance | 0 |

[a]This figure is the actual amount for fiscal year 1991-92.

## Patricia Small, Associate Treasurer

| | Actual Cost July 1, 1991 to April 30, 1992 | Annualized Rate Fiscal Year 1991-92 |
|---|---|---|
| Current Compensation and Benefits | | |
| Base Salary | $135,750 | $162,900 |
| Medical Insurance | 5,050 | 6,060 |
| Life Insurance | 71 | 86 |
| Dental Insurance | 596 | 715 |
| Vision Care | 93 | 112 |
| UC Retirement System | 0 | 0 |
| Nonqualified Deferred Income Plans | | 34,236[a] |
| Housing Allowance | 0 | 0 |
| Housing Maintenance | 0 | 0 |
| Executive Program Severance | 6,788 | 8,145 |
| Associate Program Severance | 0 | 0 |
| Vehicle Allowance | 6,758 | 8,110 |
| **Total** | **$155,106** | **$220,364** |

| | |
|---|---|
| One-Time Loans, Compensation, and Benefits Since August 1, 1983 | |
| Mortgage Origination Program | $ 0 |
| Short-Term Home Loan Program | 0 |
| Other Home Mortgage | 0 |
| Other Loans | 0 |
| Home Purchase | 0 |
| Moving Expenses | 0 |
| Relocation Incentive | 0 |
| Home Loan Restructure | 0 |
| Kaiser Relocation Allowance | 250 |

[a]This figure is the actual amount for fiscal year 1991-92.

## William Baker, Vice President, Budget and University Relations

| | Actual Cost July 1, 1991 to April 30, 1992 | Annualized Rate Fiscal Year 1991-92 |
|---|---|---|
| Current Compensation and Benefits | | |
| Base Salary | $129,167 | $155,000 |
| Medical Insurance | 5,050 | 6,060 |
| Life Insurance | 71 | 86 |
| Dental Insurance | 596 | 715 |
| Vision Care | 93 | 112 |
| UC Retirement System | 0 | 0 |
| Nonqualified Deferred Income Plans | | 60,293[a] |
| Housing Allowance | 0 | 0 |
| Housing Maintenance | 0 | 0 |
| Executive Program Severance | 6,458 | 7,750 |
| Associate Program Severance | 0 | 0 |
| Leased Vehicle | 5,413 | 9,279[b] |
| **Total** | **$146,848** | **$239,295** |

| | |
|---|---|
| One-Time Loans, Compensation, and Benefits Since August 1, 1983 | |
| Mortgage Origination Program | $310,000 |
| Short-Term Home Loan Program | 0 |
| Other Home Mortgage | 0 |
| Other Loans | 0 |
| Home Purchase | 0 |
| Moving Expenses | 0 |
| Relocation Incentive | 0 |
| Home Loan Restructure | 0 |
| Kaiser Relocation Allowance | 250 |

[a]This figure is the actual amount for fiscal year 1991-92.

[b]This vice president obtained a leased automobile on September 20, 1991. The information shown is for approximately seven months and is annualized on that basis. In addition, it includes business expenses as well as personal expenses. Vice President Baker reported using his leased vehicle 71.2 percent for personal purposes for September and October 1991.

## Cornelius Hopper, Vice President, Health Affairs

| | Actual Cost July 1, 1991 to April 30, 1992 | Annualized Rate Fiscal Year 1991-92 |
|---|---|---|
| Current Compensation and Benefits | | |
| Base Salary | $127,750 | $153,300 |
| Medical Insurance | 4,117 | 4,940 |
| Life Insurance | 71 | 86 |
| Dental Insurance | 596 | 715 |
| Vision Care | 93 | 112 |
| UC Retirement System | 0 | 0 |
| Nonqualified Deferred Income Plans | | 50,471[a] |
| Housing Allowance | 0 | 0 |
| Housing Maintenance | 0 | 0 |
| Executive Program Severance | 6,388 | 7,665 |
| Associate Program Severance | 0 | 0 |
| Leased Vehicle | 4,645 | 5,574[b] |
| **Total** | **$143,660** | **$222,863** |

| | |
|---|---|
| One-Time Loans, Compensation, and Benefits Since August 1, 1983 | |
| Mortgage Origination Program | $406,100 |
| Short-Term Home Loan Program | 0 |
| Other Home Mortgage | 0 |
| Other Loans | 0 |
| Home Purchase | 0 |
| Moving Expenses | 0 |
| Relocation Incentive | 0 |
| Home Loan Restructure | 0 |
| Kaiser Relocation Allowance | 250 |

[a]This figure is the actual amount for fiscal year 1991-92.

[b]Leased vehicle amounts include business expenses as well as personal expenses. In calendar year 1991, Vice President Hopper reported using his leased vehicle for personal purposes 75 percent of the total.

## Kenneth Farrell, Vice President, Agriculture and Natural Resources

| | Actual Cost July 1, 1991 to April 30, 1992 | Annualized Rate Fiscal Year 1991-92 |
|---|---|---|
| Current Compensation and Benefits | | |
| Base Salary | $124,000 | $148,800 |
| Medical Insurance | 2,723 | 3,268 |
| Life Insurance | 71 | 86 |
| Dental Insurance | 336 | 403 |
| Vision Care | 93 | 112 |
| UC Retirement System | 0 | 0 |
| Nonqualified Deferred Income Plans | | 45,450[a] |
| Housing Allowance | 0 | 0 |
| Housing Maintenance | 0 | 0 |
| Executive Program Severance | 6,200 | 7,440 |
| Associate Program Severance | 0 | 0 |
| Leased Vehicle | 4,661 | 5,593[b] |
| **Total** | **$138,084** | **$211,152** |

| | |
|---|---|
| One-Time Loans, Compensation, and Benefits Since August 1, 1983 | |
| Mortgage Origination Program | $240,000 |
| Short-Term Home Loan Program | 0 |
| Other Home Mortgage | 0 |
| Other Loans | 0 |
| Home Purchase | 0 |
| Moving Expenses | 19,810 |
| Relocation Incentive | 0 |
| Home Loan Restructure | 0 |
| Kaiser Relocation Allowance | 250 |

[a]This figure is the actual amount for fiscal year 1991-92.

[b]Leased vehicle amounts include business expenses as well as personal expenses. In calendar year 1991, Vice President Farrell reported using his leased vehicle for personal purposes 25.3 percent of the total.

## Stephen Moore, Assistant Treasurer, Equity Investments

| | Actual Cost July 1, 1991 to April 30, 1992 | Annualized Rate Fiscal Year 1991-92 |
|---|---|---|
| Current Compensation and Benefits | | |
| Base Salary | $115,833 | $139,000 |
| Medical Insurance | 4,117 | 4,940 |
| Life Insurance | 71 | 86 |
| Dental Insurance | 596 | 715 |
| Vision Care | 93 | 112 |
| UC Retirement System | 0 | 0 |
| Nonqualified Deferred Income Plans | 0 | 0 |
| Housing Allowance | 0 | 0 |
| Housing Maintenance | 0 | 0 |
| Executive Program Severance | 5,792 | 6,950 |
| Associate Program Severance | 0 | 0 |
| Vehicle Allowance or Lease | 0 | 0 |
| **Total** | **$126,502** | **$151,803** |

| | |
|---|---|
| One-Time Loans, Compensation, and Benefits Since August 1, 1983 | |
| Mortgage Origination Program | $0 |
| Short-Term Home Loan Program | 0 |
| Other Home Mortgage | 0 |
| Other Loans | 0 |
| Home Purchase | 0 |
| Moving Expenses | 0 |
| Relocation Incentive | 0 |
| Home Loan Restructure | 0 |
| Kaiser Relocation Allowance | 250 |

## Richard West, Associate Vice President, Information Systems and Administrative Services

| | Actual Cost July 1, 1991 to April 30, 1992 | Annualized Rate Fiscal Year 1991-92 |
|---|---|---|
| Current Compensation and Benefits | | |
| Base Salary | $114,750 | $137,700 |
| Medical Insurance | 1,567 | 1,880 |
| Life Insurance | 71 | 86 |
| Dental Insurance | 180 | 216 |
| Vision Care | 93 | 112 |
| UC Retirement System | 0 | 0 |
| Nonqualified Deferred Income Plans | 0 | 0 |
| Housing Allowance | 0 | 0 |
| Housing Maintenance | 0 | 0 |
| Executive Program Severance | 5,738 | 6,885 |
| Associate Program Severance | 0 | 0 |
| Vehicle Allowance or Lease | 0 | 0 |
| **Total** | **$122,399** | **$146,879** |

| | |
|---|---|
| One-Time Loans, Compensation, and Benefits Since August 1, 1983 | |
| Mortgage Origination Program | $ 0 |
| Short-Term Home Loan Program | 0 |
| Other Home Mortgage | 0 |
| Other Loans | 0 |
| Home Purchase | 0 |
| Moving Expenses | 0 |
| Relocation Incentive | 0 |
| Home Loan Restructure | 0 |
| Kaiser Relocation Allowance | 250 |

