Minutes*

Senate Committee on Finance and Planning
Tuesday, January 25, 1994
3:15 - 5:00
Room 238 Morrill Hall

Present: Fred Morrison (chair pro tem), David Berg, David Dahlgren, Mark Davison, William Gerberich, Michael Hoey, Karen Karni, Gerald Klement, Roger Paschke, Richard Pfutzenreuter, Doris Rubenstein, William Rudelius, Thomas Scott, Mary Sue Simmons, Dianne Van Tasell, Albert Yonas

Regrets: Irwin Rubenstein, Mary Askelson

Absent: Karen Geronime, Craig Kissock, Susan Torgerson

Guests: Senior Vice President Robert Erickson, Pat Spellacy

Others: Ken Janzen (Regents' Office)

[In these minutes: Financial policy development; budget instructions to units]

1. Financial Policy Development

Professor Morrison convened the meeting at 3:20 and explained that Professor Rubenstein was out of town. He welcomed Pat Spellacy to talk about financial policy development.

Mr. Spellacy reviewed quickly the materials that had been distributed with the agenda. His intent, he said, was to provide to the Committee information on what is happening, to obtain its concurrence in his plans, and to explain the directions in which he was heading in the development of financial policy.

He noted that the development of financial policies had been recommended at least since 1986, by the University's external auditor, as well as by the Governor's Blue Ribbon Commission (the Spencer Commission) in 1988. His appointment as Director of Financial Policy Development represents the first time the University has specifically assigned this task to someone.

He then described the process that would be used to develop institutional policies. It will include alerting, in advance, the appropriate groups who might have an expertise in the particular matter being considered in order that they can participate in the development of policy. The initial decision on whether or not a policy is needed will be decided by the Policy Review Group (or the President's Cabinet, if seen as appropriate by the Policy Review Group).

---

*These minutes reflect discussion and debate at a meeting of a committee of the University of Minnesota Senate or Twin Cities Campus Assembly; none of the comments, conclusions, or actions reported in these minutes represent the views of, nor are they binding on, the Senate or Assembly, the Administration, or the Board of Regents.

Asked who is on the Policy Review Group, Mr. Spellacy said it consisted of Senior Vice President Erickson and other central officers, mostly from Finance and Operations (including Dr. Kvavik, Ms. Lauritzen, Ms. Markham, Mr. O'Connor, Mr. Paschke, and Mr. Pfutzenreuter); it also includes Dr. Carrier from Academic Affairs. There are no academics on the group, observed one Committee member. Mr. Spellacy said that faculty would be brought into the process; if the Policy Review Group believes academic involvement is appropriate, it will occur. The plans for policy development, moreover, will be circulated so that Academic Affairs, the General Counsel, the Regents, and the Foundation will have an opportunity to make their views known. There will in essence be an "A" group and a "B" group of policies: the "A" group will consist of changes or policies that are considered minor (altering documents, amending policies, etc.); the "B" group will be major and may require review by the President's Cabinet.

Mr. Pfutzenreuter explained that the Policy Review Group is primarily a priority-setting body--what needs to be done quickly and what can wait. There is a large backlog of policy needs and decisions must be made about the order in which it will be addressed. The Policy Review Group will not DEVELOP policy; it will only decide the path by which it will be developed and approve the final policy. There will be a group designated that must say what the policy will be.

One Committee member expressed a caution: if there are no academics on the Policy Review Group, it may not recognize something as an academic issue with potentially a major impact on the operation of an academic unit. The group, Mr. Spellacy assured the Committee, would only set priorities, and he recognizes that participation by a variety of groups will be required.

He then reviewed what kinds of policy matters he would and would not deal with. If the process outlined works, he said, more issues would be taken up and the financial policies would be integrated with other policies (such as those of the Foundation). Ultimately there will be a financial policy manual.

