Minutes*

Senate Committee on Finance and Planning
Tuesday, November 13, 2007
2:00 – 3:45
238A Morrill Hall

Present: Judith Martin (chair), Olivier Asser, Rose Blixt, Adam Faitek, Steve Fitzgerald, Lincoln Kallsen, Joseph Konstan, Russell Luepker, Kathryn Olson, Richard Pfutzenreuter, Justin Revenaugh, Terry Roe, Michael Rollefson, Gwen Rudney, Michael Volna, Warren Warwick

Absent: Jon Binks, David Chapman, V. V. Chari, Thomas Klein, Mikael Moseley, Kathleen O'Brien, Thomas Stinson, George Wilcox, Aks Zaheer

Guests: none

[In these minutes: (1) update on the new Enterprise Financial System; (2) long-term financial modeling]

1. Update on Enterprise Financial System

Professor Martin convened the meeting at 2:00 and turned to Mr. Volna to provide an update on the Enterprise Financial System (hereinafter EFS).

Mr. Volna and began by explaining that EFS embodied several of the core administrative elements of the strategic positioning "Transforming the U" process: adoption of "shared services" model for delivery of some financial processes, promotion of a single enterprise (and elimination of shadow systems), adoption of best practices, and recognizing that staff must be more highly trained. The system will "go live" in July, 2008, following a testing period that began this week that will last until July, and a training period beginning in April for about 4000 people.

Mr. Volna reviewed the work that has been done and the various phases they have gone through to try to ensure that the system will work smoothly, including integration with the other PeopleSoft systems (even though it is the same company and same developer, they must still integrate and test the different systems). They brought in consultants to do the programming, something that only needs to be done about once per decade, so it did not make sense to expand the existing University staff with that competence; it has high-priced staff in design and analysis, and the design documents have been of very high quality, so they could hire contract programmers to assist with the programming.

One of the tasks has been to design the security of the system; Professor Martin asked if there have been problems with security in the past. There have been isolated, small breaches, Mr. Volna said; to protect the University's assets it must have solid internal controls (who can do what) and procedures and policies across the institution. The goal is to make sure there are adequate controls to prevent misuse of University assets and to ensure accurate financial information. Professor Martin said she's been hearing that security is in place because the University assumes people will do wrong, which is a negative assumption about the faculty and staff. Mr. Volna said the system security referred to has to do with separation of duties; they have said they cannot replace Forms Nirvana, which allowed a complex

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

environment to be usable for employees. It was a home-built system from ten years ago and it would have been prohibitively expensive to replicate its functions, so they have tried to adapt the PeopleSoft-delivered software to the University's organizational practices to get as close to Forms Nirvana as possible without modifying the system. People had a lot of flexibility and freedom with Forms Nirvana that will go away. But it is not that the system does not trust people, it is just how they need to make the system work for the University.

The conversion is a complex process that will affect a lot of central units. The goal is to bring complete and accurate historical data into PeopleSoft. The CUFS Chart of Accounts is being mapped to the new Chart of Accounts in PeopleSoft and they are working to ensure that CUFS data are cleaned up prior to conversion to PeopleSoft. Professor Martin asked who they are working with; Mr. Volna said with people in the departments and central system staff—human resources, student systems, Facilities Management, etc. Ms. Blixt said the units themselves are doing the mapping. Professor Roe asked whether the information can just be downloaded; Mr. Volna said it could not because many of the data do not fit a 1:1 conversion. Mr. Pfutzenreuter said organizational structures are being set up in way people want to manage budgets. Mr. Volna said his department is fairly simple but academic department budgets can be complex.

The rollout plan is comprehensive and will track a number of tasks. The rollout manager is responsible for ensuring that the tasks happen at the right times and in the right order (i.e., technical development, configuration, testing, conversion, training, and communication).