## John Lundberg, Deputy General Counsel

| | Actual Cost July 1, 1991 to April 30, 1992 | Annualized Rate Fiscal Year 1991-92 |
|---|---|---|
| Current Compensation and Benefits | | |
| Base Salary | $113,333 | $136,000 |
| Medical Insurance | 4,117 | 4,940 |
| Life Insurance | 71 | 86 |
| Dental Insurance | 596 | 715 |
| Vision Care | 93 | 112 |
| UC Retirement System | 0 | 0 |
| Nonqualified Deferred Income Plans | 0 | 0 |
| Housing Allowance | 0 | 0 |
| Housing Maintenance | 0 | 0 |
| Executive Program Severance | 5,667 | 6,800 |
| Associate Program Severance | 0 | 0 |
| Vehicle Allowance | 5,440 | 6,528 |
| **Total** | **$129,317** | **$155,181** |

| | |
|---|---|
| One-Time Loans, Compensation, and Benefits Since August 1, 1983 | |
| Mortgage Origination Program | $ 0 |
| Short-Term Home Loan Program | 0 |
| Other Home Mortgage | 0 |
| Other Loans | 0 |
| Home Purchase | 0 |
| Moving Expenses | 0 |
| Relocation Incentive | 0 |
| Home Loan Restructure | 0 |
| Kaiser Relocation Allowance | 250 |

## Gary Morrison, Deputy General Counsel

| | Actual Cost July 1, 1991 to April 30, 1992 | Annualized Rate Fiscal Year 1991-92 |
|---|---|---|
| Current Compensation and Benefits | | |
| Base Salary | $113,333 | $136,000 |
| Medical Insurance | 1,567 | 1,880 |
| Life Insurance | 71 | 86 |
| Dental Insurance | 180 | 216 |
| Vision Care | 93 | 112 |
| UC Retirement System | 0 | 0 |
| Nonqualified Deferred Income Plans | 0 | 0 |
| Housing Allowance | 0 | 0 |
| Housing Maintenance | 0 | 0 |
| Executive Program Severance | 5,667 | 6,800 |
| Associate Program Severance | 0 | 0 |
| Vehicle Allowance or Lease | 0 | 0 |
| **Total** | **$120,911** | **$145,094** |

| | |
|---|---|
| One-Time Loans, Compensation, and Benefits Since August 1, 1983 | |
| Mortgage Origination Program | $ 0 |
| Short-Term Home Loan Program | 0 |
| Other Home Mortgage | 0 |
| Other Loans | 0 |
| Home Purchase | 0 |
| Moving Expenses | 0 |
| Relocation Incentive | 0 |
| Home Loan Restructure | 0 |
| Kaiser Relocation Allowance | 250 |

## Calvin Moore, Associate Vice President, Academic Affairs

| | Actual Cost July 1, 1991 to April 30, 1992 | Annualized Rate Fiscal Year 1991-92 |
|---|---|---|
| Current Compensation and Benefits | | |
| Base Salary | $112,167 | $134,600 |
| Medical Insurance | 3,910 | 4,692 |
| Life Insurance | 71 | 86 |
| Dental Insurance | 336 | 403 |
| Vision Care | 93 | 112 |
| UC Retirement System | 0 | 0 |
| Nonqualified Deferred Income Plans | 0 | 0 |
| Housing Allowance | 0 | 0 |
| Housing Maintenance | 0 | 0 |
| Executive Program Severance | 5,608 | 6,730 |
| Associate Program Severance | 0 | 0 |
| Vehicle Allowance or Lease | 0 | 0 |
| **Total** | **$122,185** | **$146,623** |

| | |
|---|---|
| One-Time Loans, Compensation, and Benefits Since August 1, 1983 | |
| Mortgage Origination Program | $ 0 |
| Short-Term Home Loan Program | 0 |
| Other Home Mortgage | 0 |
| Other Loans | 0 |
| Home Purchase | 0 |
| Moving Expenses | 0 |
| Relocation Incentive | 0 |
| Home Loan Restructure | 0 |
| Kaiser Relocation Allowance | 250 |

## Lawrence Hershman, Associate Vice President and Director of the Budget

| | Actual Cost July 1, 1991 to April 30, 1992 | Annualized Rate Fiscal Year 1991-92 |
|---|---|---|
| Current Compensation and Benefits | | |
| Base Salary | $108,750 | $130,500 |
| Medical Insurance | 3,910 | 4,692 |
| Life Insurance | 71 | 86 |
| Dental Insurance | 336 | 403 |
| Vision Care | 93 | 112 |
| UC Retirement System | 0 | 0 |
| Nonqualified Deferred Income Plans | 0 | 0 |
| Housing Allowance | 0 | 0 |
| Housing Maintenance | 0 | 0 |
| Executive Program Severance | 5,438 | 6,525 |
| Associate Program Severance | 0 | 0 |
| Vehicle Allowance or Lease | 0 | 0 |
| **Total** | **$118,598** | **$142,318** |

| | |
|---|---|
| One-Time Loans, Compensation, and Benefits Since August 1, 1983 | |
| Mortgage Origination Program | $ 0 |
| Short-Term Home Loan Program | 0 |
| Other Home Mortgage | 0 |
| Other Loans | 0 |
| Home Purchase | 0 |
| Moving Expenses | 0 |
| Relocation Incentive | 0 |
| Home Loan Restructure | 0 |
| Kaiser Relocation Allowance | 250 |

## Carole Swartz, Assistant Vice President, University Benefit Program

| | Actual Cost July 1, 1991 to April 30, 1992 | Annualized Rate Fiscal Year 1991-92 |
|---|---|---|
| Current Compensation and Benefits | | |
| Base Salary | $106,250 | $127,500 |
| Medical Insurance | 3,138 | 3,766 |
| Life Insurance | 71 | 86 |
| Dental Insurance | 336 | 403 |
| Vision Care | 93 | 112 |
| UC Retirement System | 0 | 0 |
| Nonqualified Deferred Income Plans | 0 | 0 |
| Housing Allowance | 0 | 0 |
| Housing Maintenance | 0 | 0 |
| Executive Program Severance | 5,313 | 6,375 |
| Associate Program Severance | 0 | 0 |
| Vehicle Allowance | 6,758 | 8,110 |
| **Total** | **$121,959** | **$146,352** |

| | |
|---|---|
| One-Time Loans, Compensation, and Benefits Since August 1, 1983 | |
| Mortgage Origination Program | $ 0 |
| Short-Term Home Loan Program | 0 |
| Other Home Mortgage | 0 |
| Other Loans | 0 |
| Home Purchase | 0 |
| Moving Expenses | 0 |
| Relocation Incentive | 758 |
| Home Loan Restructure | 0 |
| Kaiser Relocation Allowance | 250 |

## Gary DeWeese, Assistant Treasurer, Real Estate

| | Actual Cost July 1, 1991 to April 30, 1992 | Annualized Rate Fiscal Year 1991-92 |
|---|---|---|
| Current Compensation and Benefits | | |
| Base Salary | $102,167 | $122,600 |
| Medical Insurance | 4,117 | 4,940 |
| Life Insurance | 71 | 86 |
| Dental Insurance | 596 | 715 |
| Vision Care | 93 | 112 |
| UC Retirement System | 0 | 0 |
| Nonqualified Deferred Income Plans | 0 | 0 |
| Housing Allowance | 0 | 0 |
| Housing Maintenance | 0 | 0 |
| Executive Program Severance | 5,108 | 6,130 |
| Associate Program Severance | 0 | 0 |
| Vehicle Allowance or Lease | 0 | 0 |
| **Total** | **$112,152** | **$134,583** |

| | |
|---|---|
| One-Time Loans, Compensation, and Benefits Since August 1, 1983 | |
| Mortgage Origination Program | $ 0 |
| Short-Term Home Loan Program | 0 |
| Other Home Mortgage | 0 |
| Other Loans | 0 |
| Home Purchase | 0 |
| Moving Expenses | 0 |
| Relocation Incentive | 0 |
| Home Loan Restructure | 0 |
| Kaiser Relocation Allowance | 250 |

## Edwin Crawford, Assistant Vice President, University Relations

| | Actual Cost July 1, 1991 to April 30, 1992 | Annualized Rate Fiscal Year 1991-92 |
|---|---|---|
| Current Compensation and Benefits | | |
| Base Salary | $100,000 | $120,000 |
| Medical Insurance | 3,910 | 4,692 |
| Life Insurance | 71 | 86 |
| Dental Insurance | 336 | 403 |
| Vision Care | 93 | 112 |
| UC Retirement System | 0 | 0 |
| Nonqualified Deferred Income Plans | 0 | 0 |
| Housing Allowance | 0 | 0 |
| Housing Maintenance | 0 | 0 |
| Executive Program Severance | 5,000 | 6,000 |
| Associate Program Severance | 0 | 0 |
| Vehicle Allowance or Lease | 0 | 0 |
| **Total** | **$109,410** | **$131,293** |

| | |
|---|---|
| One-Time Loans, Compensation, and Benefits Since August 1, 1983 | |
| Mortgage Origination Program | $185,000 |
| Short-Term Home Loan Program | 0 |
| Other Home Mortgage | 0 |
| Other Loans | 0 |
| Home Purchase | 0 |
| Moving Expenses | 16,524 |
| Relocation Incentive | 30,059 |
| Home Loan Restructure | 0 |
| Kaiser Relocation Allowance | 250 |

