

Minutes*

Senate Committee on Finance and Planning
Tuesday, January 25, 2005
2:30 – 4:15
238A Morrill Hall

Present: Charles Campbell (chair), David Chapman, Arthur Erdman, Steve Fitzgerald, Lincoln Kallsen, Joseph Konstan, Ian McMillan, Cleon Melsa, Kathleen O'Brien, Diane Parker, Richard Pfitzenreuter, Terry Roe, Charles Speaks, Alfred Sullivan, Kate VandenBosch, Susan Van Voorhis, Warren Warwick

Absent: Calvin Alexander, Kendal Beer, Rose Blixt, Daniel Feeney, Scott Fine, Seth Haskell, Joshua Jacobsen, Thomas Klein, Michael Korth, Thomas Stinson, Michael Volna

Guests: Julie Tonneson (Office of Budget and Finance); President Robert Bruininks (briefly); Gail Klatt (Director of Audits), Tom Schumacher (Director of Compliance)

[In these minutes: (1) candidacy for an administrative position; (2) finances of academic program moves; (3) enrollment-based budget adjustment; (4) strategic planning task force for administrative units; (5) assessment of institutional risk]

1. Candidacy for Administrative Position

Professor Campbell convened the meeting at 2:30 and began by drawing attention to the announcement of the four candidates for the position of Vice Provost for Faculty and Academic Affairs. He is one of the candidates, he noted, and said it is important the Committee is aware of that fact. He may need to recuse himself from some Committee business, and if selected for the position will have to resign from the Committee.

2. Finances of Academic Program Moves

Professor Konstan asked if there is any University policy governing what happens when an academic unit moves from one college to another, and in particular with respect to budgets. The issue may come up, he said. He has heard discussion about possibly moving one unit to another college; what happens to state funding and so on? Committee members noted department moves that have taken place but no one was aware of any institutional policy or guidelines.

3. Enrollment Adjustment

Professor Campbell turned to Ms. Tonneson for an explanation of the Enrollment Adjustment in University funding.

Ms. Tonneson explained that Minnesota law provides for an adjustment in the recurring appropriation (up or down) for both the University and MNSCU if enrollment increases or decreases by 2% or more. The statute tries to address instructional costs as enrollment increases; the State is

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committed to paying a portion of the increased costs. She outlined the formula and the arcane manner by which the University calculated enrollments for the purpose of the law. The University was slated to receive \$73.7 million for the biennium.

Committee members discussed the risk to the University that the recurring appropriation could decline if enrollment were to decline.

The University calculates the enrollment adjustments each year; in the past, the amount of money involved was only \$2-3 million. Where does the money go—to the colleges, in proportion to the enrollment increases, Professor Campbell asked? In the past, it has simply become part of the overall appropriation, Ms. Tonneson said, and is not allocated to colleges. So a college could have a large enrollment increase, generating money for the University, and not receive the yield in state funds, Professor Speaks asked? That is correct, Ms. Tonneson said.

Presumably as enrollment increases, instructional costs increase, Professor Speaks commented; is there a match between what the state provides and instructional costs? The state divides the appropriation into instructional and non-instructional cost ratios, with data provided by the University, Ms. Tonneson related, so the appropriation is not based on what it costs to instruct each student but there is a paper trail of numbers. If there is an imperfect alignment between costs and enrollment, why would the University want to increase enrollment, Professor Speaks asked? Are there some colleges that are under-enrolled and that need more students? Absent that factor, Ms. Tonneson said, the arguments one hears are about programmatic reasons.

What is to prevent the legislature from giving the University the money—and then subtracting it from the appropriation, Professor Speaks asked? That is precisely the point, Ms. Tonneson responded; the discussion about the enrollment adjustment has become moot with the Governor's budget recommendation, which recommends increased funding for the University but does not grant the enrollment adjustments. The legislature can decide not to grant the funding, and if the Governor's budget is approved, it will not be provided. The Governor is not recommending the enrollment adjustment but does call for funding about 90% of the University's request (\$113 million out of \$126 million requested). That is strong support, but the enrollment adjustment is now a non-issue.

Did anything come of the proposal that money should follow the students rather than be provided to institutions, Professor Campbell asked? It appears not, Ms. Tonneson said; the funds would have to be taken from the institutions and there is no proposal to do so.

Professor Chapman asked Ms. Tonneson to speculate about what might happen to the Governor's budget recommendation in the legislature. She said that the Governor has a very high success rate with his budget recommendations. She said she did not know what the rest of the budget looks like. The President and other officials have been aggressive about presenting the University's needs, Professor Chapman noted; did she have any sense whether that led to this relatively supportive budget recommendation? Ms. Tonneson said she thought it did.