They are asking departments to work with them on organizational design. The system is being implemented around a "cluster" (shared services) model that was adopted from the administrative recommendations in the President's "Transforming the U" plan. A lot of systems today are built around the organizational culture, but an accepted best practice in systems implementation projects is that it is better to change the way things are done than to modify the system. Professor Konstan asked if, absent the PeopleSoft restrictions, there is any reason to move to the cluster model. He said he has heard that there will be less service and things will cost more, and people will not know about projects. The University paid a lot to decentralize and appears to now be paying a lot to recentralize because of PeopleSoft. Over time the University has used both approaches, Mr. Volna said; when he came to the University 15 years ago, everything was centralized. Then things were completely decentralized. The shared-services model is an attempt to strike a balance between complete decentralization and complete centralization—providing good service and usable functionality to departments while implementing the system without significant modification. Professor Konstan asked about the comparative costs of centralization and decentralization: when things were decentralized, units were given the work but not the funds to support it; now with centralization, dollars are being taken from the units to support work done centrally. Mr. Volna disagreed and said that his budget has gone down and his staff size decreased—but he did not know where the money went. The money "goes back into the pot," Mr. Pfutzenreuter said, and there are no tags on the funds. Mr. Volna pointed out that they are not moving many services into clusters and said that no services are being completely centralized. A number will be at an intermediate level, the cluster, of which there will be about 50 around the University. Only five activities go to clusters and much remains at the local level. There is an appearance of centralizing but more financial activities will be in clusters and local departments than will be centralized. He has told budget officers that the structure can be changed if there are problems with the way things are initially set up. Some units are doing more clustering than the system requires, Mr. Pfutzenreuter said.

Professor Konstan asked if the system would change capital purchasing so items costing more than $2500 could be purchased and direct charged to sponsored projects without capitalizing them. Mr. Volna said it would be possible but would have an effect on indirect-cost recovery funds. They can look at a change after the system is in place. Mr. Pfutzenreuter said there would be a political risk, because people would say the University is not tracking expenditures. Professor Roe asked how a change would affect indirect costs. Mr. Volna explained that it would affect it in two offsetting ways: fewer capital assets would mean lower annual depreciation, which would tend to drive the "facilities" component of the indirect cost rate down; on the other hand, a higher capitalization rate would mean there would be more purchases that could be "direct charged" to sponsored projects, which would tend to drive up the amount of recoveries. That would make the University's grants more competitive, Professor Roe observed.

Mr. Volna briefly reviewed additional organizational design changes and then reported that training will be offered. Approximately 80 courses are planned, half for central units and half for end users, and of those, about 2/3 of the courses for end users will be online. Users will be required to pass assessments after most classes in order to obtain access to parts of the system. There will also be change-management resources available, including classes, sessions at user locations, online resources, and training and coaching. They know there will be a lot of changes, Mr. Volna said, they want to try to help people adapt.

The approved budget for the system was $45.7 million over three years and an unbudgeted reserve contingency of $4.3 million, and it appears they will spend into the contingency. They will be within a few hundred thousand dollars of the total, however, and if the cost runs over $50 million, Mr. Volna said, they can make choices in order to stay in budget. There will be long-term costs, Dr. Rollefson said. Mr. Pfutzenreuter observed that the University paid for the license upfront but agreed there will be maintenance and upgrade costs. Mr. Volna said those have been built into budgets of the organizations, such as the Office of Information Technology and his office. Mr. Pfutzenreuter commented that the technical end of installation will end on June 30, but in reality there will be 12-18 months of stabilization.

Ms. Olson said she is hearing from the financial people that they are busy and there will be burn-out. Is there any possibility of bringing in additional help? The University does not want to lose good people because of burn-out. Mr. Volna said he has also heard that and has some ideas to reduce the workload so departments do not have so much to do. Dr. Rollefson said that to the project's credit, those in charge have been flexible about meeting deadlines, although there will come a day when that will no longer be true.

The University has about 3,800 faculty, Professor Konstan said; what is the typical number of hours one would expect faculty would need to spend to become effective on the system? Or is the best practice now to keep faculty away? Or is it good that they can do their own travel, for example? Mr. Volna said they are not requiring faculty to do anything they do not do today and do not want them to have to do anything more. Faculty can take the training if they wish in order to do their own travel and purchases, and that will simply vary a lot with what people want to do. They may not mandate that faculty use the system, Professor Konstan commented, but departments with budget problems can decide to eliminate an accounting position and ask the faculty to perform that person's tasks. As soon as it is perceived that faculty have the ability to use the system, doing so will become mandatory. He suggested tracking the number of hours of training taken by different employee classes.

