

Minutes*

Senate Committee on Finance and Planning January 21, 1992

Present: Burton Shapiro (chair), David Biesboer, Karen Geronime, Virginia Gray, Nick LaFontaine, Jeff von Munkwitz-Smith, Irwin Rubenstein, Mary Sue Simmons, Charles Speaks

Guests: Senior Vice President Robert Erickson, Assistant Vice President Susan Markham

1. Discussion with Senior Vice President Erickson

Professor Shapiro convened the meeting at 3:15, welcomed Mr. Erickson, and turned to Professor Speaks for an item he wished to bring to the Committee's attention.

Professor Speaks said he was concerned and alarmed about the memorandum which proposes to change clerical employees from a semi-monthly to a biweekly payroll. The reaction has been sharply negative and a change such as this, with significant financial implications, should have been brought to the Committee before it was adopted.

Senior Vice President Erickson interrupted Professor Speaks to tell him that he had reversed the decision and had sent out a memo to that effect--primarily for the reasons Professor Speaks identified. The change, he said, had been made at the request of the union in order to accommodate their needs for information; it since decided the change was not necessary, so he concluded that the University will NOT spend time or energy on this issue with everything else that is going on. He has told the union that if it is not getting the information it needs, the University will try to help take care of the problem.

One Committee member expressed concern that this touches on the larger issue of implementing change in the University; it isn't clear how it can be accomplished with understanding. Mr. Erickson agreed that a lot of assumptions had been made when the memo was written--it was a "big deal" but not treated as one; there should have been consultation at least with the Finance and Planning and Civil Service committees.

Mr. Erickson told the Committee that he has had internal discussions about the importance of consultation on major changes. The present payroll system has problems, he explained, and most of the rest of the world is on a biweekly payroll and paid on a lag. But the change to such a system must be carefully planned and communicated. It is disturbing, he observed, for the University to try to act positively, in responding to a union request, and then be perceived as trying to hurt or harm its bargaining unit employees--when nothing could be farther from the truth. An event such as this, he told the Committee, strikes at the way people perceive they are being treated: if they believe these are arbitrary actions, their reaction is justifiably negative. There have already been too many major changes and lay-offs, with a consequent loss of psychological security; the University pays a price for that loss. He said he wants to be certain that any changes are carefully communicated to people so they understand them.

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Professor Shapiro thanked Mr. Erickson for his prompt action on the Committee's dismay.

2. Discussion with Assistant Vice President Markham

Professor Shapiro next welcomed Assistant Vice President Markham to the meeting to discuss recent changes in Facilities Management. He noted that in the list of agenda items for the Committee presented to the Senate, many dealt with issues associated with the units for which she is responsible; it seemed appropriate to have Ms. Markham visit with the Committee about those issues.

Ms. Markham distributed copies of the final reorganization of Facilities Management, effective February 1, which includes the absorption of Physical Planning. There will be significant cost savings, she said, through elimination of administrative overhead in such areas as finance and human resources; the new units include Planning & Programming and Project Development. Technical Support will consist of existing Facilities Management staff plus Engineering staff from Physical Planning--in a group very much reduced in size. The proposal to merge the units has been discussed with several faculty groups; the result, a single team, should reduce the confusion that previously arose about Physical Plant and Physical Planning. All of the offices of Facilities Management will be consolidated in the Shops Building.

One Committee member observed that with the integrated structure, people no longer know how to gain access to the system. Over the years people learned who to contact to get something done, but those individuals are no longer in those same positions. Ms. Markham responded that this is the most difficult environment she has ever had to work in, in this regard; she told the Committee that Facilities Management has mailed as much information as it can to as many people as it can think of and she's at a loss to know what more to do. It was suggested that a SINGLE information number would be helpful; Ms. Markham suggested that people call her office.

Ms. Markham related that she has encountered this problem before; people want to call "Pat the electrician" directly. With everyone making such calls, however, it falls to the electrician to make judgments about priorities. If one calls an electrical contractor, they will assign work on the basis of resources available and a set of priorities they have established. If one is unable to convey that a situation is an emergency, they should call her office. Ms. Markham reflected that there were, under the old system, a lot of employees with long experience with buildings; it is her intention to build that experience into the system rather than having it exist in the employees' heads--that is not the way to manage 18 million square feet. The new zones have permanent staff, some of whom are new but all of whom will gain in experience.

Attention turned briefly to budget reductions in Finance and Operations; the total reductions have been \$5.2 million (in addition to Restructuring and Reallocation), for a total reduction approaching 20%. Of that \$5.2 million, \$2.7 has come from Facilities Management; of THAT \$2.7 million, \$1.2 million came from the former Physical Planning. The legislative funds in Facilities Management total about \$65 million.