This is good news, Professor Campbell said, and asked Ms. Tonneson to convey the Committee's congratulations to all who worked on the request.

President Bruininks joined the Committee briefly to talk about the Governor's budget recommendation, the legislative prospects, the proposal to change the state grant program to increase funding flowing to students and away from institutions (no budget recommendations along that line have been made and there are no new funds proposed for the state grant program). Professor Campbell

thanked the President for briefing the Committee, and he thanked Ms. Tonneson for providing information about the enrollment adjustment.

4. Administrative Strategic Planning Task Force

Professor Campbell turned next to Vice President O'Brien and Executive Associate Vice President Sullivan to lead a discussion about the strategic planning task force that will look at the administrative units of the University.

Dr. Sullivan said he would provide an update; he invited Committee members to provide thoughts and suggestions because this is a group that thinks a lot about the issues the task force will tackle. The overall strategic planning effort is being headed by Provost Sullivan (there have been about 35 presentations on the process). Two pieces of the effort are task forces, one to look at the academic side of the University and one for the administrative side. The academic task force has three faculty members (Professor Marshak, Regents' Professors Hampl and Tilman). The administrative task force, which he and Vice President O'Brien co-chair, is working on the alignment of support and service units with the mission, optimizing their activities, and making them more effective.

The President's charge letter to the task force outlines four responsibilities, which Dr. Sullivan reviewed. One, "examine the findings of recent task forces on administrative policies and procedures, management practices, and support services"; two, "assess trends, opportunities, and threats that will impact administrative services and support throughout the University"; three, "identify short- and long-term opportunities to achieve greater efficiency and effectiveness in our central administration and academic unit support services"; and four, "make specific recommendations to me to transform the University's support services within central administration and at the academic unit level." With respect to the first, there have been a lot of reports, the recommendations of some of which have not been implemented (in part because of transitions in the central administration); they will get back to these reports.

There are a lot of talented people working on this effort, Dr. Sullivan said, and the word "transformation" comes up frequently. He predicted there will be some "wow's" when the work is done. People will be held accountable for units and responding to challenges.

They are appointing eight subgroups, drawing on the units, to obtain cross-fertilization of views. What they are doing, Dr. Sullivan commented, is similar to simultaneously designing, building, and flying an airplane. They are meeting weekly and the work is under way. Ultimately the work of this task force will come together with the work of the academic task force and will go to the Board of Regents in May or June.

Vice President O'Brien said the Committee should note the aggressive agenda: the work of the task force is due March 20. It will be possible to meet the deadline because of the work that has been done before (such as the report on support and service units produced by the task force that she and Regents' Professor Tom Clayton co-chaired last year). She related that she had recently seen a strategic planning kind of report from another major research university; of the 15 recommendations it contained, many were already completed here or are things the University is working on. This task force is really looking at how to get to the next stage. Dr. Sullivan added that in a first draft of principles, the task force identified as one principle the understanding that everything is on the table.

How does the task force discussion link to the budget model discussion, Professor Roe inquired? Or is it independent of it? Many of the individuals on the task force are also on the budget model task

force, Vice President O'Brien observed. The recommendations of the strategic planning task force will inform the budget model discussion. They will converge at the end, Dr. Sullivan said. Some recommendations will be dependent on the budget model, Mr. Kallsen added, while some will be independent of them.

This is a system-wide effort, Dr. Sullivan said, and there is a specific working group for the coordinate campuses. But there will not be silos, and the reports will be brought together by the March deadline.

Professor Konstan said that one trend he hears complaints about is the distribution of centrally-provided functions to departments—but without funding and without concern for the dynamics and working conditions in the departments (e.g., the certified approver program has turned people who were former "allies" of the faculty in departments into "opponents"). He said he would be concerned if the task force does not take a comprehensive look at this issue. The University can do better with central services rather than create more work in departments (that sometimes leads to the loss of personnel). Dr. Sullivan agreed the problem must be confronted and said the task force has talked about it. They have talked with subgroup leaders about what should be done where and they will try to bring some rationality to the system. This issue leads to the budget model discussion, Professor Konstan observed, in terms of when activities should be centralized or decentralized and how internal taxes should be structured. Vice President O'Brien agreed with Dr. Sullivan and said this is a major set of issues that the task force must address; they will not have a full solution by the end of March but they will identify a way to address them.

Professor Speaks noted that Dr. Sullivan had talked about alignment of support and service units. Alignment with what, he asked? At the loftiest level, it means aligning administrative support units with the goal of being one of the top three public research universities in the world, Dr. Sullivan said. Does it mean alignment with academic priorities, Professor Speaks asked? Dr. Sullivan said it did.

