Minutes[*]

Senate Committee on Finance and Planning
Tuesday, October 11, 1994
3:15 - 5:00
Room 238 Morrill Hall

Present: Mark Davison (chair pro tem), David Berg, Thomas Hoffmann, Karen Karni, Roger Martin, Patrice Morrow, Roger Paschke, Anne Sales, Craig Swan

Regrets: Virginia Gray, William Gerberich, Craig Kissock, Gerald Klement

Absent: Mary Askelson, Carl Erickson, Ryan Fuller, Allen Goldman, Richard Pfutzenreuter, Doris Rubenstein, Thomas Scott

Guests: Sara Delaney, Tom Gilson (both Management Planning and Information Services), Karen Lauritzen (University Controller), Linda Woock (Financial Management Systems), Ellory Christianson (CUFS User Network)

Others: Ken Janzen (Regents' Office)

[In these minutes: Calculation of instructional costs; status report on CUFS; report on University investments]

1. Calculation of Instructional Costs

Professor Davison convened the meeting at 3:15 and explained that Professor Gray was out of town and had asked him to serve as chair in her absence. He then welcomed Ms. Delaney and Mr. Gilson to explain how instructional costs are calculated. They handed out copies of the 1992-93 Instructional Cost Study and explained that these costs have been calculated in approximately the same way since 1978.

Ms. Delaney and Mr. Gilson reviewed the data contained in the Instructional Cost Study and how it is derived. Discussion focused on the differentiation between direct costs and indirect costs (the former are those under the control of a dean while others are indirect) and allocation of costs among course levels. Committee members asked several questions about how some of the indirect costs are allocated (e.g., space, libraries, faculty salaries, and so on). In answer to a question, they said that portions of faculty salaries, and other costs, committed as direct or matching effort on sponsored non-instructional programs are reclassified from instructional to research or some other appropriate functional classification. Tuition revenues are also accounted for in one of the tables in the report.

It was noted that these figures diverged significantly from those that appeared in U.S. NEWS AND WORLD REPORT; Mr. Berg explained that the magazine numbers probably represented direct costs plus

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picking and choosing among the indirect costs. They are inaccurate, in any event.

Professor Davison thanked Ms. Delaney and Mr. Gilson for their presentation.

2. Status Report on CUFS

Professor Davison next welcomed University Controller Karen Lauritzen, who in turn introduced two other staff members, Linda Woock (Acting Director of Financial Management Systems) and Ellory Christianson (Chair of the CUFS user network).

Ms. Lauritzen explained that she has been Controller only since January, so most of her knowledge about CUFS is hearsay; she is focusing on the future, she told the Committee. She asked Ms. Woock, who came to the University just before CUFS was installed and who is now Acting Director of Financial Systems Support.

Ms. Woock outlined briefly the history of the need for improved financial management and the decision to purchase CUFS, what functions CUFS performs, and the fact that the University has made over 100 modifications to CUFS. One major mistake that was made, Senior Vice President commented, was to make modifications--then having a system the University must itself support--as well as not modifying business practices at the same time it modified the computer programs.

Ms. Woock described the "Button Up CUFS" project that the Regents had approved in June of 1993; they are now completing it, three years after the initial installation of CUFS in November, 1991. It consisted of a number of small projects, with team leaders and staff support and with a high level of customer involvement. The projects, Ms. Lauritzen observed, are largely invisible to most members of the University community, but required a great deal of work by technical groups to avoid disasters.

The next focus, once Button Up CUFS is completed, will be on process redesign. Button Up CUFS was not intended to meet every customer need; once the clean-up has been completed, attention must be given to process redesign and improvement.

An analogy that makes this understandable, Mr. Erickson related, is that CUFS is similar to the failure of the University to maintain its physical infrastructure; CUFS is the accounting infrastructure. If it cannot provide reliable data, the University and its programs have all kinds of problems.

One Committee member inquired if the intent of CUFS was to reduce departmental paperwork. Ms. Woock said that had originally been a part of the promise made with decentralization, but it has had to be withdrawn because of resource issues and system capability. Ms. Lauritzen said that CUFS does not deliver what principal investigators want, which is accurate information NOW. The system is a long way from achieving that goal, but it is the vision. Her office, along with the faculty and ORTTA, must be partners, she said. There were trust issues that had to be dealt with, but things must now move forward.

Her focus, Ms. Lauritzen said, is on re-engineering purchasing, to avoid the $55 stapler that Vice President Gore talks about. The process must be measured by the total cost of acquisition; if the cost of control is greater than the cost of what is being purchased, there is no value added. The process has to be stripped down to its essentials, which is how to get faculty and students what they need, when they need it, at the lowest possible price. She recalled coming from a meeting of the Big Ten controllers, at which all were concerned with the mess caused by over-processing transactions--something pervasive in universities.

Asked about the increased work on departments, Ms. Lauritzen said she is not convinced that every step in the process is valuable, and she said the technology to make things simpler is available. Mr. Erickson reported on efforts conducted in several units to examine and reduce administrative costs. In one college, for example, it was learned that the within-college cost to process a purchase order was $77. The simplification of processes must be the next thrust. First the debris had to be cleaned up, then a foundation built (Button Up CUFS), and then improvements must be made. In the future, he said, department workload implications will be carefully considered before changes are made.

Ms. Lauritzen said she was not sure how much money would ultimately be saved. At one institution going through a similar process, the estimate is a savings of $4.7 million per year in reduced labor costs, with $3 - 6 million in technology costs at the outset. In that case, there would be a maximum two-year payback. The new technology is far ahead of what existed five years ago, and some of the biggest savings will be electronic payments to vendors--issuing checks is very expensive. Another change on the horizon is a procurement card, which will permit purchases without issuing checks.

Both Mss. Christianson and Lauritzen emphasized the need to improve training on the use of CUFS and how better use of the system can be made if people know what it can do. Training has been ineffective, and it will be a major consideration whenever anything new is proposed in the future.

There should be NO pitfalls for departments in managing their affairs, with the changes, Ms. Lauritzen said, as long as the support and training are provided. The support of the faculty will be needed when changes occur, she told the Committee, because when the facts are laid out, these systems will cost less, and thus free up funds for the missions of the University. She said she wants to spend as little as possible on reports and processes.

Professor Davison thanked Mss. Christianson, Lauritzen, and Woock for their presentation. They in turn said they would welcome questions or calls from anyone who needed help.

3. Status Report on University Investments

Professor Davison then asked Mr. Paschke to join him at the table. He cautioned the Committee that inasmuch as the University is considering the possibility of a suit against Piper Jaffray over the recent losses on the derivative investments, issues related to legal action cannot be discussed. This review will be of University investment practices and performance.

Mr. Paschke then said there were points about the recent losses that he could explain and that the Committee should understand. The $13 million written off was in a fund that has since collapsed and is in bankruptcy. There are two other University portfolios managed by Piper Jaffray: Ruminco, the University's captive insurance company, and a small portion of the University's endowment fund. The value of those funds has declined by approximately $12 - 13 million, so there is an unrealized loss in that amount. The University is re-evaluating its investments in derivatives, and all of its money has been or will be moved out of derivatives in the near future.

He told the Committee that no one feels as bad as he does about the losses, because he is responsible for managing the funds and is accountable for them. But these things do happen, and any investment strategy will have risks. He handed out a three-page summary of asset and debt management results that outlined how the University has done over the past ten years or so. Even taking the losses into account, the University has done very well, with returns significantly above the average of comparable funds of colleges and universities. In debt management, the University has saved approximately $44 million over the past nine years, over simply issuing fixed-rate bonds, which most tax-exempt institutions do. He said he does not want to minimize the importance of the current situation, but the University has been very successful in both its investment and debt management practices.

Mr. Paschke then distributed copies of a report that will be made to the Board of Regents that summarizes all the funds the University owns and how they have performed. He quickly reviewed a number of the tables on asset allocation and performance.

One Committee member inquired how the $13 million loss would be spread over the University. Mr. Paschke said it would not; it affects only the Central Reserves, he said, not endowments or department balances. Excess earnings and losses accrue to Central Reserves. There have been gains in the past, which is how the Central Reserves were created and why they exist; now there has been a loss. The projections were for $26.6 million in Central Reserves at the end of the last fiscal year; because of $3 million in investment gains, and other unanticipated additions, the balance will be about $18.3 million after the $13 million loss.

Asked how the University compares with other large universities, Mr. Paschke said that for the last 12 months, it will be about average; for the ten year period up to the present, it has outperformed almost every other institution. For fiscal year 1993, the Foundation was second in the country in performance, and the University was in the top eighth or ninth percentile overall.

Is there a legislative reaction when the University does well with its investment income? Does the legislature reduce the appropriation because of the University's income? The legislature and the analysts have a good understanding of the University's endowment, he said, and while it was an issue in the past, it is no longer. Mr. Berg recalled that before the Permanent University Fund was transferred to the University, there was an AUTOMATIC offset in the appropriations for the income the Fund earned. That is no longer true, and the issue of income is no longer raised.

Professor Davison thanked Mr. Paschke for the information and adjourned the meeting at 5:05.

-- Gary Engstrand

University of Minnesota