

Minutes\*

**Senate Committee on Finance and Planning  
Tuesday, November 16, 2010  
2:00 – 3:45  
238A Morrill Hall**

- Present: Russell Luepker (chair), Jon Binks, Sarah Chambers, Devin Driscoll, Will Durfee, Steen Erikson, Lincoln Kallsen, Kara Kersteter, Judith Martin, Fred Morrison, Paul Olin, Shruti Patil, Michael Rollefson, S. Charles Schulz, Mandy Stahre, Jeremy Todd, Michael Volna, Lori-Anne Williams
- Absent: Lyndel King, Kathleen O'Brien, Richard Pfitzenreuter, Gwen Rudney, Terry Roe, Karen Seashore, Thomas Stinson, John Worden, Aks Zaheer
- Guests: Faculty and staff representatives from a number of departments across the Twin Cities campus (to discuss EFS); Stuart Mason (Associate Vice President, Office of Investments and Banking)

[In these minutes: (1) Enterprise Financial System (EFS); (2) University endowment; (3) continued discussion of EFS]

**1. Enterprise Financial System (EFS)**

Professor Luepker convened the meeting at 2:00 and welcomed the guests. He noted that the Committee is leading off with a repeat of a meeting held about two years ago: Discussion of the EFS system with faculty and staff to hear their concerns. When Faculty Consultative Committee members talked with department chairs earlier in the fall, they heard there were still concerns about EFS, so asked this Committee to invite appropriate individuals to provide updates on their experiences. He asked for a round of introductions and then asked for comments.

-- In one department, with a budget over \$35 million and 17 accountants, the faculty do not know what EFS is nor have they seen its impact. The accounting staff is located together and works as a group, but it has a lot more work as a result of EFS, and they continue to use the shadow system they developed under CUFS. They meet once per month with faculty members to go over accounts, which has been their longstanding practice. One of the most significant problems with EFS is that it does not talk to the HR system except by a third set of codes, and that problem will never go away.

-- Another department, also with a budget over \$30 million, has 9 accountants, so a similar caseload but fewer people. The result is that they provide fewer services to faculty because of the increased workload, which causes frustration in the relationships with faculty, which is detrimental to morale. They would prefer to be where they were before EFS was implemented, when they could respond to requests for information from the faculty. They cannot do so now because of the complexity of the system. They use a shadow system developed within the Academic Health Center.

-- The biggest problem for the faculty is reporting. PIs have to make decisions daily but find it extremely difficult to do so because they do not receive reports they can understand (and in many

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departments they do not have staff who can explain them). As a result, faculty are spending 3-5-10 times as much effort on reports as they did before—rather than engaged in teaching and research. Faculty members need simple reports that tell them how much they have spent, but many have simply given up and have no idea how much money they have. In one department, they have talked about installing a shadow system, but that takes a lot of work as well.

-- Another college uses a different shadow system, and while EFS is a powerful system, it has a weakness. It cannot provide reports that are in English, are simple, and are point-and-click. In the system they have set up, one can log in and use the reports.

-- One college has considered adopting a shadow system but has not moved on it because the University is developing a new reporting system, often referred to as the Business Intelligence (BI) Tool. The plea was made to involve users from the bottom up as the BI Tool is developed. And faculty who need reports should be consulted as well.

-- For those who are department heads, at a time of budget difficulties and financial challenges, when meeting with colleagues from departments that use different shadow systems, it is impossible to compare reports or get tips. Shadow systems do not roll up to the college level so there is no uniformity in reports.

-- In 1999, in response to Student Admin PeopleSoft performance problems, the University used its data warehouse to create reports like class lists and unofficial transcripts; each college could use the 'student admin' warehouse to get its own reports. Central units used this warehouse to create hundreds of reports for the University community to use. With the absence of a financial data warehouse, colleges are creating their own warehouses, each of which is different. The Office of Information Technology said there would be no financial data warehouse because PeopleSoft would provide all the reporting that was needed, but here they are, years later, with poor reports and no data warehouse. They have been promised a new tool, Business Intelligence, but have no evidence it has been vetted by any financial managers and they do not know if it will serve their needs. It is important there be a warehouse with data that everyone can use. Moreover, people are pulling data fields so it varies wildly; if there were a standard data warehouse as source so data were consistent, that would help. They had that consistency with CUFS; now one can get completely different data.

-- Another departmental representative echoed all the concerns about reporting. In a department with about \$20 million in grants, they have 2 accountants and their faculty are terrified about the status of their accounts, unable to project into the future, and hoping they don't face an NIH audit. They don't know how much money they have.