The task force is composed entirely of Morrill Hall or Morrill-Hall-like people, Professor Speaks said, with only one from a college and none from departments; he said he hoped there would be a mechanism to obtain the views of those at the department level about administrative efficiencies, problems, and solutions. There will be many instances where the impact of shifting responsibilities to departments will not be obvious to Morrill Hall. Dr. Sullivan said they are trying to address this point.

Professor Speaks also commented that if the work of this task force, the budget model, and the strategic planning vision are not aligned with academic priorities, this will all be a wasted effort. And there must be consultation with the faculty on this alignment. Dr. Sullivan agreed that all of the efforts needed to be aligned. There is overlapping membership on the task forces and their work must come together at the end. Alignment with academic priorities means that support and service units must analyze whether their functions support the academic function; they could be doing things very well that do not support the academic mission. What should they do, how they do it, how it should be funded, and so on, will be the subject of discussion.

Professor Campbell asked that the Committee be provided a list of the subgroups and their membership. Ms. O'Brien said they are not yet all appointed but that the list will be provided.

Professor Konstan said it might make sense for the subgroups to have open meetings so that those who feel strongly about issues have a chance to speak. Vice President O'Brien said she believed in having such hearings but that they have a time problem; they will try to get as many ideas as possible.

Professor Campbell wished them good luck and said the Committee would be glad to help in any way it could. Dr. Sullivan said that if the Committee were to develop a list of things it believes the task force should examine, they would welcome it.

5. Assessment of Institutional Risk

Professor Campbell welcomed Gail Klatt, the Director of Audits, and Tom Schumacher, the Director of Compliance, to talk about assessment of institutional risk.

Ms. Klatt distributed copies of several items, two of which were risk profiles or "heat maps," one by the University's external auditors and one from Mr. Schumacher's office. In both cases, the X axis measured impact (low to high, of an error or misconduct) and the Y axis measured risk (the probability that something will happen, from low to high). Units/activities appeared at various places on the grid. Both heat maps had a green swath (from low impact/high risk to high risk/low impact), a yellow swath (essentially moderate risk and impact), and a red portion (moderate to high impact, moderate to high risk). Any activity or unit in the red zone warrants careful attention. (The location of activities on the heat map varied between the two versions because the sources were considering different factors. The external auditors included such things as sponsored receivables, liability/self-insurance, associated organizations, retaining competent audit and finance personnel, and the like. The compliance office heat map included in the red zone environmental health and safety, athletics, information technology security, grants administration, clinical services, and clinical research.)

The heat maps are visual schematics developed for the Board of Regents, Ms. Klatt explained. The Board set as one of its goals understanding the myriad risks the University (the Board) must manage in order to carry out its legal and fiduciary responsibilities. The Board's Audit Committee will hear four different reports on the subject during this academic year and will then prepare its own heat map indicating what is important to it. The administration, in turn, will then help provide information to the Board on how the University is managing those risks in addition to Audit Committee ensuring that internal and external audits are focused on areas the Board is most concerned about.

The external auditors would typically put something like PeopleSoft implementation as a high risk, Ms. Klatt said, because system implementation is usually difficult, expensive, and fraught with problems. For the University, however, it was rated as lower risk, even though high impact.

Professor Konstan noted that the external auditors ranked a HIPAA violation as low risk and low impact. Is that because they believe the University could get around such a violation, or not be fined much, or that there is not much risk financially or to the University's reputation? The question is how well the University would manage a violation, Ms. Klatt responded; if the University identifies a problem and corrects it quickly, it can minimize the impact. The heat map also assesses the institution's CAPABILITY to react, Mr. Kallsen added.

Why is a HIPAA violation low on one heat map and high on the other, Professor Speaks asked? It depends on one's position, Ms. Klatt said. The auditors do not see it as having a major impact on financial reporting (the focus of their heat map); Mr. Schumacher is more concerned about it. The Board Audit Committee must discuss what the INSTITUTIONAL position on such a violation would be. Mr. Schumacher explained that his heat map is based on LEGAL risk. What is the probability that a University employee will violate HIPAA? It is a certainty. The question is the likely impact on the University. One can look at financial impact, reputational impact, health and safety issues, and so on—there are different metrics to assess risk. So this is not an assessment of the WORST POSSIBLE risk but rather the risk of a likely violation, Professor Konstan asked? Mr. Schumacher said he was correct.

All of the activities on his heat map are highly regulated, Mr. Schumacher observed, and all would have a vague institutional impact. The question was how to start the discussion with the Audit Committee. The risk to the institution as an entity, Professor Konstan asked? Yes, Mr. Schumacher affirmed. So if there is one incident that causes the University to lose an international student, for example, there would not be a big institutional impact, Professor Konstan commented. But if the University breached its obligation to report on the status of international students, the impact would be worse, Mr. Schumacher said.