## Bonnie Smotony, Secretary of the Regents

| | Actual Cost July 1, 1991 to April 30, 1992 | Annualized Rate Fiscal Year 1991-92 |
|---|---|---|
| Current Compensation and Benefits | | |
| Base Salary | $92,333 | $110,800 |
| Medical Insurance | 3,249 | 3,899 |
| Life Insurance | 71 | 86 |
| Dental Insurance | 336 | 403 |
| Vision Care | 93 | 112 |
| UC Retirement System | 0 | 0 |
| Nonqualified Deferred Income Plans | | 29,302[a] |
| Housing Allowance | 0 | 0 |
| Housing Maintenance | 0 | 0 |
| Executive Program Severance | 4,617 | 5,540 |
| Associate Program Severance | 0 | 0 |
| Leased Vehicle | 6,260 | 7,512[b] |
| **Total** | **$106,959** | **157,654** |

| | |
|---|---|
| One-Time Loans, Compensation, and Benefits Since August 1, 1983 | |
| Mortgage Origination Program | $0 |
| Short-Term Home Loan Program | 0 |
| Other Home Mortgage | 0 |
| Other Loans | 0 |
| Home Purchase | 0 |
| Moving Expenses | 0 |
| Relocation Incentive | 10,500 |
| Home Loan Restructure | 0 |
| Kaiser Relocation Allowance | 250 |

[a] This figure is the actual amount for fiscal year 1991-92.

[b] Leased vehicle amounts include business expenses as well as personal expenses. In calendar year 1991, Secretary Smotony reported using her leased vehicle for personal purposes 82.6 percent of the total.

## Charles Shank, Director, Lawrence Berkeley Laboratory

| | Actual Cost July 1, 1991 to April 30, 1992 | Annualized Rate Fiscal Year 1991-92 |
|---|---|---|
| Current Compensation and Benefits | | |
| Base Salary | $138,333 | $166,000 |
| Medical Insurance | 2,080 | 2,496 |
| Life Insurance | 71 | 86 |
| Dental Insurance | 180 | 216 |
| Vision Care | 93 | 112 |
| UC Retirement System | 0 | 0 |
| Nonqualified Deferred Income Plans | | 20,649[a] |
| Housing Allowance | 0 | 0 |
| Housing Maintenance | 0 | 0 |
| Executive Program Severance | 6,917 | 8,300 |
| Associate Program Severance | 0 | 0 |
| Vehicle Allowance | 6,758 | 8,110 |
| **Total** | **$154,432** | **$205,969** |

| | |
|---|---|
| One-Time Loans, Compensation, and Benefits Since August 1, 1983 | |
| Mortgage Origination Program | $300,000 |
| Short-Term Home Loan Program | 50,000 |
| Other Home Mortgage | 0 |
| Other Loans | 0 |
| Home Purchase | 0 |
| Moving Expenses | 12,582 |
| Relocation Incentive | 0 |
| Home Loan Restructure | 0 |
| Kaiser Relocation Allowance | 0 |

[a] This figure is the actual amount for fiscal year 1991-92.

## Charles Young, Chancellor, University of California, Los Angeles

| | Actual Cost July 1, 1991 to April 30, 1992 | Annualized Rate Fiscal Year 1991-92 |
|---|---|---|
| Current Compensation and Benefits | | |
| Base Salary | $145,833 | $175,000 |
| Medical Insurance | 3,910 | 4,692 |
| Life Insurance | 71 | 86 |
| Dental Insurance | 336 | 403 |
| Vision Care | 93 | 112 |
| UC Retirement System | 0 | 0 |
| Nonqualified Deferred Income Plans | | 72,416[a] |
| Housing Allowance | 31,280 | 38,232 |
| Housing Maintenance | 0 | 0 |
| Executive Program Severance | 7,292 | 8,750 |
| Associate Program Severance | 7,292 | 8,750 |
| Vehicle Allowance | 6,758 | 8,110 |
| **Total** | **$202,865** | **$316,551** |

| | |
|---|---|
| One-Time Loans, Compensation, and Benefits Since August 1, 1983 | |
| Mortgage Origination Program | $497,500 |
| Short-Term Home Loan Program | 0 |
| Other Home Mortgage | 497,500 |
| Other Loans | 50,000 |
| Home Purchase | 0 |
| Moving Expenses | 0 |
| Relocation Incentive | 0 |
| Home Loan Restructure | 0 |
| Kaiser Relocation Allowance | 0 |

[a]This figure is the actual amount for fiscal year 1991-92.

## Jack Peltason, Chancellor, University of California, Irvine

| | Actual Cost July 1, 1991 to April 30, 1992 | Annualized Rate Fiscal Year 1991-92 |
|---|---|---|
| Current Compensation and Benefits | | |
| Base Salary | $135,000 | $162,000 |
| Medical Insurance | 2,876 | 3,451 |
| Life Insurance | 71 | 86 |
| Dental Insurance | 336 | 403 |
| Vision Care | 93 | 112 |
| UC Retirement System | 0 | 0 |
| Nonqualified Deferred Income Plans | | 60,496[a] |
| Housing Allowance | 34,758 | 41,710 |
| Housing Maintenance | 0 | 0 |
| Executive Program Severance | 6,750 | 8,100 |
| Associate Program Severance | 6,750 | 8,100 |
| Leased Vehicle | 6,124 | 7,349[b] |
| Associate's Vehicle Allowance | 3,682 | 4,418 |
| **Total** | **$196,440** | **$296,225** |

| | |
|---|---|
| One-Time Loans, Compensation, and Benefits Since August 1, 1983 | |
| Mortgage Origination Program | $220,000 |
| Short-Term Home Loan Program | 0 |
| Other Home Mortgage | 0 |
| Other Loans | 0 |
| Home Purchase | 0 |
| Moving Expenses | 15,768 |
| Relocation Incentive | 0 |
| Home Loan Restructure | 0 |
| Kaiser Relocation Allowance | 0 |
| Nonqualified Deferred Income Plans | 204,281 |

[a]This figure is the actual amount for fiscal year 1991-92.

[b]Leased vehicle amounts include business expenses as well as personal expenses. In calendar year 1991, Chancellor Peltason reported using his leased vehicle for personal purposes only 1.9 percent of the total.

# Appendix C Other Executives' Home Loans

The UC offers mortgage home loans to eligible faculty and executive program members through the UC Mortgage Origination Program. To determine which of the 22 executives within the scope of our audit had mortgage loans with the UC, we interviewed the director of the Office of Real Estate Management and Loan Programs in the Office of the President. According to the director, nine of the 22 executives within our scope have received mortgage loans through the program. These loans averaged approximately \$313,000 and ranged from \$185,000 to \$497,500. Additionally, Chancellor Young had a second home loan amounting to \$497,500 through the UCLA Foundation's Shared Appreciation Mortgage Loan Program. Finally, Director Shank had a second home loan amounting to \$50,000 through the UC Short-Term Home Loan Program; he paid off this loan in 1991. This appendix describes the details of the home loans granted to these nine executives.

## The UC Mortgage Origination Program

In July 1984, the regents approved the establishment and implementation of a home loan program for eligible members of the UC faculty. Known as the Mortgage Origination Program (program), the program provided first deed of trust mortgage loans to qualifying applicants. The regents established the program because of the negative effect California housing prices had on the recruitment and retention of faculty. In January 1991, the regents approved executive program members as eligible participants of the program.

To be eligible for the program, an individual must meet the following criteria:

- The individual must be a full-time university appointee who is a member of the Academic Senate, be an individual who holds an academic title equivalent to titles held by such appointees, or be an individual who is a member of the executive program.

- The individual must not currently own (or have owned within the 12-months preceding issuance of a loan) a principal place of residence within a reasonable distance of the campus or lab.

- The individual (as well as co-borrowers) must have permanent residency status in the United States.

In addition, persons relocating to another university location as the result of a permanent or indefinite transfer are also eligible. The campus chancellors or laboratory directors select those eligible individuals who may participate in the program based on the campus's or laboratory's recruitment and retention needs.

A mortgage loan under the program may only be used for the purchase of an owner-occupied, single-family residence that is the principal place of residence for the program participant. The residence must also be at least 50-percent owned by the program participant. Further, mortgage payments are made through payroll deduction while the participant is on salary status. The monthly mortgage payments may not exceed 40 percent of the participant's household income. All loans made through the program are fully amortized, variable rate, first deed of trust loans with terms up to 30 years. In general, loans may not exceed 90 percent of the lesser of the price or appraised value of the home. In May 1989, the regents' Committee on Finance increased the maximum loan amount to 93 percent of the lesser of price or appraised value if the borrower financed some or all of the closing costs as part of the loan. The mortgage interest rate is equal to the most recent average rate of return, over four quarters, on the UC's Short-Term Investment Pool, plus an administrative fee component. The rate is adjusted annually, up or down, to a maximum of one percent; over the term of the loan, there is no cap on the total amount of adjustment. In general, refinancing loans (except to repay short-term construction or bridge loans) and direct construction loans are not allowed, and an individual may receive only one mortgage loan under the program.