Professor Luepker asked about the experience of departments that are less dependent on external sponsored grants and that rely more on state funds and tuition revenues.

-- In one department in CLA, the experience is quite different; the faculty receive a report regularly.

How does the system work for the money provided for faculty salaries, TAs, the civil-service staff, and so on, Professor Luepker asked?

-- They have figured out how to pay people. The main concern, on the non-sponsored side, is that they were required to go from 7-digit account numbers to accounts with over 20 digits, and they end up with the wrong charges on accounts. The system still has a high error rate. The risk is because the

system lacks edits to prevent using erroneous strings, so one must be very careful—which delays things if they are to be sure they are issuing reports that are correct.

-- A representative from another college said he could not agree more with the previous point: 40-digit account numbers create errors. The system needs to be smarter about what is valid and what is not. Professor Luepker commented that this error rate is frightening and asked if anyone had any idea what that rate is. One guest said he did not know but they have to check every transaction. Which, said another, delays work and causes more work.

-- In addition to the errors that come from long account numbers, clustering is another problem for non-sponsored funding. The cluster staff approve any number that is sent them, they transpose numbers, and they don't know what a unit is doing—they just approve transactions because they look good. Moreover, there are deficits in accounts because they only receive reports every three months.

-- Those in small departments have issues similar to those in larger departments, they are clustered with departments that have nothing to do with them, and people entering documents know nothing about them. There are also glitches in the system (one department had a transaction from 2008 just show up this year). How can they accept numbers they cannot trust? Reporting is a big issue, but there is also a question whether policies are clear and whether education helps. There is no training manual on how to do things.

-- Faculty members refer to accounts by names, but the long account numbers do not correspond to names. There is ambiguity between faculty and accounts, so reports are regularly sent back and forth for revision and people are looking at different data. (It was noted by one guest that the function was added last year, although not many people seem to know about it, and it is in UM Reports, not EFS.)

Mr. Rollefson commented that he recalled hearing these same kinds of concerns with CUFS: The central administration said the system worked and the departments said it did not. It was made to work with front-end and back-end systems, but they cost a lot of money. The University did this before and it will have to do it again this time.

Professor Luepker asked what needed to be done. People struggled with CUFS but eventually adapted to it. What needs to be done to make EFS user-friendly?

-- Simple, good reports provided in a timely fashion. Without them, faculty cannot do what they need to do. They are not receiving reports they can understand. Mr. Erikson inquired if a group of faculty could provide key advice on what is needed in reports and if Mr. Volna's office could then build them. Would that be easy to do? Mr. Volna said that it is easy to define requirements but he did not know how difficult it would be to build the reports.

-- It is not just report design; it must be one that can be run quickly and provided to faculty members. A data warehouse would be the first step, and then designing reports for the faculty.

-- In one department they worked iteratively with faculty to develop the reports that were needed, and relied on the financial people. It took time but they developed usable reports, and they are glad they did take the time because they could not wait for central administration to provide them.

-- Grants come from different sources—industry, foundations, NIH—and there can be different rules with the different sources. EFS forces all reports into a single model and makes it difficult to have

reports about numbers from sources other than NIH or NSF, but they may need to include information not in the NIH format. Others agreed this is a problem.

Professor Luepker commented that the University is in a time of fiscal restraint and must do things in an accurate, timely way without adding costs. He recalled being asked two years ago, as a faculty member, what he wanted in a report, but found it was a confusing system. Faculty need timely, readable, pablumized reports that are easily digestible; most faculty do not have the skills to interpret EFS reports and probably should not have to spend the time doing so. The Committee has heard that it takes more time to do things.

-- System performance is an issue; it takes a long time to do things and it would help just to speed up the system.

-- There are certain EFS cycles that only run weekly or even monthly. This results in delays in getting accurate information into the reports. Purchasing card transactions post once a month. Purchase order encumbrances are released once a month. No reporting system can correct this. The cycles need to be reexamined, so the reports reflect accurate and timely information. Unless the cycles run more frequently and in concert with each other, the new reporting system, no matter how wonderful it is, will still generate reports that require handwritten notes from accountants. For example, ignore this encumbrance, this charge was in error, add this purchase card charge that hasn't "hit the account" yet, etc.

-- It is important to distinguish between reports the average end user wants and the tools for accountants to use. The point is that an effective reporting system needs to have the ability to meet the needs of end users who simply want up-to-date account balances for the accounts for which they are responsible, while other users, like accountants, have additional reporting needs that include finding errors, looking up transactions, running sales tax reports, checking on inactive accounts, etc.

