

Minutes*

**Senate Committee on Finance and Planning
Tuesday, February 20, 1996
3:15 - 5:00
Room 238 Morrill Hall**

Present: Fred Morrison (chair), David Berg, Craig Dexheimer, JoAnne Jackson, Kathy James, Karen Karni, David Kittelson, Gerald Klement, Patrice Morrow, Richard Pfitzenreuter, Peter Robinson, Doris Rubenstein, Charles Speaks, James VanAlstine

Regrets: Thora Carlidge, Craig Swan, Steven Thelen

Absent: Allen Goldman, Roger Paschke

Guests: Stephanie Lieberman, Director of EEO; Gail Klatt, University Auditor; Vice President and Dean Mark Brenner, Peter Zetterberg (Academic Affairs)

[In these minutes: Discussion with the new EEO/AA Director, Stephanie Lieberman; the Integrated Framework approach to institutional controls; tuition remission for graduate assistants]

1. Discussion with EEO Director Lieberman

Professor Morrison convened the meeting at 3:20 and welcomed Stephanie Lieberman to the meeting. After introductions, he asked her to review her background.

She did so, noting that she spent the last eleven years at California State University at Sacramento. She said she is enjoying her job here immensely; she told the Committee that she worked very closely with the Senate at CSUS and hoped to be able to do the same at Minnesota. She said she sees herself as an educator first and a compliance officer last.

Asked her general impression of the climate at the University, she said it was chilly for everyone! But she meant the statement figuratively as well as literally; she sees very little male bonding, much less whites bonding with people of color. There is, however, a rich array of resources at the University for diversity.

Dr. Lieberman said she was impressed, nonetheless, with the warmth of the welcome she has received and the concern and receptivity to diversity and affirmative action, especially for a place that has gone through enormous retrenchment. People seem to be looking for ways to do things.

Asked what new ideas she brings to the University, Dr. Lieberman mentioned that she has begun talking with the Graduate School about forgivable loans for students of color, as a pipeline issue: the University could guarantee loans for women and students to attend graduate school anywhere, and they would then come here for faculty positions. She also has in mind setting up a Camp Run-a-muck

* 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.

experience prior to fall quarter for new faculty women, to provide an intense orientation to the University as well as to provide senior faculty mentors to help new faculty.

One Committee member noted that there is no "target of opportunity" program at the University. There is a bridge funding program, it was noted, in Dr. Josie Johnson's office. The problem with that, said another Committee member, is that if a department gets too committed, it may not have the vacancies it would need during the next four years to provide permanent funding (and they would have to be NET vacancies, after retrenchment). The University needs a good human resources information program to help with succession planning, Dr. Lieberman agreed.

Asked how she intends to work with the coordinate campuses, Dr. Lieberman said that once she was settled, she intends to spend time on each one and to get to know its climate and culture.

Dr. Lieberman said she has talked with faculty chairs of Senate committees about decisions and advice they give, and that this Committee is important in what effect it can have on equal opportunity and affirmative action. She asked that the Committee think about these issues, and their expansion or contraction, as it makes recommendations. No part of the University is untouched by EEO, she said, and financial decisions affect what can be funded.

She invited the Committee to feel free to call or email her; she said she wants to be as open and available as possible, and wants to receive both negative and positive feedback about her office.

One Committee member expressed frustration at the process a department needs to go through to complete a successful faculty hire. The process at the beginning is not a concern, but when a department has identified a candidate it wants, it must often move quickly. What is frustrating is the number of levels of approval and the time that are required. Is it necessary to have collegiate EEO approval, University EEO, as well as signatures by a lot of other administrators? Would it be possible to streamline that process while retaining its integrity?

Dr. Lieberman said she was looking into this, and has talked with Associate Vice President Carol Carrier and others. Her own office, she noted, usually provides 24-hour turnaround. The problem, she was told, is not with the speed of the offices; it's with the number of offices involved.

Professor Morrison thanked Dr. Lieberman for joining the Committee.

2. Integrated Framework

Professor Morrison next welcomed Gail Klatt, University Auditor, and Senior Vice President Jackson to the meeting to discuss the Integrated Framework (hereinafter IF). He noted that this was an unusual request on the part of Senior Vice President Jackson, because the Committee normally expects to have items for its agenda more than 24 hours in advance and to have materials circulated before meetings. Since this issue is going to the Board of Regents next week, however, he agreed to put it on the agenda for this meeting.