### The UCLA Foundation's Shared Appreciation Mortgage Loan Program

In addition to mortgage loans made through the UC Mortgage Origination program, we found that Chancellor Young had a mortgage loan through the UCLA Foundation's Shared Appreciation Mortgage Loan Program (UCLA program). Loans under the UCLA program are second trust deed loans at a low current interest rate. They differ from conventional mortgage loans by the addition of a contingent interest feature in which the UCLA Foundation, as the investor, receives a share of the property's appreciation at the time the loan is paid off or refinanced or the property is sold or transferred. Combined current and contingent interest payable is not to exceed 15 percent. Current interest on UCLA program loans is calculated on a 30-year amortization schedule, but the full balance of principal and interest is due at the end of ten years.

UCLA program loans are available to eligible faculty members and executive program members. In addition, the UCLA chancellor may designate other UCLA employees for whom providing housing is a high campus priority as eligible for participation in the UCLA program. The UCLA program guidelines are similar to those of the Mortgage Origination

Program, in that participants must not currently own a principal place of residence near the campus. In addition, the UCLA program stipulates the following:

- Loan amounts may not exceed 50 percent of the property's purchase price.

- Loans will be made only for financing the purchase of owner-occupied, single family residences.

- Participants may have only one loan through the UCLA program.

- The participant must maintain at least 50-percent ownership in the property.

Additionally, the UCLA program requires that the participant make a down payment of 10 percent of the purchase price up to $500,000 and an additional down payment of 2 percent for every $100,000 of purchase price in excess of $500,000 up to a maximum of 20 percent. Finally, the UCLA program requires that a participant's monthly mortgage payments of all financing not exceed 40 percent of gross family income.

### The UC Faculty Short-Term Home Loan Program

In addition to his UC Mortgage Origination Program loan, Director Shank had a five-year loan through the UC Short-Term Home Loan Program (short-term program). The short-term program was implemented in 1982 to provide funds for housing assistance to eligible members of the Academic Senate in their first years of employment with the UC.

## Mortgage Loans to Nine UC Executives

As we mentioned earlier, we found that 9 of the 22 executives in our sample had received mortgage loans through the Mortgage Origination Program. These 9 executives are as follows:

- Senior Vice President Brady
- Senior Vice President Frazer
- Vice President Baker
- Vice President Hopper
- Vice President Farrell
- Assistant Vice President Crawford
- Chancellor Young
- Chancellor Peltason
- Director Shank

We reviewed the program loan files for each of these executives and found that the loans were in compliance with program guidelines. The details of each executive's loan are described below. All of the 9 executives met the program eligibility requirement that one hold membership in the Academic Senate or have an equivalent academic title at the time of the loan. Additionally, Chancellor Peltason's loans were paid off in September 1991 while the remaining eight executives' loans through the UC Mortgage Origination Program were outstanding at the time of our review. Finally, Director Shank's short-term program loan was paid off in May 1991, earlier than required.

**Senior Vice President Brady:** The UC provided a program loan to Senior Vice President Brady for $209,050 on December 2, 1991. The note lists Senior Vice President Brady's wife as co-borrower and is secured by a deed of trust in favor of the UC regents for Senior Vice President Brady's home in Alameda. In accordance with the program's requirements, the note has a variable interest rate, to be adjusted annually in accordance with changes in the average rate on the UC's Short-Term Investment Pool. The note had an original interest rate of 7.85 percent and is payable over 30 years.

The purchase price of Senior Vice President Brady's home was $230,000. His down payment, before fees and charges, was $20,950, or 9.1 percent of the purchase price. The loan amount was equal to 90.9 percent of the purchase price of the home and, thus, because closing costs were financed as part of the loan, the loan was within program policy guidelines. Further, because Senior Vice President Brady lost his previous residence in the Oakland hills fire, President Gardner approved an exception to the program requirement regarding home ownership within the campus area in the previous 12 months. The UC funded Senior Vice President Brady's loan from a $20 million supplemental allocation to the program that President Gardner authorized to assist eligible employees who were displaced by the fire. Finally, Senior Vice President Brady met the program requirement that his monthly mortgage payments not exceed 40 percent of his household income.

**Senior Vice President Frazer:** The UC provided a program loan to Senior Vice President Frazer for $450,000 on January 7, 1992. The note lists Senior Vice President Frazer's wife as co-borrower and is secured by a deed of trust in favor of the UC regents for Senior Vice President Frazer's home in Berkeley. As was the case with Senior Vice President Brady's loan, the note has a variable interest rate, to be adjusted annually in accordance with changes in the average rate on the UC's Short-Term Investment Pool. The note had an original interest rate of 7.85 percent and is payable over 30 years.

The appraised value of Senior Vice President Frazer's home at the time of the loan was $834,000. The note is a refinance of two loans from a commercial bank totaling approximately $448,000. The loan amount represents 54 percent of the appraised value of the home, and, thus, is within the program policy guidelines.

Senior Vice President Frazer owned his home in Berkeley for approximately two years before the date the program loan was funded. Financing for the home during that time was through a commercial bank rather than through the program. This was because Senior Vice President Frazer did not occupy the home as his principal residence and, thus, he did not qualify for a program loan. However, a program loan was approved as a refinance of a temporary bridge loan from the commercial bank several months after Senior Vice President Frazer moved from his university-provided house into the Berkeley residence. Program guidelines allow for the refinancing of short-term bridge loans, but do not define the period over which temporary bridge loans may extend. Senior Vice President Frazer's bridge loan had been in place for approximately two years at the time his program loan was funded.

Senior Vice President Frazer did not meet the program eligibility criterion regarding ownership of a principal residence in the 12 months preceding issuance of the loan since he owned the house for approximately two years before issuance of the program loan and lived in the house for several months before the loan. However, according to the director of the UC Office of Real Estate Management and Loan Programs, under a bridge loan scenario, this criterion does not apply. Finally, Senior Vice President Frazer met the program requirement that his monthly mortgage payments not exceed 40 percent of his household income.

**Vice President Baker:** The UC provided a program loan to Vice President Baker for $310,000 on July 6, 1988. The note lists Vice President Baker's wife as co-borrower and is secured by a deed of trust in favor of the UC regents for Vice President Baker's home in Orinda. As with the loans of the executives discussed previously, the note has a variable interest rate, to be adjusted annually in accordance with changes in the average rate on the UC's Short-Term Investment Pool. The note had an original interest rate of 7.7 percent and is payable over 30 years.

The purchase price of Vice President Baker's home was $345,000. His down payment, before fees and charges, was $35,000, or 10.1 percent of the purchase price. The loan amount was equal to 89.9 percent of the purchase price of the home, a percentage which is within program guidelines. Vice President Baker's loan application showed that he resided in rental units for more than three years before obtaining his loan. Thus, he met the program criterion regarding prior home ownership during the 12 months preceding funding of the loan. Finally, Vice President Baker met the program requirement that his monthly mortgage payments not exceed 40 percent of his household income.

**Vice President Hopper:** The UC provided a program loan to Vice President Hopper for $406,100 on April 26, 1989. The note lists Vice President Hopper's wife as co-borrower and is secured by a deed of trust in favor of the UC regents for his home in Oakland. As with the loans of the executives discussed previously, the note has a variable interest rate, to be adjusted annually in accordance with changes in the average rate on the UC's Short-Term Investment Pool. The note had an original interest rate of 7.9 percent and is payable over 30 years.

Vice President Hopper's loan paid off a construction loan from a commercial bank for $383,169. His home was appraised at a value of approximately $600,000 in April 1989. The loan amount was for 67.7 percent of the value of the home, a percentage which is within program guidelines. According to Vice President Hopper's loan application, he lived in rental units in Moraga for at least six years before the loan was approved. Thus, he met the program criterion regarding prior home ownership during the 12 months preceding funding of the loan. Finally, Vice President Hopper met the program requirement that his monthly mortgage payments not exceed 40 percent of his household income.

**Vice President Farrell:** The UC provided a program loan to Vice President Farrell for $240,000 on March 19, 1987. The note lists Vice President Farrell's wife as co-borrower and is secured by a deed of trust in favor of the regents for Vice President Farrell's home in Oakland. As with the loans of the executives discussed previously, the note has a variable interest rate, to be adjusted annually in accordance with changes in the average rate on the UC's Short-Term Investment Pool. The note had an original interest rate of 7.7 percent and is payable over 30 years.

The purchase price of Vice President Farrell's home was $340,500. His down payment, before fees and charges, was $100,500, or 29.5 percent of the purchase price. The loan amount was equal to 70.5 percent of the price of the house, a percentage which is within program guidelines. According to Vice President Farrell's loan application, he was living in a rental unit in Piedmont at the time the loan was approved and had been there for one month. Before that, he had lived in Reston, Virginia, for 15 years. Thus, Vice President Farrell met the program criterion regarding prior home ownership during the 12 months preceding funding of the loan. Finally, Vice President Farrell met the program requirement that his monthly mortgage payments not exceed 40 percent of his household income.