Ms. Markham next turned to the issues the Committee had identified as those it would be concerned with; first on the list was charging for space. Beginning in 1992-93,

information--very crude information--will be shared with departments on what is being spent to operate their space. There will be caveats: the financial management systems do not reflect the true cost of operating a building nor are those costs easily consolidated (she can provide data on the cost of electricity for Morrill Hall--but not the cost of operating Morrill Hall). To correct this lack, Facilities Management is doing a "bottoms-up" budget for buildings; each zone manager is handling these budgets.

Recipients of the information will see a wide variation between what is being spent and what they believe SHOULD be invested in buildings. But the numbers, she cautioned, should be treated cautiously. Ms. Markham agreed that even providing utilities expenses by building will not address all of the data needs, because they recognize that there are differential rates of energy consumption, for example, among the different occupants of a building--the costs for which are spread out over the several occupants. Moreover, while they will be able to document what WAS spent, the hard part will be determining what SHOULD HAVE been spent.

Mr. Erickson observed that the development of information is an important concept--and one which itself carries costs. It may not be possible to gather the needed information immediately. The plan is to provide the information next year and implement a charging system the following year; the budgets for a department would be increased along with the charges, so there would be no net cost increase. What is most important is that an incentive system be set up--however, Mr. Erickson told the Committee, he is enough of a realist to recognize that one does not just set up the system and turn the key. There will need to be refinements in the system, over the years, and he wants to be sure the system is set up in such a way that people understand why it is being established.

Ms. Markham then reminded the Committee that there are a number of buildings at the University, the operating costs of which have never been funded--so the same funds have been spread over more and more buildings. This will mean that the data on building operation will be inaccurate--costs will look a lot lower than they really should be. Mr. Erickson agreed, and said that agreement needs to be reached on a basic standard of maintenance; what will be discovered, he speculated, is that the funds being devoted to buildings are not enough to meet the standards everyone agrees are appropriate. At that point decisions will have to be made; either funds will have to be reallocated or the same level of maintenance cannot be maintained. The information will need to be framed in such a way that people can evaluate the problems, he concluded.

Asked if they might try a "what if" period--"what if" the costs exceeded the funds allocated for maintenance of the building at the end of the year--Ms. Markham agreed that it could be part of the implementation process. Mr. Erickson commented that somehow the necessary communication has to occur; it may be that the standards all think appropriate cannot be met. The University has already reduced services, by reducing trash collection and eliminating window washing--but minimum standards have to be identified, and they may include more intensive maintenance of classrooms and restoration of window-washing.

Mr. Erickson affirmed that as a first cut, the assignment of costs within a building would probably be based on square feet occupied by a department. The next level of refinement might be to identify spaces which incur greater utility expenses and take them into account in assignment of costs. These are details which would have to be worked out over time. He also told the Committee that he wishes to adhere to the 80/20 rule: 80% of the benefit should be obtained at 20% of the cost. There comes a point

at which further refinements cost more than they are worth. The final numbers to be used, he stressed, would still be based on averages and estimates, but additional refinements would not be of great help.

Discussion turned to building maintenance. In response to a query about where to go when one gets no response from a zone manager, Ms. Markham replied that while priorities for repairs and improvements are established, one should always get a response of some kind. They are operating in a "crisis management mode" because of the changes that have taken place but also because of the \$300 million in deferred maintenance and relying on equipment that is 40 years old that had a life expectancy of 15 - 20 years.

Ms. Markham observed that one deficiency has been a failure to coordinate the expenditure of funds on a building. There are numerous pots of money which are used for buildings; the University has typically not looked at buildings as a whole and tried to leverage the funds to do everything all at once and do it right--on the basis of academic priorities and cost-effectiveness.

On the matter of building operating costs, Ms. Markham said, the Committee must understand that there have been no new funds since 1985; her office is assembling a list of buildings the operating costs for which have not been funded on a recurring basis, and the costs, and will seek advice on how to adjust the budget base to operate them. Everyone is paying for these buildings. A related question arises with respect to buildings constructed with private funds; there is, for example, no source of funds available to operate the new Art Museum. The President has asked her, along with Lyndel King, to identify a source of funds.

Another misconception which needs discussion, Ms. Markham told the Committee, is that ICR funds support building operations. Facilities Management receives no ICR funds, she pointed out. They are called upon to do work, send a bill, and the customer complains because he or she assumed that their grant paid for the work. It turns out that no one has funding for the work--but it must be done. She has prepared a proposal to identify routine Facilities Maintenance charges (assumed in their legislative funding) versus department or research charges which are above the standard level of service. In a survey of comparable research institutions, she reported, the results they received were standard across institutions--but not comparable to what occurs at Minnesota. At other institutions department funds are expected to pay for much more than here; the legislative funds at Minnesota have paid for more than is usual at other institutions. (Examples cited were fume hoods, autoclaves, and equipment which has an impact on building systems.)

Ms. Markham said she is not taking a position on who should pay for what but she believes that the University must consider what it costs to operate a building and either give her office or the departments the funds to do so. And, she said, departments cannot be treated differently; there are a lot of "understandings" that run back a long time and there have been no rules--but the University cannot have different standards based on historical patterns.

These comments, observed one Committee member, make it sound as though the original auditors' report on Physical Plant, noting higher costs than at comparable universities, was not comparing apples and apples. Even so, it was said, the perception is important; the faculty and legislature see Physical Plant as grossly over-funded but unable to do the same jobs as elsewhere. How is the faculty or the University to make judgments on funding? Ms. Markham agreed that the auditors had NOT been comparing apples

and apples. The essential question is not what it costs elsewhere in the Big Ten but rather what does it cost to maintain a building. For instance, she pointed out, the University was criticized for spending \$1.03 per foot for janitorial costs, compared to a Big Ten average of \$0.73 per foot. The AVERAGE janitorial costs in the Twin Cities for places with labs, for "light" service, is \$1.50 per foot. The auditors didn't take into account labor market differences, but do now understand and are trying to get the numbers cleaned up.

One Committee member inquired whether, apropos the reorganization, there would be "before and after" numbers on costs in order that there might some concrete measure of progress. Ms. Markham said she would be glad to provide such numbers--but that they cannot measure changes because they have no baseline information on job costs; the State Auditor sent in 23 auditors and could not develop the numbers they needed. Data on charges to departments were lost; they did not even know what total costs were. In addition to CUFS, she told the Committee, they are installing a computerized job management system which will ultimately create significant savings; it plans and schedules work, tracks productivity of workers, time to do a job--a system that major private sector organizations and some universities already use. But, she said, she cannot re-create data from earlier years.

Mr. Erickson reported that one step being taken is to work with the unions on issues of equipment needs as well as productivity. The University is trying to work cooperatively with the unions to make changes to remove impediments to improvement. Ms. Markham concurred, recalling an instance where the purchase of new equipment not only increased productivity, it increased morale as well. Mr. Erickson suggested that Committee members look in the closets in their buildings; he is, he said, appalled at the equipment the University asks its staff to work with. The University has to be sure that its staff has the tools they need to get their jobs done. There have been encouraging signs, he concluded, but there is much that remains to be accomplished. He also pointed out that many of the massive changes which have been taking place could not have been accomplished without the close cooperation of the Teamsters.

Professor Shapiro thanked Ms. Markham for joining the Committee and assured her that she would be given opportunity in the future to discuss additional issues. The steam provider contracts, he noted, would be taken up by the Physical Plant and Space Allocation subcommittee. It was also agreed that one session of the Committee might fruitfully be spent over at the Shops building looking at such things as the new computer system.

3. Discussion of the Report from Coopers and Lybrand

Professor Shapiro next inquired of Committee members if they had comments or questions about the Coopers and Lybrand report. He expressed the view that the University had been provided a service when these problems were pointed out.

Mr. Erickson said he had encouraged Coopers and Lybrand to get all of the issues out on the table; it is only by doing so, he said, that the University can begin to address them. They are now putting together an action plan; Mr. LaFontaine, as Controller, is taking the lead on this effort.

Mr. LaFontaine then told the Committee that the University agrees with all of the recommendations made in the current report but that a few from previous years would not serve the institution well (such as changes in bookstore inventory procedures or expensive changes in procedures before a new payroll

system is installed). Mr. Erickson also noted, by way of example, a recommendation that there be a physical equipment inventory for the entire University every 3 - 4 years; that, he said, would not be meaningful, and after discussion Coopers and Lybrand agrees. A substitute plan might be to inventory items with a value of over \$1000 or \$2000; there would be no point to such an inventory, and tracking every item, including those that are fully depreciated or have a value of \$25 or \$50, will cost more than the items are worth. What is important is to look at the costs and benefits and assess the risk of loss; if the risk of loss is great, then steps must be taken. He affirmed that there are federal regulations controlling federal equipment inventory, which will have to be addressed separately. The University, he said, also needs to avoid doing things which create a false sense of accuracy; many things done do precisely that.

One Committee member raised a question about the decentralization entailed in CUFS; discussions in his college suggest that people are being given responsibility without knowledge of University policies. When tasks were centralized, and employees were long-term, they knew the policies and knew what needed approval; with decentralization, and approvals to be made in each department on a wide number of issues, employees often do not know the policies--leading to uncertainty and frustration. Mr. LaFontaine said there may be two problems involved; one, very real, is associated with decentralization and fixing of authority in local units. Discussions will be held in the near future about central review; for example, ORTTA is contemplating some changes in their operations.

The ORTTA changes, it was interjected, are even worse; individuals at the local level will need to know NSF, NIH, USDA policies in order to approve a grant. Asking administrators in different departments to know all of those policies is wholly unacceptable. At the research level, where contact with the federal government is required, the problems of decentralization will be an entirely different--and worse--order of magnitude. Professor Rubenstein said that the Senate Research Committee will take up the ORTTA changes.

The problem of administrators being responsible for policies they do not know remains; someone must be sure that they have the knowledge to act responsibly. Mr. LaFontaine agreed and noted that Coopers and Lybrand has been engaged to assist in this matter. One of the challenges is the training of staff in the colleges; another is the preparation of manuals that better serve them. Right now the manuals are not geared to a decentralized organization; a group will be established to develop workable manuals and the processing responsibilities will not be "unloaded" on units all at once. Attention will be focused on the colleges so that as they work with departments, Mr. LaFontaine said, they will understand what each college needs.

As he has reviewed policies and procedures, Mr. LaFontaine told the Committee, he has seen that decentralization has not shifted the focus of activity. Many of the activities which occur at central offices, he said, consist of \$20,000 clerks checking on department administrators; it is to be hoped that the system and new processes will make that unnecessary. Doing it right the first time has to be the general practice, he said. In the case of travel forms, for instance, there will no longer be anyone at 1919 to catch errors--and the one who will suffer is the individual who's to receive a reimbursement. If the procedures are put in place, the University can be more efficient and effective. But it is clear, he agreed, that better job of education and training is required--which has always been the case.

In terms of equipment inventory, he noted, there are different thresholds required, and ORTTA wants to find out if there can be a single set of rules. The upcoming meeting is only exploratory; the

Coopers and Lybrand people will be present, as will the ORTTA advisory group.

Mr. LaFontaine also reported that a four and one-half day training session will be required for department staff and administrators before units will be allowed to start decentralized entries on CUFS. There will also be sessions focussed on senior administrators, of perhaps three two-hour blocks, which can look at both mechanics and issues important to managing a department in a decentralized institution. The University will be working with Coopers and Lybrand to develop these training sessions. Mr. Erickson agreed that this training will be important; without it, the advantages of CUFS will not be realized.

Discussion shifted to the Institute for Disability Studies, which, said one Committee member, is a cause for more concern than the CUFS overrun. How is it that people consulted for 30+ hours per week, contrary to University policy, how the non-competitive bidding occurred, and how it was detected and if the Committee can be assured it will not happen again? Mr. Erickson said, in response to the last question, that no assurances can be made; in large institutions, things like this will occur. He said he himself had received calls and had called in the auditors; the system worked as it should, because the role of an internal audit is to ensure that policies are being complied with. With the size of the University, and its decentralized nature, if the manager of a unit does not follow policy there is no way the institution will simultaneously be aware of that failure to follow policies. This, he said, is the reason there is a regular cycle of internal audit, to be sure departments are complying with policies.

There are serious issues raised by the Institute of Disability Studies, and it is being given high-level attention (including by the County Sheriff). Occasionally, he said, either through ignorance or outright conscious violation of policy, these things will happen. It happens all the time in private corporations, he pointed out, but the incidents are not publicized because they do not operate in the public domain.

Are any changes in compliance with policy suggested by the events? Mr. Erickson said he believes compliance, at a place like the University, must be largely voluntary. Occasionally there will need to be reviews, to determine if people are complying. In this case, there were rumblings and the system was invoked to check out the situation. One can set up a draconian system of review, one which would greatly inhibit the flexibility all prize highly in an academic environment, Mr. Erickson said, but one quickly encounters cost-benefit considerations. The increase in paperwork would be substantial, and there is a requirement that one file forms annually on consulting activities. If the reporting requirements are too vague, he commented, then they may need to be more understandable.

This is part of a larger problem of University infrastructure, he said, a matter to which little attention has been paid for many years. The administration is trying to establish priorities for making improvements, and would welcome suggestions from the Committee.

The Committee adjourned at 5:00.

-- Gary Engstrand