Ms. Jackson said she had come without warning because as they were preparing for the presentation of the IF to the Regents' audit committee, it became clear to her that it had to be presented to this Committee. She asked the Committee to consider the IF as something to be put into the framework

of how the University makes decisions, assesses risks, and manages itself. The IF will be presented to the provosts and chancellors, and was presented by Coopers and Lybrand to the President's Executive Council two months ago. The slide copies distributed today are the basic presentation by Coopers and Lybrand.

Ms. Klatt said that the IF is an internal control system that the Committee is probably not familiar with. In last year's management letter, Coopers and Lybrand said the University lacked a robust control system to minimize risks in the complex environment in which it operates, so the University was vulnerable to risk of errors, irregularities, not meeting its objectives, and possible problems of public perception.

Coopers and Lybrand recommended strengthening the internal control environment. When discussed with the Board of Regents audit committee, the Audit Committee felt this was an institutional issue to which the President should respond, not the Senior Vice President for Finance and Operations. The President did so. This year Coopers and Lybrand went to Executive Council members to get their opinions about the control environment and what has been done to strengthen it. Coopers and Lybrand reported that there has been progress (and creation of the provostal structure helped), but there is more work to be done because the control system is not as solid as would be expected. They recommended implementation of the IF.

The President has been educated on the IF and supports it; he would like it implemented. It is not clear the University has had a control model; it has been reactive, adopting new rules to deal with problems but never checking to see if it needed the rules it already has.

The IF is not something that Coopers and Lybrand dreamed up, Ms. Klatt explained. Its development began in the mid-1980s, at a time when there were a number of failures in the financial industry. As funds were sought from Congress, it asked why there were no early warning signals from audits, and what was the problem? It appointed a commission that concluded there was no definition of what internal control meant; each regulatory body (accountants, federal regulatory agencies, internal auditors, etc.) uses different definitions and criteria, with the result that things fall through the cracks. Many definitions focus on day-to-day activities, but in the case of the savings and loan failures, the problem was not with the bookkeepers and accountants but with senior levels of management that were making inappropriate decisions and engaging in unethical behavior. The unethical "tone at the top" permeated the organizations. The commission concluded there needed to be common definitions of internal control with an emphasis on the tone set by senior leadership.

The commission sponsored another group that came up with a model of control, released in September, 1992, the IF. This is a significant change from the past, and many organizations are in the process of implementing it. It has quickly become widely accepted nationally.

"Internal control is a PROCESS, effected by an entity's BOARD OF DIRECTORS, MANAGEMENT AND OTHER PERSONNEL, designed to provide REASONABLE ASSURANCE regarding the achievement of OBJECTIVES in the following categories: Effectiveness and efficiency of OPERATIONS, reliability of FINANCIAL REPORTING, and COMPLIANCE with applicable laws and regulations." Traditional models focused on financial reporting, Ms. Klatt said; the IF includes efficiency and effectiveness as well as compliance.

The five elements of the IF include monitoring, information and communication, control activities, risk assessment, and the control environment; the three goals are reliable financial reporting, operations effectiveness/efficiency, and compliance. Coopers and Lybrand noted that they only assess financial reporting; it is up to the management of the institution to assess controls with respect to the other two goals.

The control environment is set by the senior officers, and focuses on integrity and ethical values, competency of personnel, the leadership philosophy, and assignment of responsibility and authority. The control environment provides discipline and structure. Coopers and Lybrand believe the University's infrastructure in this area needs to be strengthened.

In terms of integrity and ethics, there must be clear communication of ethical values, demonstration by example, a code of conduct, and a way to handle violations. The question is whether or not the rank and file understand the integrity and ethics required. Codes of conduct are not easy in an academic setting; the University has adopted them where needed, in certain areas of work, but there has not been a generic code for the entire institution.

Ms. Jackson said that Coopers and Lybrand evaluated the University in light of the standards set out in the IF; the University did not fare well, although it did not fail. There are problems, which is why the audit committee of the Regents is interested in aggressive implementation.

Ms. Klatt said the audit committee has operated under a philosophy similar to the IF; it has expanded its activities beyond financial controls to risk assessment and compliance.

How will these changes be incorporated into University life, asked one Committee member? It will not just happen because the President endorses it and the Regents like it. Ms. Jackson said that presentations will be made to the provosts and chancellors and to the Cabinet; they are reviewing the IF with these individuals now, to learn what their understanding of it is and how it can be integrated into their unit. This process has just begun. They also want to take the IF to the faculty to get reactions on how it might be incorporated into the University.

How will this be operationalized? Will the provosts develop a code or manual? A fundamental concept of the IF, Ms. Klatt said, is that control is everyone's responsibility--not that of the internal auditor or regulators. The leader of each organizational unit has responsibility to ensure control in his or her area. The President CANNOT do it, nor can a small group of people at the core. It must be grassroots. The IF calls for building as many controls into the processes as one can, not adding them as a tag-on. The re-engineering that is going on is a good opportunity to build the controls in so they are user-friendly and transparent.

The devil is in the details, observed one Committee member. One doesn't know what to ask, even at the next meeting in two weeks, on the basis of what has been said. It all makes sense. "I don't disagree, and I don't understand." How does one generate questions? It is difficult to function at this level of generality. The general sentiment of the Committee, added another, is that "chartspeak" doesn't communicate enough details.

This was intended only to be a useful introduction, Ms. Jackson said, and it is helpful to hear these comments. They have a sense what the IF means to provosts and chancellors; it will help them to pose questions to Committee members to get a sense of what the IF will mean in daily life.

Will this enhance Responsibility Center Management (RCM), or is it an alternative to it, asked one Committee member? It is a tool, Ms. Jackson said; it should make RCM work better. It would work with any system of management, but will be critical in RCM, added another.

Any control system has models built into it, said one Committee member; it must fit what is being controlled. The IF was intended to clean up private-sector financial service organizations, which are dictatorial, run by elites, and with no empowerment of employees. How will it work in the University, with distributed responsibility and a lot of power centers? Perhaps the IF can apply to central administration and the organizations that report to it, but it may not fit colleges and academic units.

Ms. Klatt said the Integrated Framework works because it embraces diversity of organizational models, which was not true in the past, where "one size fit all." The IF recognizes flexibility and is based on the assessment of risk and analysis of the controls needed--if a unit does not have millions of dollars per year flowing through it, it does not need the same controls as the Bursar's Office. There are DIFFERENT risks.

It is good that all employees are responsible for internal control, said one Committee member, but what about the employee who is ordered to charge twice for travel, and who will be fired if he or she doesn't do it? What happens when the power rests elsewhere? Ms. Klatt said the University owes its employees a channel for them to raise concerns.

That is an important point, Ms. Jackson said. The University must recognize and set up a process so employees can go outside the chain of command when they see such things as double travel reimbursements. If it does not, that is a disservice to employees.

The IF is a way to do business, Ms. Jackson said. There is a plan to take it to specifics; the University must do risk assessment and determine what is going on that will prevent it from reaching its objectives. The Coopers and Lybrand report criticizes the University for having no mechanism for putting risks on the table and addressing them. These are not just budgetary risks; it can reach to such things as not getting more grants because it does not have the right physical facilities. So one of the University's goals can be in jeopardy.

There will be different requirements for different systems in different environments, said one Committee member, so things will be different for provosts and colleges. Ms. Jackson agreed. Morris is very different from the Medical School. When there are institutional requirements, Ms. Klatt added, they are handled at the institutional level; there can be "municipality" benefits provided.

Communication is also very important, Ms. Jackson said; the organization with more communication has less risk on critical issues, so is more likely to meet its goals. Ms. Klatt pointed out that the President has commissioned a group to consider creative ways to generate revenue in order to replace declining state funds. As the University gets into entrepreneurial enterprises, not many appreciate the complexity of how to do it and where the expertise in the University is for doing it and how to comply

with the law. It is a noble goal, but people must be comfortable with it and the risks must be recognized and controlled.

There are two competing goods here, said one Committee member. Individuals should be free to be creative, but there is a need for a moral community whose reputation permeates the University. The entrepreneurial model produces those who create unacceptable risks, as has recently been seen. It is not clear how to get community agreement on what is being done. Ms. Klatt said the University must define what risks it will accept. The risk must be defined; there can be boundaries for creativity, outside of which the institution will be uncomfortable. Those are not defined, but some are: there is zero tolerance for illegal acts or non-compliance with regulations.

On the issue of entrepreneurial activity in the University, said one Committee member, a comparison with America/Europe versus Russia: some controls versus no controls. One cannot just introduce entrepreneurial activity without any controls.