**Assistant Vice President Crawford:** The UC provided a program loan to Assistant Vice President Crawford for $185,000 on July 28, 1987. The note lists Assistant Vice President Crawford's wife as co-borrower and is secured by a deed of trust in favor of the regents for Assistant Vice President Crawford's home in Oakland. As with the loans of the executives discussed previously, the note has a variable interest rate, to be adjusted annually in accordance with changes in the average rate on the UC's Short-Term Investment Pool. The note had an original interest rate of 7.1 percent and is payable over 30 years.

The purchase price of Assistant Vice President Crawford's home was $260,000. His down payment, before fees and charges, was $75,000, or 28.8 percent of the purchase price. The loan amount was equal to 71.2 percent of the purchase price of the home, a percentage which is within the guidelines of the program. According to Assistant Vice President Crawford's loan application, he was living in a rental unit in Emeryville at the time the loan was approved. Before that, Assistant Vice President Crawford had lived in La Jolla, California, for four years. Thus, Assistant Vice President Crawford met the program criterion regarding prior home ownership during the 12 months preceding funding of the loan. Finally, Assistant Vice President Crawford met the program requirement that his monthly mortgage payments not exceed 40 percent of his household income.

**Chancellor Young:** The UC provided a program loan to Chancellor Young for $497,500 on June 19, 1991. The note lists Young's wife as co-borrower and is secured by a deed of trust in favor of the regents for Chancellor Young's home in Thousand Oaks, California. His program loan has a variable interest rate, to be adjusted annually in accordance with changes in the average rate on the UC's Short-Term Investment Pool. The note had an original interest rate of 8.3 percent and is payable over 30 years.

In addition, Chancellor Young has a second loan for $497,500, dated July 2, 1991, through the UCLA Foundation's Shared Appreciation Mortgage Loan Program (UCLA program). This second note also lists Chancellor Young's wife as co-borrower and is secured by a second trust deed on Chancellor Young's home. The UCLA program loan has a current interest rate of 4 percent per year. Principal and current interest on the loan is computed on a 30-year amortization period, with monthly payments due over 10 years. The balance of principal and interest is due at the end of that time. When Chancellor Young makes the final payment on the loan, he must also pay the contingent interest in an amount up to 42 percent of the home's appreciated value (over and above the sum of the original purchase price, the value of improvements, and the estimated costs of selling the property). However, the amount of contingent interest actually due will be limited so that the overall rate of return to the UC on the loan does not exceed 15 percent. Chancellor Young's monthly payments for the loans from both the UCLA program and the UC Mortgage Origination Program are made through payroll deductions.

The purchase price of Chancellor Young's home was $1,170,000. His down payment, before fees and charges, was $175,000, or 15 percent of the purchase price. According to President Gardner's approval of Chancellor Young's loans, his applications were to be evaluated according to Mortgage Origination Program and UC Short-term Home Loan requirements. He met the down payment requirements for both of these programs. Chancellor Young's total monthly mortgage payments were 32.2 percent of his total household gross income, which is within the guidelines of the programs. Finally, since Chancellor Young lived in university-provided housing for 23 years before the approval of both of his loans, he met the criteria of both programs regarding prior home ownership in the campus area during the 12 months preceding funding of the loans.

In addition to the two mortgage loans described above, Chancellor Young also had a $50,000 loan funded in September 1988 from the UCLA Chancellor's Loan Fund, which was established from gifts and other unrestricted funds. The loan was secured by a second trust deed on property Chancellor Young owned. The loan had a term of three years and a variable interest rate equal to the rate used for the UC Mortgage Origination Program loans. Finally, Senior Vice President Frazer, signing for President Gardner, approved the loan upon the recommendation of Senior Vice President Brady. The loan has been repaid in full.

**Chancellor Peltason:** The UC provided two program loans to Chancellor Peltason, each dated September 3, 1985. The largest of these loans was for $200,000, to be amortized over 72 months (six years), with principal and interest due in 72 monthly installments. The second loan was for $20,000, with payments of principal and interest due in five annual installments. Each note listed Chancellor Peltason's wife as co-borrower. Further, the notes were jointly secured by a deed of trust in the amount of $220,000 in favor of the regents for Chancellor Peltason's home in Irvine. As with program loans of executives discussed previously, the notes had variable interest rates, to be adjusted annually in accordance with changes in the average rate on the UC's Short-Term Investment Pool. The notes had original interest rates of 10.65 percent. As noted, the larger note was payable over six years, and the smaller note was payable over five years. The notes have both been paid off in full.

The purchase price of Chancellor Peltason's home was $272,091. His down payment (including investments in upgrades), before fees and charges, was $52,091, or 19.1 percent of the purchase price. The total of the two loans was equal to 80.9 percent of the purchase price of the home, a percentage which is within the program guidelines. Although Chancellor Peltason had two loans through the program, they were secured jointly by a single deed of trust on one property. It appears that the loan was split to allow for a particular repayment schedule and for no other reason. Thus, we do not believe that Chancellor Peltason's arrangement represented noncompliance with the requirement that an individual may receive only one mortgage loan through the program. Additionally, Chancellor Peltason lived in a university-owned house for approximately one year before the approval of his loan. Thus, he met the program criterion regarding prior home ownership during the 12 months preceding funding of the loan. Finally, within one month of the date of his loan, Chancellor Peltason met the program requirement that his monthly mortgage payments not exceed 40 percent of his household income.

**Director Shank:** The UC provided a program loan to Director Shank for $300,000 on August 8, 1989. The note is secured by a deed of trust in favor of the regents for Director Shank's home in Berkeley. As with the program loans discussed above, Director Shank's loan has a variable interest rate, to be adjusted annually in accordance with changes in the average rate on the UC's Short-Term Investment Pool. The note had an original interest rate of 7.9 percent and is payable over 30 years.

In addition to his mortgage loan through the program, the UC provided Director Shank with a housing loan of $50,000 through the UC Short-Term Home Loan Program (short-term program) on July 30, 1989. This loan was secured by a third trust deed in favor of the UC on the house in Berkeley and called for 60 monthly payments of interest only. The balance of unpaid principal and interest was payable at the end of that period. However, Director Shank paid off the loan in full in May 1991 only 22 months after receiving the loan instead of in the 60 months allowed. The short-term program was implemented in 1982 to provide funds for housing assistance to eligible members of the Academic Senate in their first years of employment with the UC.

The purchase price of Director Shank's home was $911,000, and his down payment was approximately $326,000, before fees and charges, or 35.8 percent of the purchase price. In addition to his program loan for $300,000 and his short-term program loan for $50,000, Director Shank financed $235,000 of his home price with a second trust deed loan through a commercial lender. The program loan amount was equal to 32.9 percent of the purchase price of the home, a percentage which is within program guidelines. Director Shank's loan application showed that he resided in a home in New Jersey he owned for 17 years before obtaining the program loan. Thus, he met the program criterion regarding prior home ownership during the 12 months preceding funding of the loan. Finally, Director Shank met the program requirement that his monthly mortgage payments not exceed 40 percent of his household income.

UNIVERSITY OF CALIFORNIA

BERKELEY • DAVIS • IRVINE • LOS ANGELES • RIVERSIDE • SAN DIEGO • SAN FRANCISCO SANTA BARBARA • SANTA CRUZ

DAVID PIERPONT GARDNER
President

RONALD W. BRADY
Senior Vice President—
Administration

OFFICE OF THE PRESIDENT
300 LAKESIDE DRIVE
OAKLAND, CALIFORNIA 94612-3550

August 20, 1992

Kurt Sjoberg
Acting Auditor General
300 J Street, #300
Sacramento, California 95814

Dear Mr. Sjoberg:

I am responding to your letter of August 11, 1992, transmitting the draft audit report, "A Review of the University of California's Executive Compensation, Benefits, and Offices" (P-215), and requesting a response to this report by August 20. The University readily agreed to this review by your office, as evidenced by our willingness to pay for all costs associated with the audit. The University appreciates the professional standards displayed by the auditors in dealing with this very complex set of issues. We have read the report thoroughly and examined its observations and recommendations. This cover letter constitutes the portion of the University's agency response for inclusion in the summary section of the audit report under the heading "Agency Response." The attachment to this letter is the complete agency response, which can be attached in whole as an appendix to the report.

The University is pleased that there were no observations of policy violations except for minor omissions or errors, which are being resolved. Further, we note that there were no observations of unauthorized expenditures except for a few items, which are under review.

All executive compensation for President David Gardner noted in the report, including all special deferred income and benefits, has been reported previously to The Regents, the Legislature, and the press. While there are some differences between reporting formats and methodologies used in this audit and previous reports, they are all explicable. Similarly, all noted housing provisions for President Gardner have been reported previously to The Regents, the Legislature, and the press.

With regard to observations that salary increases may have been reported without sufficient detail to The Regents, the University believes the methodology and information provided in the 1984 Regents items in question are consistent with President Gardner's comments made at the time. 1*

*The Office of the Auditor General's comments on this response begin on page 175.