The intent is to have a concise statement of the policy, the reasons for it, who should read it, and who to contact about questions. There will be policy areas that overlap with other areas in Finance and Operations and Academic Affairs (such as Human Resources). In those instances there will have to be collaboration with other units in the development of policy.

Mr. Spellacy distributed a handout illustrating the conceptualization of the results of the process: there will be an institutional policy, phrased concisely and without details; there will be a set of procedures to implement and enforce the policy, and there will be instructions and forms to administer the policy. The number of policies will be limited to 40 or 50 so it is clear what the University wants to accomplish, each limited to about one page in order to have a reasonably-sized manual. The policies should change infrequently; procedures and instructions/forms could change more often.

He will be working on policies, noted one Committee member; who is going to work on the procedures and instructions/forms? Mr. Spellacy said he was identifying, 16 categories, people who will be responsible for writing policies; people associated with those individuals will be subject matter experts responsible for procedures and instructions.

Asked where the procedures would be found, Mr. Spellacy said they would accompany the policies. For each one-page policy there would be perhaps 10 - 15 pages of procedure and instructions. The full set of materials would be provided to area/class managers and area managers; the set of one-page policies would be provided to the President, the vice presidents, deans, other University officers, and faculty.

Mr. Spellacy was asked what impact his work would have on colleges and departments. Presumably the intent is to make things simpler; over what period of time will this occur? Will this create a burden for the secretarial and accounting staff during the transition? Mr. Spellacy said he hoped there would be no burden at all and that it would make jobs easier. CUFS, he was reminded, was intended to make jobs easier and ended up taking a lot of staff time; if this creates additional burdens, there better be funding to help deal with them. Mr. Pfutzenreuter assured the Committee that the process will be sensitive to the amount of work it will cause for departments. Mr. Spellacy added that units would be told in advance when policies would be coming so they would be ready for them.

One Committee member expressed dismay that this process was only being used for financial polices and not for University policies. This "perpetuates the schism between the high priests on the finance side and the rest of the University" and these matters become more mysterious, seen as an enigma that only financial people can understand--because only they have the instructions.

Creating a new policy manual is a very good idea, it was then said, and it is being approached in the right way. But it is dismaying that human resources and academic policies are not being approached in the same fashion. They should all be integrated and cross-referenced.

Once these policies have been pulled together, one can hope that one team member will be a professor of English or Rhetoric to ensure that the policies are written in plain English and at least meet the standards now required of the insurance industry. This is not a joke, it was said; the policies will need an editor because it is important for policies to be readable if they are to be effective. Mr. Spellacy said he has been interviewing editors for the last week and wants the policies to be written in a consistent and easy-to-read format.

Another suggestion is that the policies be put on Gopher, in expandable form, so that one can read the policy only or read everything available for any one subject. This might mean there would be no printed version of the manual. The manual must also be comprehensive, it was said. In law there is the black-letter policy, the text, and the notes; these policies should be set up with "cascading access" so one can identify and print out only what one needs, for example, for per diem policies on travel to Estonia.

Individual users, said another Committee member, should see as few words as possible. Faculty members do not want to see a lot; budget officers needs instructions on filling out the forms, not a lot of rationale for the policy. The manual should not be so elegant that the goal of implementation is lost in the process. And there should be some printed version, it was said, that can be sent to faculty members each year--forcing faculty to play computer games "would be awful." The printed version, it was said, should only include the "black letter" policy.

It was suggested to Mr. Spellacy that he should rely on BRIEF to communicate with the University community about the process he is working on as well as on future policies and changes therein thereafter.

Neither Mr. Spellacy nor Mr. Pfutzenreuter said they could provide an estimate of the cost of this effort or the possible decreased costs to the University as a whole in the future; how, Mr. Pfutzenreuter, would one quantify the costs and savings?

Asked if there were similar discussions taking place about human resources and academic policies, Mr. Pfutzenreuter said there initially had been discussions about them but they concluded they should get their own house in order first. If they find the process works, they will tell others about it. In human resources, he said, people have backed off obtaining a new system because there are a lot of policy issues that need to be resolved first. Mr. Spellacy said he has talked with the Board of Regents office as well as to Associate Vice President Carrier about development of a common numbering system for policies so that they could be cross-referenced.