Ms. VanVoorhis inquired about the provenance of the compliance office heat map. Mr. Schumacher said he put it together. He looked at what other major research universities have identified as risky activities and has conducted risk assessments and interviews with the groups that appear on his heat map; he also looked at what work they need to do on infrastructure. The point is the RELATIVE relationship among risks. Each of the units did an assessment that informed the construction of his heat map, Mr. Schumacher explained.

How are they using the data that each unit provided, Ms. VanVoorhis asked? They used a multi-dimensional analysis, not just the inherent risk, Ms. Klatt said. They looked at how the University handles things, whether it is prepared for a problem, and its track record. It is important to realize that much of what people do can lower risk levels, Mr. Schumacher said. For example, athletics might be at the highest risk level at another institution; it is at a lower risk level here because it has a strong compliance program.

Professor McMillan inquired about the colored bands on the heat maps. Ms. Klatt said that the red zone indicates activities the institution should focus on whereas units in the green zone are more "business as usual." But it was said the location of the units/activities was somewhat arbitrary, so moving one of them a centimeter would put it in the red zone. If their sense is that the risk is higher than average, the unit or activity falls in the red zone, Ms. Klatt said. Average by what standard, Professor McMillan asked? That of other institutions' and the University's own experience, she said. Mr. Schumacher cautioned that one should not look for statistical validity and the impact of moving a unit or activity one centimeter here or there. The placement on the heat map is based on an assessment.

There used to be a sign on Pike's Peak reporting its height, carried to three decimal places, Professor Speaks recalled. which is ludicrous, in that it implies a precision of measurement of 12/1,000 of an inch. That is, at best, highly unlikely. Moreover, it fails to acknowledge the distinction between precision of measurement and accuracy of measurement. These heat maps can create a greater sense of measurement than really exists. He suggested, for the sake of clarity, labeling "impact" as "negative impact" and that moving something only a centimeter would have no effect. He wondered if the heat map might instead have nine cells rather than broad color swaths.

Where do they go when the drill down farther, Professor Konstan asked? For example, in grants management, some areas are high financial risk and some are low. Is there something below these heat maps that identifies specific targets? He also said it would be helpful to see alternatives. To take a trivial example, one could reduce the risks in athletics by abolishing athletics or sending a monitor to accompany each athlete all the time. Other alternatives, however, might not be trivial. There are two sources of risk when dealing with external auditing or compliance. One risk is that the University's policy and controls are viewed as inadequate (an institutional problem). The other is that individuals are found not to comply with the policy (an individual problem). These are related. Different universities interpret rules differently, and creating a policy that is less burdensome to comply probably reduces the second

type of risk. For example, would we do a better job with effort certification if our policy were one that simply had faculty sign off on a check box once a year rather than go through burdensome forms?

Mr. Schumacher agreed that there are parts of grant administration that are more and less risky; they have identified the more particular risks and obligations. With respect to the question of control versus benefits, that is part of what risk assessment is about. The University tends to have high control levels in areas of high risk. The issue is not simply whether it will satisfy an auditor. Another factor is what risk will the faculty be put in. For example, if faculty sign some certification on research, the faculty member is primarily responsible for what he or she certified. So a loose University policy has consequences that have an impact on faculty as well, and may create more individual risk for them.

Ms. Klatt said the University must be cognizant of its appetite for risk and at what cost. This discussion is at a high policy level, not at the level of how people do their work. She said they do not intend to make the University risk-free; the question is what impact will the controls have to reach certain levels of risk. And who pays for them, Professor Konstan added. He said he knows faculty who put themselves at risk with respect to letters of recommendation: if he receives an email asking for a letter, he asks the person if it is OK to talk about class performance; some faculty do not ask, but he believes the law requires that one do so. That process could be handled centrally, but faculty would not like it—one can go to extremes. It is possible to over-protect against risk and it is important to look at the budget for risk aversion that one can expect. Ms. Klatt agreed that it is an economic decision. It is also a psychological decision, Professor Konstan said; people can be so overloaded with concern about risk that they do not see the distinction between different levels of risk and tune out the whole subject.

Mr. Schumacher said that one of the risks the University has not dealt with, from the perspective of the compliance program, is those associated with research: there has been a growth in research but no correlated increase in funds to support the compliance work associated with that research—and the government, to date, has not paid for it. Who will pay for this? That is a real challenge.

Professor Campbell said he appreciated Ms. Klatt and Mr. Schumacher joining the Committee for an interesting discussion. He adjourned the meeting at 4:10.

-- Gary Engstrand

University of Minnesota