Regarding recommendations effecting the University's Administrative Fund, the fund is not large (an average annual amount of $26,000 per officer receiving a Fund allocation, which then may be shared further with their senior managers) considering the benefits returned to the University in the areas of recruitment, fund raising, and community and employee relations. The private gift that supports a significant portion of the Fund was donated to provide discretionary funds for expenditures that could not be made with State funds. All Fund expenditures are audited on a regular basis and must comply with IRS regulations. ②

The University is reviewing its executive policy on leave balances, but expects to make only minor clarifications of policy and practices in this area. In fact, the matter of executive compensation in all forms is scheduled for Regental review during 1992-93. All recommendations in the audit will be discussed as part of this process. This discussion will occur in the context of the fact that UC executive compensation has been determined by market circumstances, as confirmed by survey data, and as such is consistent with comparable institutions.

The University will report within 90 days to the Office of the Auditor General the specific actions we have taken in response to the audit's recommendations, findings, observations, and comments on the University's policies and practices, including all recommendations, findings, observations, and comments regarding Administrative Fund expenditures.

A complete and detailed response to the audit report's observations and recommendations is enclosed as an attachment to this letter.

Sincerely,

Richard P. West
Associate Vice President

cc: President Gardner
Senior Vice President Brady

August 20, 1992

University of California's Response
to Observations and Recommendations Made
in the Auditor General's Report
"A Review of the University of California's Executive
Compensation, Benefits, and Offices"

**RESPONSE TO OBSERVATIONS**

The University acknowledges that the report finds only minor policy violations, and that the departures from policy that are noted were infrequent occurrences caused by isolated administrative oversight or errors. These errors will be corrected. The University assents to certain of the audit's recommendations and will address these immediately. The University disagrees, however, with some of the conclusions and the questioning of policies that we consider appropriate, which are reflected in the remaining recommendations.

While the University's response to the report's specific recommendations follow this section, it is essential to provide a context in which to place the report's observations and recommendations as well as the University's response. The University of California is the largest and most complex research university in the United States, indeed, in the entire world. It enjoys an unparalleled reputation for the highest quality teaching, research, and public service. This achievement is due to the talents and dedication of its faculty, students, and staff. The leadership of this institution is entrusted to the senior managers who are members of the University's Executive Program. These 388 individuals constitute one quarter of one percent of the University's workforce. They are ultimately responsible for the successful management of the University's $9 billion budget, 151,000 employees, three national research laboratories, five teaching hospitals, a statewide Natural Reserve System, and a library collection surpassed in size in the United States only by the Library of Congress.

The University's compensation objective for these key managers is the same as for faculty and staff--to pay fair and competitive salaries. In the executive compensation program, the University seeks both to attract outstanding applicants nationwide, and to retain the internal talent it has developed. To achieve these twin goals, the University has developed total compensation programs for the most senior of the University's executives. Total compensation is defined by The Regents to include base salary, deferred compensation, supplemental retirement, and housing allowances.

Twenty-two individuals in the Executive Program[1] are eligible for the Non-qualified Deferred Income Program (NDIPs), 18 are eligible to receive supplemental retirement benefits, and 12 have use of a house or receive a housing allowance. The payment of deferred compensation and supplemental retirement benefits are not guaranteed. In order to receive payment the individual must continue to be employed by the University until a specified future date and also must meet specified contractual requirements. ③

The deferred compensation program was instituted in 1988 in response to changes in tax laws in 1986 and market surveys which indicated substantial lags in UC salaries. The goal of this program is to supplement base salaries in order to make the total compensation for the University's top 22 executives competitive and equitable. State funds are not used for this program. Without the ④
deferred compensation plan, UC salaries for its key executives would have been substantially less than for comparable research universities. This program also has the effect of retaining key ⑤
executives who might otherwise be recruited away from the University by encouraging them to stay the entire term of their NDIP contracts.

Supplemental retirement programs are provided to maintain the University's competitive position, and in certain cases compensate individuals whose retirement benefits are reduced because they have come to the University late in their career, or to restore earned benefits that have been reduced by recent legislation. State funds are not used for this program. ⑥

Regarding the audit report's comments related to the presentation of salary actions to The Regents, the University agrees that it is important for The Regents to receive accurate and complete information. The audit report, by using a different method of calculating salary increases, implies that the University provided insufficient information to The Regents and that comments made by the President were inaccurate. The University does not agree that this was the case. ⑦

It is essential to note that the University's fundamental concept for determining merit increases has remained constant. In describing and calculating the percentage of increases in salaries from year to year, the University uses the base annual salary rate in effect as of June 30, the end of a fiscal year, as the rate to which the next year's rate will be compared. This end of the fiscal year rate reflects all salary changes approved by The Regents during a given year, including merits, equity adjustments,

---

[1] Of the University's 22 most senior executives, 13 were included in this audit. The remaining 9 executives included in the audit are high level members of the University's Executive Program, but are not the most senior executives.

and promotions. This methodology is consistent with the salary administration concepts authorized by The Regents. In contrast, the audit report uses the base annual salary rate in effect as of July 1, instead of June 30, for calculating percentage increases from year to year. The auditor's choice of calculation method fails to acknowledge the effect of Regentally approved split merits (which result in a temporarily lower salary rate effective July 1) or equity adjustments and promotions (often not brought for approval to The Regents until later in a fiscal year). The percentage salary increases reported in the salary items approved by The Regents in July of any fiscal year were correct and consistent with the University's salary administration concepts, and any comments made by the President at that time were accurate, in that they reported all salary increases known as of July 1.

In years when split merits are implemented, the University establishes the approved base salary rate for the fiscal year, but authorizes only a portion of the base salary increase to be paid for a part of the year, with the full amount of the increase to be paid the remainder of the year. For example, under the split merit scenario an executive whose fiscal year 1982-83 base salary was $80,000, and who was granted a 10% merit increase for fiscal year 1983-84, would have had a new fiscal year 1983-84 salary rate of $88,000 approved by The Regents in July 1983. This individual would have been paid only a portion of the 10% increase (e.g., only 40% of the 10% increase--$83,200 in annualized terms) for the first six months of the year, however, and then would have been paid at the full annual rate of $88,000 for the last half of the year. It is true that the actual total earnings of this individual for the fiscal year 1983-84 would have been more than the annualized rate ($83,200) used during the first part of the year and less than the annualized rate ($88,000) used in the second part of the year, but at no time would the individual have been paid more than the 10% merit increase approved by The Regents.

In this example, the annual salary rate of $88,000 is the established base salary rate for the 1983-84 year and is used as the basis for calculating any future increases, such as promotions and equity adjustments that occur later in the year. If, during the course of the year, The Regents authorize an equity or promotional increase, the newly authorized salary rate replaces the former annual base salary rate. The final rate in effect on June 30 of a fiscal year is the base upon which salary increases for the subsequent year are calculated. This definition of annual base salary rate used in connection with the calculation of salary increases is consistent for all employees in all personnel programs in all years.

In the case of calculating salary base for deferred compensation (NDIPs), the University defines the base salary as the annual salary rate authorized in July of a fiscal year, before any additional equity adjustments or promotions have been applied.

This definition has been consistently applied for all NDIPs in all years in conformance with generally accepted accounting principles and IRS regulations. In years of split merits, the new annual salary rate determined by the approved merit increase--10% in the previous example, or $88,000--would be used, because if no State budgetary constraints had existed the executive would have received full payment of the merit increase for the entire year. (8)

In the case of the two individuals in the Treasurer's Office who were paid at a rate higher than approved by The Regents, the individuals received the amount to which they were entitled. The (9) payment occurred in a year in which merit increases were paid in two separate increments. Normally, equity adjustments and promotional increases are not split in increments, and equity adjustments and promotions awarded to other executives at that time were not split. The salary item approved by The Regents for these two individuals, however, inappropriately split the equity and promotional increases that were approved. To rectify this oversight The Regents will be asked to authorize retroactively the appropriate payment.

Regarding certain travel and entertainment expenditures by University executives, it is important to understand that the University's Administrative Fund, under which most of the cited expenditures were made, exists pursuant to a long standing policy of The Regents. The Regents annually approve the overall amount of the Fund, and the amounts allocated to the Principal Officers of the Regents and the President. The President then allocates a portion of the Fund to the Chancellors, Vice Presidents, and Laboratory Directors. In 1992-93 an average of $26,000 per officer was allocated from the Administrative Fund, this allocation then may be shared further with senior managers. The Fund is extremely helpful for recruitment, fund raising, community and employee relations, and it is highly beneficial to the University. (10)

From the historical perspective, discretionary funds such as these have been available to certain University officials for many years. In 1919 a gift made by Edward F. Searles established an endowment fund, the income from which was directed to provide for expenditures which could not be supported by State funds. These Searles funds were the primary source for Contingent Fund expenditures, the predecessor to the Administrative Fund. Changes to the Contingent Fund guidelines in 1974 added University employees as individuals who could be entertained through Fund expenditures through the language "...entertaining visitors, University personnel or others in his official capacity. Such expenses may include the costs of food, beverages, rental of facilities..." The name "Contingent Fund" was changed to "Administrative Fund," effective July 1, 1978 by action of The Regents.