Mr. Volna said that, to be honest, he would not encourage faculty to get involved in the system. It is still being stabilized and trying to learn it would not be an efficient use of faculty time. After the system is stabilized, faculty who want to learn it can, but he is not telling faculty they must take the training.

In the past, Dr. Rollefson recalled, initial performance on the student side was not optimal. Will it be more satisfactory on the financial side? Mr. Volna said they will perform system tests. Reporting can have a significant negative impact on the system if many people do their reports directly in the live system, so a second copy of the system (called a "reporting instance") will be available for users to use for developing financial reports. The reporting instance will provide near-real-time data (less than 24 hours delay) for accurate financial reporting. This will mitigate the possibility of system performance problems due to high volumes of reporting. Mr. Volna was asked what would happen if there were problems in conversion; would there be a delay? He said that if it were significant, there could be; if 50 or 60 units cannot get done on time, there could be a delay, but if there were only one or two units, they would probably send a team to help them.

Part of what made this a huge decision is that there is not a clean transition, Professor Konstan said; the University is one of the few places still using CUFS. Are they monitoring PeopleSoft and Oracle in terms of product strategy so that when the time comes to change in the future (which no one wants to think about now), the University will be ready? Mr. Pfutzenreuter noted that Oracle bought PeopleSoft and that at some time it will stop supporting PeopleSoft and will want to sell their own systems. He said he hoped that transition would be easy. Mr. Volna reported that Oracle has extended the support for PeopleSoft to 7-10 years and they are also developing a product strategy that will allow migration to an Oracle product. At that point the University will look at it and decide if that is the way it wants to go or if it should look at other vendors.

Professor Martin thanked Mr. Volna for his presentation.

[Note: appended to these minutes is a memo, "The New Financial System and University Faculty."]

2. Long-Term Financial Modeling

Professor Martin turned next to Vice President Pfutzenreuter to discuss long-term financial modeling for the University.

Mr. Pfutzenreuter distributed copies of a set of slides that the President presented to the Board of Regents as an introduction to a report from Vice President Mulcahy about sponsored funding. These slides reflect the President's thinking about financing the mission.

The key financial strategies that the President placed in front of the Board include the following, with the three being emphasized at the present.

-- Build enduring and mutually-beneficial partnerships with the state. There is no doubt that state funds are critical for the University to move toward its aspirational goals. It could not cut enough and raise tuition enough to meet those goals without adequate state funding.

-- Work to stabilize tuition and control the total cost of education. This is the cost of attendance: fees, housing, etc.

-- Strengthen levels of sponsored funding in areas of distinction and opportunity. The President wants to increase the funding, and where the University does not measure up is in sponsored funding from business and industry contracts; that is an area in which the University could improve considerably.

Professor Roe asked if "distinction" means leading departments. Mr. Pfutzenreuter said it does not mean only strengthening sponsored funds in strong departments. Mr. Kallsen pointed out there are areas where the University is uniquely positioned to seek sponsored funding, such as in bio-energy.

Professor Roe observed that the first bullet uses the plural "partnerships." Does that indicate an interest in changing the way the University is funded? It does not, Mr. Pfutzenreuter said. The use of the plural means the University has increasingly been working on developing partnerships through other parts of the state budget, reflecting the fact there are various ways the University can work with the state.

-- Cultivate private support for University priorities. This continues to be a priority, Mr. Pfutzenreuter said, and at some point there will be a new capital campaign in order to take the University to the next level.

-- Maximize the growth of and impact of existing University assets. This is a signal that UMore Park and other assets can be used to leverage more funding.

-- Enhance service and productivity while reducing costs. There is a lot of work left to do on this one, Mr. Pfutzenreuter commented.

-- Redeploy resources to meet our strategic priorities. That means reallocate, Mr. Pfutzenreuter said.

These are the seven key strategies the President will bring to the Regents during the year.

The next slide provided a pie chart of the University's revenue sources, which now total nearly $3 billion. The following one emphasized, of that pie chart, how much comes from the state (26%) and from tuition and fees (19%). Those are the most flexible funds the University has to move around; the other revenues (e.g., grants and contracts, 26%, auxiliary enterprises, 11%, educational sales and contracts, 11%) have a lot of claims on them and are often restricted.

Another pie chart identified the way the state spends its budget. Only 9% goes to higher education; 83% goes to K-12 education (41%), health and human services (28%), property tax aids and credits (9%), and public safety (5%). The percentage of the budget going to higher education has been declining for a long time, although in the last biennial budget it went up slightly. The percentage used to be twice as high, but the state now has other large expenses. Of the 9% of the state budget spent on higher education, it is divided about 50/50 between the University and MNSCU. What this chart does not include is funds that come to the University from other parts of the state budget. Professor Luepker inquired how the 9% compares to other states; Mr. Pfutzenreuter said that Minnesota is better off than many, and many states are looking at cutting back on higher education appropriations.

Mr. Pfutzenreuter next highlighted the change in the relationship between tuition and fees and state funding. In 1997-98 state funds accounted for 71% of the total of the two; by 2007-08 the state funds only accounted for 56% of the total. State funds have been increasing but tuition revenues have been increasing faster. In many states tuition is now a larger percentage of institutional revenue than is state funding; Minnesota is one of the few states where those two lines have not crossed.

Mr. Pfutzenreuter reviewed briefly the documents that the Regents review (biennial request, capital request, annual operating budget, annual capital budget, six-year capital plan) and then noted the restricted funds available to the University.

Dr. Rollefson recalled that a few years ago there was discussion with the state about the fact that there are too many campuses in Minnesota. Did that discussion just go away? It did, Mr. Pfutzenreuter said. MNSCU has campuses with only 100 students. Professor Martin pointed out that MNSCU may need a lot of money for renovation in the near future because many of its buildings were built about the same time. Any potential for a new campus on the iron range further muddies the higher education funding challenge.

Professor Roe asked if, as federal and state funds increase, there is less pressure on tuition. Mr. Pfutzenreuter pointed out that the University does not receive sufficient funds from indirect cost recoveries to cover its expenses, which creates pressure on state funds and tuition. But indirect costs are indirect, Professor Roe said. The University can justify them, Mr. Pfutzenreuter responded; the rate is 58% and the University only receives 51% (or less), so there are costs the institution is paying. Those are costs the University would pay even without grants, Professor Roe said. That is an open question, Mr. Pfutzenreuter said, and the University would likely not have as many buildings as it does were it not for sponsored research funding.

Professor Konstan said that indirect cost funds are not a boon to the University because it is engineered to see them grow; if the federal funds stop, the University will be stuck. That is one of the challenges in financial modeling, Professor Roe observed.

Professor Martin suggested that Mr. Pfutzenreuter read the minutes of the meeting two weeks ago. What stood out, she said, was a discomfort with the way the University can account for its costs but not the value of what it produces. She adjourned the meeting at 3:20.

-- Gary Engstrand

University of Minnesota

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The New Financial System and University Faculty

Introduction

Efficient and effective administrative services, including financial services, are critical to the University's ability to conduct business and are part of the strategic positioning effort. In July 2008, the University financial system will be transformed from multiple, separate, disconnected, and, in some cases, outdated systems to an integrated, Web-based, single-enterprise financial system. Virtually all the University's financial processes—from establishing accounts, to employee reimbursements, to purchasing, to grants management—will be positively impacted. Thousands of financial system users on all campuses will be using this new tool. Implementation of a comprehensive training and assessment program began in June 2007.

The University community has been part of the development of this new system from the beginning. During focus groups and interviews in 2005, faculty members were asked for their input about the qualities required for the new financial system. This information, along with input from financial system users and University stakeholders, was incorporated into the design of the new system.

While interaction with the financial system will vary among faculty members, we want to make sure that you are aware that it will soon be part of normal University operations. Some faculty members will simply need to remember a new account number, while others will use the new system for purchasing supplies and other items. Others may be affected only because financial staff are affected.

What are the Overall Benefits of the New Financial System?

-- The new Web-based financial system replaces an outdated mainframe system that was installed in 1991, as well as several other systems.

-- With installation of the new financial system, the University is bringing together all information systems into a single enterprise, including human resources, libraries, grants management, and student systems.

-- Ineffective and costly redundant and supplemental systems will be reduced and, in most cases, eliminated, as a result of installing the new system.

-- The new financial system protects the University from the potential risk associated with sudden loss of the current system (CUFS), which is no longer supported by the vendor.

-- The new financial system presents improvements in processes, quality, and quantity of information.

-- Staff will be better supported in terms of ease of use, access, and navigation.

-- Robust data analysis and reporting capabilities will be available, equivalent to or better than the financial reporting and information currently provided by the Data Warehouse, UM Reports, and Financial Reports on the Web.

-- A strong internal control environment will be reinforced through the clustering of high-risk financial activities.

How will the New Financial System Affect Faculty?

-- Financial services will be organized around a cluster or shared-services model within the colleges/campuses, which will provide for better data integrity, efficiency, accountability, and process consistency. Each college/campus has developed its own organizational structure and is sharing this information with faculty so they are aware of how services will be provided to them.

-- Because the new financial system is a Web-based tool, it has multiple capabilities for generating and creating reports. Overall reporting will be improved with the potential for more robust data analysis. How faculty members will take advantage of these capabilities will vary considerably.

-- The new system provides for online submission and approval of travel and other expenses. User-friendly forms will simplify and speed up processing for faculty members, whether they complete them or have a staff member complete them.

-- The process for completing a requisition for supplies and other items will be smoother because anyone can complete a requisition once they have taken the proper education class. For example, a faculty member may assign a research assistant the task of purchasing supplies.

-- The grants management system allows online proposal and award tracking, electronic NOGA delivery, and delivered PI reports. Because sponsored data will be integrated, cost sharing will be linked to projects within the system. Information will be timelier; for example, F&A processing will be done nightly versus the current weekly. Proposal preparation will remain in the current Electronic Grants Management System.

-- Account numbers (currently called CUFS numbers) will change because the Chart of Accounts will be completely new. Colleges/campuses will provide information to departments about the account structure.

-- Services to faculty should be enhanced as a result of a more efficient financial system and changes in organizational structure. However, during the transition to the new system, it is possible that service to faculty will be reduced in the short-term, while financial staff attend training classes and during the period when staff are learning the new system.

Faculty Interaction with the New Financial System

For security purposes, the University will have policies regarding access to the new financial system. Faculty access to the new financial system will depend on the activities of each faculty member and the ways in which they wish to interact with the new system.

Faculty Who Initiate Financial Processes:

Purchase requisitions. Principal Investigators who wish to create purchase requisitions in the financial system will be required to take education classes and pass competency assessments to gain financial system access, including the Basic Accounting online tutorial; the instructor-led Chart of Accounts class; and the instructor-led Create Requisitions class.

Employee Reimbursement: Should faculty members wish to complete travel and other expense reimbursements online, they will be required to take the instructor-led Travel Authorizations and Expense Reimbursement course, as well as the Basic Accounting and Chart of Accounts prerequisites. Faculty members may wish to have a proxy complete these reimbursement forms for them after providing appropriate receipts, justifications, and account numbers. In that case, the proxy would need to complete the class requirements.

Financial reporting:. Faculty are not required to take a reporting class. A tutorial demonstration on running queries and delivered reports will be available. It will include a list of common queries and reports, and it will give step-by-step instructions for running reports and queries. Special features will also be covered.

Note: The Basic Accounting online tutorial and assessment and instructor-led Chart of Accounts course are now available. Visit http://www.finsys.umn.edu/Training.html for more information.

Faculty Who Rely on Staff to Handle Financial Matters:

Each college/campus will determine how faculty will receive financial services from staff. Faculty who wish to run a report query will be able to do so.

Change Management

Change is a fact of life for everyone at the University. Although faculty will be, for the most part, minimally impacted by the transition, financial staff will be affected because they will be attending training, taking competency assessments, and learning the new system. By demonstrating support, faculty members can be instrumental in helping financial system employees as they undergo this financial system change. Suggestions include giving positive reinforcement, acknowledging staff accomplishments, offering encouragement, and saying “Thanks for a job well done.” Training began in June 2007 with online Basic Accounting, and will get underway for all classes in April 2008.

For More Information

Enterprise Financial System Web site: www.finsys.umn.edu

E-mail the EFS project: finsys@umn.edu

Contact your organizational design committee. Committee members are listed online at http://www.finsys.umn.edu/ODcommitteemembers.html.