Who pays for the risk assessment, asked one Committee member? Ms. Klatt said she assumed it would be central administration. The President has a vision and wants to encourage activity; the question is how to support it? Now it is hit or miss.

Past audits missed the point in that the auditors never talked to students or graduate students, said one Committee member; they really know what is going on. The IF might fix that, but if implementation is in the provosts' offices, it will not, because they will think students are oblivious to what goes on. With the concept of the IF, said Ms. Klatt, control affects everyone in the institution and filters through it. It starts at the top, but filters through everywhere.

One Committee member inquired if the Coopers and Lybrand report discussed the PROCESS it used, or only report its findings? It used generally accepted standards, Ms. Klatt said, but did not say much about process. An audit in one unit several years ago, it was reported, consisted of asking people to record the minutes spent on work. One would want to know how they conducted their audit.

Putting control at various levels of the institution, said one Committee member, will only be as effective as the information provided--and the University has abysmal accounting and human resource information, so the control system will not be strong. Until this problem is corrected, the IF will not work well.

Further, the IF asks people to exercise control functions without giving them the training and expectations they need--and that cannot be two hours one day. Many employees do not have the right background; how will they work around that? Retooling means a six month full-time training program, not one day's effort.

Finally, the University has been both centralized and decentralized--it prizes decentralization, but every purchase voucher must be processed centrally. The University prizes autonomy in hiring faculty--but only after three Morrill Hall signatures are obtained. That must be changed, because this system will not work as long as every line person says something is the responsibility of someone in Morrill Hall; as long as control remains with Morrill Hall and the FMC building, there is no REASON for a line person to do this. This schizophrenia about centralization and decentralization must be addressed.

Ms. Klatt said she did not disagree with any of those observations. One thing they have learned, in doing audits all across the University, is that the information available is atrocious. In terms of decentralization, she said, her view is that the University wants to be decentralized but has not learned how to behave that way. She said she hoped the IF would hold people accountable for behaving consistent with the philosophy of decentralization. It says how the institution will be run--there will be entrepreneurial activities, within boundaries, without ten levels of approval that provide the mirage of control but in fact provide absolutely none. If there is only ONE signature on a document, the person signing will pay attention.

What is the meaning of the name, asked one Committee member? Everything is tied together, Ms. Klatt said--risk assessment drives the types of controls needed. Information and communication are such that members of the institution understand its risks, and the environment is monitored to identify if risks increase beyond the institution's "tolerance." Right now control in the University is like a jigsaw puzzle not put together--there are a few pieces touching or hanging together. What they seek is the finished puzzle.

One's concern is about implementation, not the concept, said one Committee member. There are hundreds of creative people who will see the implementation as destroying morale and stifling creativity. Ms. Klatt said she has worked with control for years, and this loosens the process up, if it is implemented properly. If not, the University will be right back where it is now. The process will be evolutionary, not something accomplished overnight, and people will stub their toes.

Ms. Klatt affirmed that there will be pilot programs, and training will be a big element of them.

In times when the University's budget is tight, this is a major undertaking that will cost time and money. How can it afford to do this--even though one understands it cannot afford NOT to do it? This is a wonderful opportunity, Ms. Klatt said, with the re-engineering going on--it should not be done with inadequate controls put in place. Right now a lot of wasted effort goes into control at the University, she pointed out, and this would replace that.

Re-engineering can often mean streamlining central administration and pushing functions down to departments, it was said, requiring the departments to hire more people. Ms. Klatt said this is not streamlining; it means the administration stops doing things because more effective controls are in place.

Professor Morrison said the Committee would return to this topic at the second meeting in March. Ms. Klatt and Ms. Jackson were asked to provide written examples. Professor Morrison thanked them for joining the meeting.

3. Tuition Remission for Graduate Assistants

Professor Morrison next welcomed Vice President Brenner to the meeting. Dr. Brenner distributed a handout and said he had a specific proposal to place before the Committee.

There is much concern about the skyrocketing costs of graduate assistant fringe benefits, Dr. Brenner observed. This proposal is still a draft and it should be shared widely, but the point when a decision is required is coming closer.

Dr. Brenner related that as he and other senior officers were informed of the increase in the GA fringe benefit rates, they realized the need for a plan to deal with them. This document does not solve all the problems, and someone must pay for these costs, because they will not go away.

Dr. Brenner recalled that Dr. Zetterberg chaired a committee that worked hard on this issue; it also looked at what other institutions do. They learned that the cost of supporting students at the University is not out of line with its peers. At the University, however, there has been a radical restructuring of how those costs are recovered. This has put programs in a bind, because they are on fixed budgets and have no freedom to re-budget. The problem is pricing GAs out of the institution.

Rather than patch things together, they analyzed graduate student tuition, Dr. Brenner told the Committee, and then developed recommendations on what to do with tuition remission. They concluded, after looking at the tuition structure, that things should be done differently.

Dr. Brenner then reviewed an additional tuition structure being proposed for graduate students: a \$30 base charge per registration (already levied), \$750 for enrolling from 1-5 credits (the band is now 1-6), \$1500 for enrolling from 6-12 credits (now 7-15), \$380 more for taking from 13-16 credits, and \$200 additional per credit over 16.

Rather than charge per credit, at \$260 each, this makes it affordable for students to take 3-4 credits (a single course). The middle band is set for educational reasons and is linked to tuition remission: graduate assistants are 50% time employees; how heavy a course load can they take and be successful in both the employment and the education? A lot of institutions cap tuition remission at 9 (semester) credits so capping at 12 quarter credits seemed reasonable. Above twelve credits, GAs would have to pay for the credits themselves. And a student must be enrolled for 6 credits to be a GA.

The 13-16 credit band, at \$380, is intended to be affordable for students in professional masters' programs, who typically take more than 12 credits.

Another new item in the proposal is continuous registration. In Ph.D. programs, once a student is past prelims and the 36 thesis credits, and not expected to take any more courses, continuous registration will be expected (at present, a student must register once for at least one credit every two years, which leads to considerable chaos in trying to figure out who is at the University and who is not). If a student is here, services are valuable and cost money; the continuous registration fee will be \$150 per quarter for students paying their own way and \$300 for GAs.

What about students who want to work a year before they complete their thesis, asked one Committee member? Dr. Brenner agreed there are a lot of circumstances why a student may wish to drop out; there can be a contractual leave of absence for up to two years, during which the individual would have no connection with the University, including no email account. Those who disappear without a leave of absence would have to reapply and pay fees for all the quarters they were away from the University. There will be an incentive to check out, but if a student drops out, the charges to be reinstated would be brutal. This should push students to graduate faster, which is what has happened at other universities.

Not all students are equal, but departments must have tuition remission to be competitive, and not all students receive the same level of support, said one Committee member; why cannot those same

options apply in the case of tuition remission? Dr. Brenner said one of the provosts is asking the same question; this proposal does not bar such options. This is a tuition plan, to whom it applies, and how it will be paid for.

Dr. Brenner said the proposal does address differential tuition awards. Some departments say they MUST have that option, in recruiting students; others can be more casual. Tuition remission is not a total entitlement at other institutions.

A department could abuse the option, said one Committee member, and refuse to pay tuition remission, and become less competitive, but it would pay the consequences as the number of graduate students declined. This asks departments to act responsibly, to make awards as they wish.

One Committee member asked, if the fringe benefit rate is going up because the expense cannot be spread over all academic employees, and because tuition is going up, why cannot the University from raising tuition even more, raise GA salaries, and tell them to pay tuition?

They considered that option, Dr. Brenner said; Wisconsin uses it. The problem is that it exposes students to a tax liability. It is the law that a tuition benefit is tax-free. That could be changed, of course. The taxes could not be that high, it was said, on \$12,000 per year. If that system were adopted, Dr. Zetterberg said, the overall cost would increase by \$4-5 million because of taxes that would have to be paid.

Can anyone certify that this system will bring in the same amount of revenue as the current system, asked one Committee member? That is an important question, Dr. Brenner agreed, because he does not want to later report a \$3 million tuition shortfall. The Office of Planning and Analysis has run simulations as best they are able, but that is not a perfect science.

Discussion turned to the tables contained in the handout. One point that became clear is that students on continuous registration would be more affordable to employers, and that in the long-term there has to be more money put into fellowships for first- and second-year students.

This tuition structure will mean professional masters' degree departments will be supporting Ph.D. departments, said one Committee member. Dr. Brenner said that the new system would reduce the cross-subsidies. Discussion continued on this and related points for a few minutes.

Professor Morrison thanked Dr. Brenner for joining the meeting and adjourned it at 5:10.

-- Gary Engstrand