The guidelines for the University of California Administrative Fund are based upon the Contingent Fund guidelines, which had existed for over 25 years before the fund was renamed the Administrative Fund. These guidelines indicate that its purpose includes covering expenses arising from University travel, entertainment, and other official business. The guidelines provide for payment of travel expenses which exceed the amounts reimbursable under University travel regulations. Even for executives who receive an Administrative Fund allocation, however, it is not common practice, but an exception, to use the Fund for first class air travel. The guidelines also indicate that the Administrative Fund is intended to pay for the costs of entertainment of visitors, University personnel, or others in an official capacity. These expenditures include events held for the purpose of employee morale, such as holiday parties. This use is considered very important, since the University does not have available to it other, typical means of recognizing employees, such as annual bonuses. Expenses of the spouse of the recipient of Administrative Funds are reimbursable when a spouse's presence serves a bona fide University business purpose. It also is permissible to pay the costs of membership in a social or athletic club or similar organization when the primary use of the club is for business purposes. In addition, gifts, contributions, and miscellaneous expenditures from the Administrative Fund may be made on behalf of the University for business reasons, subject to the Administrative Fund guidelines.

The State audit report comments that a number of events at which it appears only UC employees or representatives were present, such as business lunches, were paid for with the Administrative Fund. As (11)
noted previously, such expenditures are allowable under Administrative Fund policy. While allowable, such expenditures account for only a small percentage of total Administrative Fund expenditures in the years reviewed by the audit: 3.8% of all expenditures by the President, 13% by the Senior Vice President--Administration, and 7.7% by the Vice President--Budget and University Relations. The University further observes that the ability to pay for business lunches is an effective use of time because it allows business to continue.

All Administrative Fund expenses must be within IRS regulations. In addition, The Regents' external auditors review Administrative Fund expenditures and the University's internal auditors review expenditures for compliance with the Administrative Fund guidelines and policy.

Regarding findings related to the housing package provided to President Gardner at the time he assumed the presidency, it should be reiterated that these arrangements were reported publicly at the time of his appointment, and were given full review and approval by The Regents. It also should be noted that the University recognized the loss associated with the sale of the Utah house and it was accounted for at the time of this transaction in 1988.

In reference to the report's findings about the Office of the President's office in Irvine, it should be noted that while UC is not renewing the lease for the current facility, it is intended that space for similar uses will be leased in another smaller facility in the city of Irvine.

**RESPONSE TO SPECIFIC RECOMMENDATIONS**

Recommendation: "Ensure the regents receive accurate and complete information so that they can make well-informed decisions and so that staff can implement the decisions as the regents intended."

Response: The University agrees that it is important for The Regents to receive accurate and detailed information, and also agrees that the complex compensation programs described above may not always have been as clearly presented as they might have been. In fact, prior to the start of this audit, The Regents initiated a review of the process through which salary actions are approved, and made changes to that process. In response to this audit, the University will review its presentation of compensation issues.

The University disagrees, however, with the specific findings that prompted the above general recommendation. These findings relate to: (1) the calculation of percentage increases in 1984-85, following a year of split merits, required as a result of Legislative action on salary funding, and (2) the calculation of base salary for purposes of non-qualified deferred income programs. Both of these issues hinge on the definition of base salary. There are specifically authorized definitions depending on the specific calculation that is being performed. 12

In describing and calculating the percentage of increases in salaries from year to year, the University uses the base annual salary rate in effect as of June 30, the end of a fiscal year, as the rate to which the next year's rate will be compared. This end of the fiscal year rate reflects all salary changes approved by The Regents during a given year, including merits, equity adjustments, and promotions. This methodology is consistent with the salary administration concepts authorized by The Regents. In contrast, the audit report uses the base annual salary rate in effect as of July 1, instead of June 30, for calculating percentage increases from year to year. The auditor's choice of calculation method fails to acknowledge the effect of Regentally approved split merits (which result in a temporarily lower salary rate effective July 1) or equity adjustments and promotions (often not brought for approval to The Regents until later in a fiscal year). The percentage salary increases reported in the salary items approved by The Regents in July of any fiscal year were correct and consistent with the University's salary administration concepts, and the President's comment made at the time were accurate, in that they reported all salary increases known as of July 1.

In years when split merits are implemented, the University establishes the approved base salary rate for the fiscal year, but authorizes only a portion of the base salary increase to be paid for a part of the year, with the full amount of the merit increase to be paid the remainder of the year. For example, under the split merit scenario an executive whose fiscal year 1982-83 base salary was $80,000, and who was granted a 10% merit increase for fiscal year 1983-84, would have had a new fiscal year 1983-84 salary rate of $88,000 approved by The Regents in July 1983. This individual would have been paid only a portion of the 10% increase (e.g., only 40% of the 10% increase--$83,200 in annualized terms) for the first six months of the year, however, and then would have been paid at the full annual rate of $88,000 for the last half of the year. It is true that the actual total earnings of this individual for the fiscal year 1983-84 would have been more than the annualized rate ($83,200) used during the first part of the year and less than the annualized rate ($88,000) used in the second part of the year, but at no time would the individual have been paid more than the 10% merit increase approved by The Regents.

In this example, the annual rate of $88,000 is the established base salary rate for the 1983-

84 year and is used as the basis for calculating any future increases, such as promotions and equity adjustments which occur later in the year. If, during the course of the year, The Regents authorize an equity or promotional increase, the newly authorized salary rate replaces the former annual base salary rate. The final rate in effect on June 30 of a fiscal year is the basis upon which salary increases for the subsequent year are calculated. This definition of annual base salary rate used in connection with the calculation of salary increases is consistent for all employees in all personnel programs in all years.

In the case of calculating salary base for deferred compensation (NDIPs), the University defines the base salary as the annual salary rate authorized in July of a fiscal year, before any additional equity adjustments or promotions have been applied. This definition has been consistently applied for all NDIPs in all years in conformance with generally accepted accounting principles and IRS regulations. In years of split merits, the new annual salary rate determined by the approved merit increase--10% in the previous example, or $88,000--would be used, because if no State budgetary constraints on salaries had existed the executive would have received full payment of the merit increase for the entire year.

Recommendation: "Pay individuals only the amounts that have been properly approved"

Response: It is the University's policy and practice to pay only approved amounts. Any payments which are not approved are the result of error or administrative oversight.

In the case of the two individuals in the Treasurer's Office, who were paid at a rate higher than approved by The Regents, the individuals received the amount to which they were entitled. The payment occurred in a year in which merit increases were paid in two separate increments. Normally, equity 13 adjustments and promotional increases are not split in increments and equity adjustments, and promotions awarded to other executives at that time were not split. The salary item approved by The Regents for these two individuals, however, inappropriately split the equity and promotional increases that were approved. To rectify this oversight The Regents will be asked to authorize retroactively the appropriate payment.

Recommendation: "Recover the overpayments made to the two individuals."

Response: Because these individuals were paid appropriately no recovery of overpayments is necessary. The Regents will be asked, (14)
however, to authorize retroactively the appropriate payment.

Recommendation: "Clarify its policy requiring executive leave reporting. If the UC does not expect executives to report absences of less than one day, it should reconsider the amount of sick leave it allows executives to earn."

Response: The University's policy with respect to time worked for executives is as follows: "In the Executive Program, greater emphasis is placed on meeting the responsibilities assigned to the position than on working a specified number of hours. However, the workweek for a full-time member is normally considered to be a minimum of forty hours. Work beyond forty hours in a week is not subject to additional compensation." (Executive Program Policy 9, Hours of Work.)

Because executive program members regularly work more than forty hours in a workweek, it is assumed that occasional absences are more than offset by these extended hours. The Executive Program Policy with respect to time worked is consistent with requirements of the Fair Labor Standards Act (FLSA).

Although there is no prohibition in existing
Executive Program policy against reporting
leaves in increments of less than one day (8
hours), there also is no requirement to do so.
Nevertheless, the University is planning to
clarify the policy applying to executives and
other management personnel to state that
absences of less than one day should not be
charged against leave balances. A
corresponding reduction in the amount of sick
leave granted to executives would not be
required or appropriate, however. All non-
academic University employees accrue eight
hours of sick leave per month. Executive
program members work many hours beyond forty
in a workweek, time for which retirement
system credit is not received. The small 15
number of sick leave hours attributable to
medical appointments that may be converted to
retirement system credit is more than made up
for by these extended hours.

Recommendation: "Charge leave balances for unreported leave taken"

Response: The University agrees that full days (8 hours) of sick leave and vacation should be accounted for and charged against leave banks. Action to correctly report leaves of 8 hours or more has been initiated.

Recommendation: "When qualifying individuals outside the UC's employ for home loans, exercise prudence in assessing the borrower's ability to repay the loan."

Response: From time to time, it may be necessary for the University to offer short-term financing as part of an agreement to sell real property owned by the University. Normally, the University reviews a potential purchaser's financial statement to determine their ability to service the debt. In the future, the University will review a buyer's credit history as well as other pertinent documentation, as necessary.

Recommendation: "Ensure that the proper officials approve any compensation payments and exceptions that required approval"

Response: The University agrees that appropriate officials should approve compensation payments and exceptions that require approval. While procedural errors identified in the audit report are few in number, appropriate steps will be taken to strengthen the University's administrative systems to ensure that the required approvals are obtained.