Regents' policies would not be contained in the financial policy manual, Mr. Spellacy said in response to a question, but they would be referred to. The Regents' policies are being re-organized into categorical classifications, rather than alphabetical. One senses, it was said, that they are a mix of policy and procedure; Mr. Janzen agreed--pointing to tenure as one example--and said he was skeptical about the possibility of reducing all Regents' policies to one page. Nor would there be precise overlap between Regents' and other policies.

The manual should avoid cross-referencing as much as possible if doing so would necessitate finding all the cross-referenced policies and documents; it would be a major effort to track down all the appropriate documents. Mr. Spellacy agreed.

Policy manuals make sense, said one Committee member, but it should be recognized that every Fortune 500 company is going in the opposite direction--they are reducing the number of policies and decentralizing decision-making.

One Committee member then asked Mr. Spellacy if he would comment on whether or not the University has the staff it needs to ensure compliance with policies so that it would not have to use external auditors. It seems there has been increased reliance on external auditors, in many cases "after the cows are already out of the barn." Mr. Erickson, who joined the meeting at this point, responded to the question.

The University is in the process of recruiting a new director of internal audits, he said, and he expects the first task of the individual will be to evaluate staffing needs. What the University has not had before is people who can do the work of setting up internal controls; audits should be a default mechanism after the fact. What has been needed, and what Karen Lauritzen will do as a result of a repositioning of resources within Finance and Operations, is the establishment of an effective financial control function. The addition of budget analysts to exercise oversight has been another piece of that same effort.

Other issues have been raised by Coopers and Lybrand, he told the Committee. Most of what the University needs at the central level is in place; now the focus must turn to colleges and departments. The entire process will be iterative, he promised, and will be examined constantly as it takes place.

Professor Morrison thanked Mr. Spellacy for his presentation.

2. Budget Instructions

Professor Morrison then turned to Mr. Pfutzenreuter and invited comments on the budget instructions and the reductions that had been proposed.

One question, Professor Morrison said, is whether or not the budget instructions are explicit enough on the need for colleges to articulate clearly the impact of retrenchment. One question is what the 2% retrenchment will cause to be retrenched; this Committee, it was pointed out, has typically looked at the results of retrenchment. If the wording of the budget instructions is explicit enough to elicit that information so that it can be analyzed, that is fine.

The approach, Mr. Pfutzenreuter said, is to ask all units to describe the programmatic impacts of the retrenchment--what they will do without or how they will accommodate a lower level of resources. The intent is to focus on program impact with a narrative--not just "we're cutting 2% of the supply budget."

Mr. Erickson noted that a number of people at this meeting had also been present the previous morning at the discussion with Regent Keffeler; he said he wanted to emphasize again what she had said: these are GUIDELINES. Regent Keffeler also underscored the point that compensation has been set but all of the other elements of the budget plan remain open for discussion.

Also critically important is that the impact of the reductions be made clear. What is NOT wanted is the Washington Monument on the table--units should not propose for cutting that which everyone knows will not be cut.

Mr. Erickson said he also wanted to emphasize the importance of changing the mindset of the University community with respect to these actions. Some believe everything has been set; IT HAS NOT, he told the Committee. The administration can go back to the Board and ask that tuition or the size of the Strategic Investment Pool be adjusted.

The point about the retrenchments, it was said, is that the call for identifying the impact does not jump out of the budget instructions as perhaps it should. Units need to be reminded of that, even if doing so requires a separate memorandum.

Mr. Pfutzenreuter was asked to amplify on what a college might do in the way of providing information on the impact of cuts--say the College of Astrology or the College of Ichthyology is asked to cut $150,000. The instructions provide two possibilities, he said; in some cases, a unit could raise enrollment to offset the reduction. With the limits on tuition increases, that may not be an option. Second, it can describe the impact of the reduction, identifying something it will do without.

In the past, recalled one Committee member, when this kind of information was sought, the responses varied. For a unit to say it will cut a position or cut its supply budget is not helpful. What is needed are THE CONSEQUENCES of those cuts, not just the object of the cuts. What is also wanted is units to describe what they will stop doing--NOT that they will just keep doing the same thing with less money--or if they are, what the consequences will be in terms of the goals of U2000, such as increased user-friendliness. In the past it was "2-4-6-8 who do we eliminate," said one Committee member; vacant faculty positions have been cut but there has been no indication of the elimination of that cut on the program and how the impact is accommodated.

Not only is there a need to know what will be cut for 1994-95 but also a need to know what will be cut in future years. What is to be cut programmatically may not be what is cut for 1994-95. Mr. Erickson noted again that the administration will be receptive to proposals that units may require bridge funding for because they are not be able to accomplish them one year.

Another example of accommodating cuts, Mr. Erickson said, might be a college that realizes it has 10 sections of an undergraduate course, each of which enrolls less than 5 students. It might decide not to offer the course to fewer than 10 students--but that, of course, could have an impact on graduation rates, and that should be noted. People must start thinking about their activities. The issue of low-enrollment courses comes up over and over because there is no University limit on the number of students who must be in a course, which can make the education very expensive.

One has heard the words "dialogue" and "choices" and "guidelines" in these discussions, reflected one Committee member; what if a unit simply says it cannot cut any more. How will they be penalized? Will Mr. Erickson tell the Regents that one college can make cuts but another cannot? Where are the carrots and sticks in this process?

Mr. Erickson pointed out that the University has a rapidly-increasing information base which enables it to ask questions; the role of the budget analysts will be to play the devil's advocate. It is understood that in the short term the ability of a unit to contract is restricted, but it is not so restricted over a period of three or four years. It would not be acceptable for a unit to say that it cannot make cuts. If it will not fill a position, the impact of not doing so should be described. The strategic planning process contemplates relative changes in the University--there has been a lot of discussion about it being too encompassing. One difficulty in this process has been alluded to, Mr. Erickson observed; there is a mentality of thinking of cuts in terms of object codes, not programmatic impact. What has to be thought about is whether or not the object of the cut is more or less critical to the University's mission.

Resource reallocation makes sense, although it will be painful, said one Committee member. Most deans, however, do not understand the difference between program and object budgeting. In one unit, these budgetary changes are made at the margins. If it is to be taken seriously, and the array of teaching and research program options is to be changed, the process must identify alternatives. But people have no vested interest in providing the information needed because of the pain it inflicts.

Everyone makes judgments as they allocate their time to teaching, research, and outreach, Mr. Erickson pointed out. If each faculty member were to reallocate a small amount of their time it would have an enormous impact on the University.

One Committee member then expressed a concern that these instructions were issued on January 21 and will be due on February 15, for all intents and purposes--even though the Budget and Finance office requested them by February 21, the vice presidents are requesting them earlier in order to review them. This leaves three weeks to have discussions of what could be radical changes in the institution. Is that realistic?

Mr. Erickson replied that the process will be iterative and it must start someplace. Units need to identify what they think they can realistically do; the results will be taken to the Board for review. The challenges will be greater for some units than for others, he noted. And whether or not these cuts are realistic is something the units will have to tell the administration.

One wonders, speculated a Committee member, if in some units the budget cuts are being covered by having TAs teach more of the courses, and if so, what impact that will have or is having on students who have chosen to come to the research university for its advantages--when they will have less contact with research faculty. The administration was urged to keep track of teaching trends in courses and sections. One has the feeling that as the complement of faculty declines, use of TAs is increasing to accommodate it.

Hearing no more questions or comments, Professor Morrison adjourned the meeting at 4:30.

-- Gary Engstrand

University of Minnesota