-- There are logjams that don't have to be there. For example, policy limits the number of certified approvers units are allowed to have (even if people are trained as certified approvers, the units are not allowed to use them); if they had more, more documents could flow through faster. An important point to remember: The Office of the Vice President for Research is looking at increasing the University's risk tolerance; the limited number of certified approvers reflects a very low tolerance for risk.

Mr. Volna thanked the visitors to the meeting for providing information; some of the comments reflect technical questions and others he will need to parse for the action required. He has heard that they must focus on reporting, must engage the users, and also have to focus on the chart of accounts and errors. They will try to set priorities to deal with the problems. He said it is unfortunate they are in this position and he apologized that the system is not working as it should.

Where will the funds to make fixes come from, Professor Durfee asked? They will be expensive; where are the budgets for this? Someone at a high level will have to decide, and this Committee and the Faculty Consultative Committee can provide advice. Typically the money comes from the enterprise tax, Mr. Volna said, a systemwide tax that funds enterprise projects. About two years ago the President directed that some of these funds be used to make improvements to EFS; he said that after the review of the issues that have been raised, there will be a meeting with the President to make further decisions. Some improvements are already in the works but may need to be accelerated.

Professor Martin inquired what difference the Business Intelligence tool would make, given the comments at this meeting. Mr. Volna said it will deliver a data warehouse, reports, and provide better

analytic tools. He said he has told Vice Presidents Cawley and Pfutzenreuter that he believes there is a need to improve reports, create a data warehouse, and then move on to improving the analytic tools.

Professor Martin asked what the timeline for improvements would be. Mr. Volna said he did not know but that he will ask how improvements can be accelerated.

What should be done about the speed of the system, Professor Morrison inquired? Mr. Volna said that question must be addressed to Vice President Cawley. With the student and HR systems, they brought in someone to "tune" the system, which increased the speed. He said he did not know if that is possible with EFS.

-- From a technical standpoint the Oracle Business Intelligence system has in general terms the capability to provide the reports that people need. From my experience using the Oracle BI tool set there should be no technical challenges that can't be worked through in delivering effective reporting to the University community. However, success depends on how the BI tool set is implemented. Units need to be able to integrate their local data with institutional data from EFS to provide the value through reporting the user community is asking for.

Professor Durfee said that as they develop the Business Intelligence tool, he would encourage them to think about faculty reports and said he hoped they would convene a group of faculty and seriously consider user needs for their own accounts. "Business Intelligence" raises red flags because it does not sound like a tool that will help users. They need a serious user group, as with any product development effort, and they need to run prototypes by the customer—and they need a "fly on the wall" perspective, to watch how users deal with the prototypes.

Professor Luepker thanked the guests for providing the information and promised that the Committee would follow up with Mr. Volna. He noted that the Faculty Consultative Committee also has a great interest in this topic.

## **2. University Endowment**

Professor Luepker now welcomed Mr. Mason to the meeting to provide an update on the endowment.

Mr. Mason distributed copies of a handout and reviewed the contents. He began by telling the Committee that the endowment is different from the University of Minnesota Foundation. The endowment income is from rents and royalties (because the University is a land-grant institution) and from technology-transfer revenues. The endowment is not typically the recipient of gifts—that is the role of the Foundation.

Mr. Mason explained the asset class definitions (i.e., where they invest the endowment funds) and the Board of Regents policy requirements governing the amount invested in each asset class (40% in domestic and international equities, 20% each in fixed income securities, private capital, and real assets). "Private capital" includes venture capital, buyouts, distressed debt purchases; these assets tend to be illiquid and long-tailed, but they typically also provide higher rates of return. "Real assets" include investments that have historically provided a hedge against inflation, such as real estate, timber, oil and gas, and commodities.

Fiscal year 2010 was a year like almost no other, with uncertainty in virtually every element of the economy (unemployment, housing defaults, commercial real estate values, financial institutions, Euro

credit, and the environment). Equity volatility increased because of the uncertainty of the economic recovery, fixed-income assets performed better than historical averages, and bank lending and private capital markets were constrained. Mr. Mason also provided a timeline, March 2007 to September 2010, highlighting events in the economy and management decisions the University made with respect to the endowment. He noted that the value of investments in commercial real estate were down by about 45% over the last three years, a decline that has been a substantial drag on endowment performance. As a result, they lagged their benchmarks, but largely because of conscious decisions to protect the endowment's assets: They removed many of the assets from the equity markets and put the funds in the bond market; the latter was making 7-8% rather than the 15% that stocks were increasing recently.

The Committee was provided the data on the value of the various funds managed by the Office of Investments and Banking (the Consolidated Endowment Fund, the Long-Term Reserves, the Short-Term Reserves, and a couple of others). The total value of all the funds was \$1.894 billion in June 2008, \$1.542 billion in June 2009, and \$1.678 billion in June, 2010. (By comparison, the value of the funds in the University of Minnesota Foundation for those same three dates were \$1.385, \$1.058, and \$1.260 billion; for the Minnesota Medical Foundation the numbers were \$248.8 million, \$181.9, and \$189.4 million.)

Mr. Mason reviewed the priorities for the endowment for 2010: reduce portfolio volatility by having more funds in fixed-income assets and fewer in public equities, enhance liquidity, reduce future unfunded commitments, diversify the fixed-income portfolio, and move to passive management of public equities. He also provided bar graphs indicating the performance of various asset categories and the payout trends based on the trailing (5-year) market average. He noted that if the market value does not recover soon, the payouts from the endowment will decline.

Priorities for 2011 include remaining tilted to lower-volatility strategies, selectively adding hedge funds as liquidity improves, manage down over-allocations to private capital and private real estate, and explore alternative fixed-income options in light of low yields in core strategies. Mr. Driscoll asked how often they look at asset allocation; Mr. Mason said they provide quarterly reports to the Board of Regents and are actively looking now at asset allocation, and it is likely the allocation will change. He added that he believes the University is positioned to provide good returns in the future and that the endowment will come out of the recession well compared to its benchmarks.

Mr. Mason noted briefly the returns on the TIP funds (Temporary Investment Pool), with a value of \$698 million, up \$101.9 million over the previous year. TIP funds are invested very conservatively in a secure portfolio with virtually no risk—and relatively lower returns. It is cash on hand.

Mr. Driscoll asked how the University's endowment fund performance compares with peer institutions. The average across institutions was 10% while Minnesota was 5.5%, Mr. Mason said, but there was much greater dispersion than before: Some institutions lost money and some made 18-20%. The University is typically at the 75th or higher percentile in performance.

Professor Schulz noted the quite different performance of the endowment versus the Minnesota Medical Foundation. Mr. Mason explained that the MMR is invested largely in public stocks and bonds and did not have professional managers until it joined Commonfund about 18 months ago (an organization that manages non-profit endowment funds). MMF is now more diversified; in the past, it was invested completely in stocks, which declined significantly and are only starting to recover.

Professor Luepker thanked Mr. Mason for joining the meeting and providing his report.

### **3. Continued Discussion of EFS**

Professor Schulz inquired what would come of the discussion about EFS. The Committee is a consultative body, Professor Luepker responded, and perhaps should abstract questions from what it heard. The President has received the memo from the Faculty Consultative Committee (FCC) and indicated he is gathering information, and he would like this Committee to coordinate its efforts with those of the FCC.

Professor Martin said that the last round of discussions this Committee had about EFS did have an impact: The President asked for monthly reports and there were some fixes. But not big ones, apparently.

Professor Olin said that the Committee has talked about the real time that EFS consumes but that does not show up anywhere. The immediate investment of dollars to reduce those time demands should be a high priority.

Professor Durfee noted that the funds come from the cost pools, from the colleges, so there is no magic pot of money. Mr. Rollefson recalled the University spent about \$18 million to fix CUFS, in 1990, and it could be \$50 million to fix EFS, at a time that no one has the money.

Mr. Driscoll observed that people keep seeing committee minutes with discussions of EFS, and administrators know they have to pay attention.

Mr. Erikson asked if the Committee should propose solutions rather than just gripe. Professor Luepker noted that he asked the guests to do so. There were more global suggestions, and the minutes can reflect that people were upset but also that there were suggestions for improving the system.

Professor Schulz said that some departments have taken on the "learned helplessness" model. They do not know what would happen if NIH visited. Things are not in a lull because the system has been fixed, they in a lull because although some things are fixed, many faculty are just lying down. There could be a substantial impact on departmental function and vulnerability to outside reviews.

Professor Luepker said that it is frustrating to spend money on a system that is doing less at a time of severe fiscal constraints. And that is not getting better, Mr. Driscoll said, and at a time of personnel cuts, Ms. Kersteter added.

Professor Luepker adjourned the meeting at 4:00.

-- Gary Engstrand