Recommendation: "Ensure that all reimbursements of moving and relocation expenses are accounted for as taxable income to the recipient"

Response: Campuses and Laboratories will be reminded to review their procedures to assure that comprehensive reviews of all expense transactions that could result in taxable income, such as auto allowances, and moving expenses, are made to assure that all taxable income is reported to the taxation authorities. Appropriate corrective action has been initiated in the two cited instances of unreported income.

Recommendation: "Issue corrected W-2 or 1099 forms to the two executives whose original gross income did not reflect all moving expense reimbursements"

Response: Appropriate corrective action has been initiated to report all moving expense reimbursements that qualify as reportable income.

Recommendation: "Ensure it does not grant relocation incentives to individuals who do not relocate as a condition of employment."

Response: In the instance noted in the report, the exception to the relocation incentive policy was administratively approved, but, unfortunately, the reporting to The Regents of the subject executive's overall hiring package did not state clearly that an exception was being made to the relocation incentive policy. In the future, if such exceptions to policy are made, they will be fully and clearly documented.

Recommendation: "Reevaluate and clarify its policies regarding appropriate entertainment and travel expenditures and decide whether, or the extent to which, the Administrative Fund should be used to reimburse meals and lodging within the vicinity of UC employees' headquarters"

Response: With respect to the reimbursement of lodging and meals within the vicinity of the University's headquarters, such expenses may be reimbursed when it is determined by the Chancellor, or other appropriate official, to be in the best interest of the University. Under the University's travel policy, such determinations are made on a case-by-case basis in recognition of any extenuating circumstances connected with the travel. For example, income tax regulations indicate that a taxpayer is deemed to be on travel status if away from home for a period substantially longer than an ordinary workday and it is reasonable for the employee to require sleep or rest to meet work demands.

Recommendation: "Reevaluate and clarify its policies regarding whether, or the extent to which, the Administrative Fund should be used to entertain employees of the Office of the President exclusively"

Response: The Administrative Fund Reporting Procedures provide that food, services, or other minor items may be furnished to employees on an occasional basis as a de minimis fringe
benefit. The reimbursement of amounts paid 16
for employee recreational and social events, such as holiday parties, are viewed to be appropriate because they foster employee morale and promote team building. Moreover, the income tax regulations provide that because these benefits are minimal in value

and provided on an infrequent basis, they also are excludable from the taxable income of an employee receiving the benefit.

The University observes that the ability to pay for business lunches involving UC employees allows an effective use of time by executives. The small percentage of expenditures by executives on such business lunches--3.8% of all Administrative Fund expenditures by the President, 13% by the Senior Vice President--Administration, and 7.7% by the Vice President--Budget and University Relations--places the use of these funds for this purpose in the proper perspective.

Recommendation: "Consider establishing a maximum lodging amount that the UC will reimburse."

Response: The University will consider again the implementation of a cap on lodging reimbursements. Most campuses, however, have reported an overall decrease in lodging expenses since the University changed its reimbursement method on June 14, 1991 from a fixed per diem to actual costs.

Recommendation: "Ensure that all contributions, gifts, and other miscellaneous expenses that it reimburses are clearly documented and appropriately made. Documentation should clearly show that contributions and gifts were made on behalf of the UC and not just on behalf of the individual authorizing the expenditure."

Response: The University's Administrative Fund Reporting Procedures will be clarified to require that gifts and contributions documented on the Administrative Fund Gift, Contributions, and Miscellaneous report show that such gifts and contributions are made on behalf of the University in the recipient's official capacity.

**Recommendation:** "To save money, ensure that any frequent flyer bonuses executives receive while on official business are used for the UC's benefit and not just for the individuals'."

**Response:** The University's Policy and Regulations Governing Travel does not contain a policy governing "frequent flyer" program mileage credits for the following reasons.

Each airline credits mileage by individual traveler and makes no provision for accumulating mileage for an employer. Therefore, the University would have to establish a separate accounting system to track business related frequent flyer mileage. Because mileage awards are made for aggregates of mileage, e.g., 5,000 miles, some of which may be personal travel, the transfer of award certificates to the University would require a follow up system. Such systems would not be cost effective. Further, certain airlines' frequent flyer awards are not transferable.

Another complication is presented by the fact that the University has thousands of funds in its accounting system. If the University collected frequent flyer certificates, it would be required by some of its funding sources to credit the benefit to the original fund source. This would be unduly burdensome.

The University suffers no economic loss as a result of the award of frequent flyer mileage credits to University travelers. Moreover, a recent survey of the National Business Travel Association (NBTA) showed that only 3 out of 150 companies with annual travel costs over $5 million require return of frequent flyer awards. 17

## Comments

# Office of the Auditor General's Comments on the Response From the University of California

① On pages 12 and 13, we state that the document President Gardner presented to the regents lacked sufficient detail for the regents to know, with certainty, the proportional size of the increases they were approving. Moreover, as we point out on page 70 of the report, regents themselves have expressed concern about the completeness of the information they receive regarding compensation issues.

② The distinction that the UC draws between its state funds and other UC funds is inappropriate. Because the UC exists as a constitutionally based public trust, it is an entity of the State. As such, all of the UC's funds are state funds and should be expended with similar regard for the UC's responsibilities as a public trust.

③ This statement is not wholly accurate. As we note on pages 65 and 69 of the report, the regents granted exceptions for President Gardner to the requirement that executives must be employed until a specified future date in order to receive payment under the Special Supplemental Retirement Program and Nonqualified Deferred Income Plans (NDIP). Moreover, on at least one occasion, a board member expressed the desire to be able to grant similar exceptions in the future if the regents so desire.

④ See Footnote ②.

⑤ While we agree with the UC regarding the importance of comparability in the salary-setting process, this statement is not wholly accurate. For example, the 1991 California Postsecondary Education Commission (CPEC) analysis of UC compensation showed that the base salaries (excluding deferred compensation plans) of the UC's president, senior vice president of Administration, and vice president of Budget and University Relations were above the median when compared to the same positions drawn from a sample of seven university systems and 15 single-campus universities. In addition, the base salary of the UC's senior vice president of Academic Affairs was only slightly below the median for that position in the CPEC analysis.

⑥ See Footnote ②.

⑦ See Footnote ①.

⑧ On pages 69 and 70, we conclude that the regents may not have known what amounts they were approving, and the UC's staff may not be correctly interpreting the regents' intent. On at least two occasions, members of the regents have requested that compensation issues be presented to them as a complete package so that they would know the size of each individual's total compensation. Also, as we report on pages 69 and 70, in only two cases were the regents' items and minutes specific about which of numerous rates of pay in effect during a year were to be used to calculate the NDIP contribution amounts. In fact, even in 1987, when the regents' item and minutes specified that percentages were to be applied to July 1, 1987 base salaries, the UC did not apply them to the July 1, 1987 base salary rate. Neither the regents' item on the NDIP the regents approved nor the regents' discussion of the item, as evidenced by the minutes of the meetings, supports the UC's implementation of the first NDIP.

⑨ As described on page 15, the UC paid these individuals at rates higher than those approved by the regents. Because the Regents' Standing Orders require that the regents approve these individuals' salaries, we question how the UC can administratively conclude that they were entitled to these excess payments.

10 We agree that the Administrative Fund may be highly beneficial to the UC. However, as we state on page S-10 of the report, we believe the UC would derive greater benefit from entertaining official guests and potential donors than from entertaining only individuals under its employ. While the total amount of the Administrative Fund may be small relative to the UC's budget, all expenditures from the fund should be made prudently and with regard for the UC's best interests and its status as a public trust.

11 The UC has inaccurately described the methodology we used in analyzing entertainment expenses. As we point out on page 85, in addition to reviewing entertainment expenses paid for by the Administrative Fund, we also reviewed selected travel and credit card claims that included entertainment expenses. In many of the latter cases, funds other than the Administrative Fund were used to pay for entertainment, including the UC's General Fund. For example, the UC's General Fund paid for over 40 percent of the cost of the business lunches hosted by Senior Vice President Brady that are discussed on page 88 of the report. The UC's General Fund includes money from the State's General Fund.

12 See Footnotes 1, 3, and 8.

13 See Footnote 9.

14 See Footnote 9.

15 Although the time beyond 40 hours per week that Executive Program members work may not increase their UC Retirement System credit, we believe that the various extra compensation and retirement benefits provided to Executive Program members, including Special Supplemental Retirement agreements, NDIPs, and the Executive Program Severance Pay Plan, constitute clear recognition of the extra time the UC executives put into their jobs.

16 We conclude on page 86 of the report that the frequency with which the Office of the President paid for entertainment of its employees appears to have exceeded the UC's guidelines that define what is considered *de minimis* (minimal) benefits.

17 We disagree with the UC's conclusion that it suffers no economic loss as a result of UC employees using frequent flyer awards earned on UC business for personal purposes. In fact, the UC can save money when its employees use frequent flyer awards earned on UC business for UC purposes. We do not recommend that the UC establish an elaborate accounting system to achieve this objective. The UC could achieve the desired result by directing its employees to use such awards for UC business only. Finally, we note that the survey alluded to was of "companies"—not institutions established as public trusts. We believe that the UC has a responsibility to the public and governments that contribute to its funding to exercise prudence in spending its funds and to take advantage of cost savings when possible.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps