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SENIOR VICE PRESIDENT—
BUSINESS AND FINANCE

OFFICE OF THE PRESIDENT
1111 Franklin Street, 12th Floor
Oakland, California 94607-5200

April 14, 1999

Dr. Harold Varnus
National Institute of Health
9000 Rockville Pike
Bethesda, MD 20892

Dear Dr. Varnus:

I have read the questions Congressman Brown Jr. posed to you in his March 3, 1999 letter. I am also familiar with the document written by the University Professional & Technical Employees Union (UPTE/CWA), from which those questions originate. UPTE/CWA represents approximately 3% of the 142,000 employees at the University of California (UC). UPTE/CWA's allegation that the University has "misappropriated and diverted an estimated \$16.2 million over the past six years in funds intended for researcher compensation" is inaccurate but of obvious concern to the University

The Union uses a 1991-1997 time frame to illustrate their claim. That time period was the most difficult fiscal period in recent memory for the State of California and for the University of California. During the first half of the 1990s, the University experienced dramatic shortfalls in State funding while coping with inflation, fixed cost increases and workload growth. As a consequence the University absorbed significant permanent cuts to its budget. In addition, during fiscal years 1991 - 92, normal salary cost-of-living increases could not be paid to employees. The following year salaries were cut by 3.5 percent on a temporary basis. However, our longstanding policy of treating all employees equitably was maintained during this difficult period regardless of the fund source from which they were paid. In the interest of fairness, faculty, staff, and students were expected to carry their share of the financial burden. Because of the fiscal experience in the 1990s, salaries in many staff occupational categories lag significantly behind wages paid in the prevailing market. Unfortunately, market lag is not a phenomenon unique to the University's research professionals. Yet, despite the market lags in staff research occupations, UC campuses are not experiencing difficulty recruiting or retaining talented research employees. Our statistical information shows the turnover percentage of career research professionals to be only slightly higher (about 7%) than the average 5% turnover rate in other university staff occupations.

DR. HAROLD VARMUS

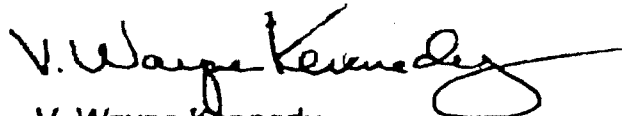
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The union allegation that the University did not accurately reflect our 1991-97 salary history in grant proposals is untrue. The University Research Administration Office provided appropriate instructions for the administration of grants to reflect the no cost-of-living increases and the temporary salary cut. In the event that salary projections written into multi-year grant proposals did not reflect the zero COLAs and temporary cut, campus administrators were advised to review the awards before re-budgeting money out of the salary category. Generally, re-budgeting money is permitted if the expenditures specifically benefit work on the sponsored project unless the award terms prohibit such re-budgeting. During that early 1990 time period, the University issued instructions noting that if funds were not needed to further project objectives or if the award terms did not permit re-budgeting, then the award money was to be returned to the funding agency. Finally, as a matter of continuing practice, the University bills extramural sponsors on the basis of actual expenditures, not on forecasted salary and benefit amounts. Forecasted salary and fringe benefits may be used when preparing a grant proposal if actual dollar amounts are unknown, but the University's final reconciliation is always based on actual expenditures.

I hope this information is helpful. If you have additional questions, please feel free to contact me.

Sincerely,



V. Wayne Kennedy
Senior Vice President

cc: Vice President Darling
Associate Vice President Boyette
Assistant Vice President Levin