Senate Committee on Finance and Planning (SCFP)
October 17, 2023
Minutes of the Meeting

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 reflect the views of, nor are they binding on, the senate, the administration, or the Board of Regents.

[**In these minutes:** Enterprise Risk Management Update; Budget and Hiring Impacts of the PEAK Initiative; Indirect Cost Recovery Funds (ICR) and Facilities and Administrative Rate (F&A) Overview; Committee Discussion: Debrief on Agenda Items]

PRESENT: Elizabeth Davis (chair), Muneeb Bin Hafeez, Ardeshir Ebtehaj, Bart Finzel, Myron Frans, Cade Geldreich, Frank Gigler, Michael Iselin, Evelyn Juliussen, Lincoln Kallsen, Jill Merriam, Ellen Messer-Davidow, Mark Miazga, Gary Nelson, Amy O'Conner, James Pankow, Alice Roberts-Davis, Carl Rosen, Brian Swanson, Jeffrey Todd, Julie Tonneson, Bhaskar Upadhyay, Michael Volna

REGRETS: Tony Fussy, Caroline Hilk, Laura Kalambokidis

ABSENT:

GUESTS: Katharine Bonneson, associate vice president, Health, Safety & Risk Management; Julie Tonneson, vice president and budget director, University Budget; Michael Volna, associate vice president and assistant chief financial officer, University Finance; Pamela Webb, associate vice president, Research Administration, Office of the Vice President for Research (OVPR); David Hagen, Director, Office of Cost Analysis; Emily O'Neil, program director, PEAK Initiative; Cead Nardie-Warner, communications manager, PEAK Initiative; Peter Hart, Huron Consulting Group.

OTHERS:

1. Enterprise Risk Management Update

Elizabeth Davis, chair, welcomed members to the meeting. She introduced and welcomed Katherine Benneson, associate vice president, Heath, Safety, and Risk Management, to present an Enterprise Risk Management (ERM) update.

Importance of ERM

- ERM is the ongoing process of identifying the risks and opportunities that have the greatest potential to upset or enhance the University's strategic goals.

- ERM helps the University proactively navigate a volatile, uncertain, complex, and ambiguous environment.
- It was also noted that the University is slightly behind in the development and implementation of ERM when compared to other higher education institutions.

Initial Risk Profile and MPact 2025

- 16 risks were rated in order of highest priority based on survey participants' views of the most important challenges and opportunities facing the University. It was noted that the risks did not necessarily represent current problems but rather risks that would have the greatest potential impact to the achievement of strategic objectives.
- As the program matures, the goal is to tie the 16 risks back to the University's ability to to achieve strategic goals. The risks were aligned to the five strategic commitments from MPact 2025 and placed on a completion timeline based on priority.

Davis asked how and why the 16 risks were ranked. Bonneson explained that a survey was given to about 70 departments across the University to collect data on what were viewed as the risks the University was most vulnerable to. She explained that they took a comprehensive view of the risks and took into consideration both the perception of risks as well data on the occurrences of risks across system campuses.

Proposed Mitigation Planning

- The plan is to identify three high velocity risks, meaning if any issues arise it will occur quickly and have great impact, and then take a more in depth look at the assessment and mitigation of the three risks during the first year.
- The three identified risks include 1) Crisis Management, 2) Campus Safety, and 3) Cybersecurity/Data Management. These are only suggestions and they are looking for feedback from stakeholders.
- Plans will act as high level scorecards to evaluate and track progress on how well the University is protecting itself and the community from various risks.

Applying a Risk Framework

- The risk framework and improved risk information will aid in quick, risk-informed decision making;
- Be a roadmap that still allows for flexibility;
- Allow risks to be prioritized and paired down for action;
- Map all risks back to the strategic goals and priorities.

Bonneson opened the floor for questions, comments, and feedback. Davis asked if the prioritization of the risks will be determined by data (not just perception) and how the potential impact of the risks will be weighed against the frequency of the incidences. Bonneson explained that the goal is for the prioritization of the risks to be a balance between the data and the perception of the risks. Data from various risk management groups within the organization is being collected to help determine the risk level.

Carl Rosen asked if ERM was consulting with groups within the institution that have previous experience with the risks, such as responses and actions against cyber attacks, to help develop the mitigation plans. Bonneson explained that leaders currently involved in the response to various incidents related to the risks are being consulted to look into how incidents will be handled in the future.

Cade Geldreich asked what resources are being used to identify potential future risks. Bonneson said there are peer networks, such as an affinity group, across universities and colleges that communicate various incidents with others. An internal affinity group is also being developed where local leaders share input on potential future risks.

Davis asked if the risks have been assigned to responsible parties. Bonneson said that the process of establishing risk owners has been started and many of them have been assigned, however, there are a few risks that are more ambiguous and owners are still being discussed.

Michael Iselin asked for clarification on the process of determining how the 16 risks were rated, particularly how the probability of a risk and its impact are taken into account. Bonneson explained that the velocity and impact were taken into consideration, as well as the quality of the current mitigation strategies and regulations of the risks. She said the current challenge is aligning the risks' probabilities and impact thresholds across system campuses.

Davis asked for a general timeline and the next steps for the ERM plan. Bonneson said a one year plan for ERM will first be presented to Myron Frans, senior vice president, Finance and Operations, who is the executive sponsor of ERM. It will then be presented to the president's cabinet where risk owners will be assigned and the top three risks for the year will be determined. Finally, a report will be presented to the Board of Regents (BOR) in the spring. This will be an ongoing process of working through the list of the 16 risks.

Davis thanked Benneson for the presentation on the ERM plan.

2. Budget and Hiring Impacts of the PEAK Initiative

Davis welcomed the members of the PEAK Initiative team. The team members attending the meeting introduced themselves. Members included Julie Tonneson, vice president and budget director, Finance and Operations; Michael Volna, associate vice president and assistant chief financial officer, Finance and Operations; Emily O'Neil, program director, PEAK Initiative; Cead Nardie-Warner, communications manager, PEAK Initiative; and Peter Hart, Huron Consulting Group.

Volna provided a brief overview of the PEAK Initiative. The PEAK Initiative started in 2021, and its goal is to modernize and standardize administrative services within every campus, college and unit of the University. Volna explained that the PEAK Initiative will be implemented in four phases. Different units from the institution will adopt the service model during each phase. The campuses, colleges, and units that are a part of Phase 1 will begin using the new service model in early December of 2023, and Phase 2 will begin in 2024. O'Neil added that the PEAK Initiative is a true change management journey; she also said that having the opportunity to present to the various committees, such as SCFP, is a great way to answer questions and hear feedback.

Next, Tonneson shared how the PEAK Initiative affected the budget. She said, in general, that the implementation costs of the PEAK Initiative will actually be covered through the budgetary savings of the new PEAK structure. The PEAK Initiative will capture savings in terms of productivity gains, efficiency gains, and capacity gains, as well as in future cost avoidance.

Tonneson explained they are working to ensure the new PEAK structure remains budget neutral through transition by working closely with each Phase unit. Every position impacted by PEAK is looked at in coordination with the unit to ensure there is a shared understanding of new savings. The activity of each phase is being monitored, updated, and tracked so at the end of the PEAK Initiative implementation, each unit will have a balance of costs and savings resulting from the PEAK Initiative. The reallocation of the savings resulting from the PEAK Initiative will be determined once all phases are completed.

Tonneson opened the floor to questions and discussion. Davis expressed concerns that the low morale of the faculty and staff may be related to both the lack of understanding and minimal faculty/staff consultation of the PEAK Initiative. O'Neil said there is a welcome event for leaders and transitioning employees of Phase 1 on November 2 and 3, 2023 in Duluth, where attendees will be able to meet one another face-to face and learn and skill build together. Phase 1 campuses, colleges, and units are also meeting with members of the PEAK team on a regular basis to engage and discuss the change management process. O'Neil also recognized that the implementation process is still very new and not yet perfect, but they are learning many things throughout this phase that will be implemented to improve the next phase.

Volna mirrored O'Neil saying that the team is learning from the first phase and expects each of the following phases to go smoother than the one prior. Volna also shared examples of what he believes has gone well in Phase 1 and what could be improved for the next phase.

Jim Pankow asked what is the best means of communication to share faculty/staff feedback with the PEAK team. O'Neil said either the PEAK mailbox or emailing her directly are acceptable.

Davis shared that employees are concerned about backlogs in hiring and purchasing, as well as understaffing, and their relationship with PEAK. Volna said the PEAK team has encouraged units in later phases to reach out to the team if there are questions or concerns about hiring for positions within their unit prior to the implementation of PEAK. He also emphasized that the team understands that there should not be a hiring pause simply because of the future implementation of PEAK. Concerning purchasing, Volna explained that vendor maintenance has a backlog, which is not related to PEAK. However, they are working to eliminate the purchasing backlogs within the units prior to the implementation of PEAK.

Evelyn Juliussen asked about the progress PEAK has made working with unions. Volna said they adjusted the timeline around the workforce transition in the spring of 2023 in order to schedule additional meetings with various bargaining units that have employees that may be impacted by the implementation of PEAK. A mutually agreed upon approach was achieved between PEAK and the bargaining units.

Davis asked who the PEAK teams have been meeting with in each of the different units and if there are points of contact for employees in units transitioning in later phases where they can learn more about the PEAK Initiative and the implementation process. Volna recognized the importance of communication and transparency and said the PEAK team has tried to communicate broadly to the different campuses, colleges, and units. However, the process is still very new so it has been difficult to communicate a message that is general enough to share with all employees but also provides enough detailed information. Concerning meetings, the PEAK team has been meeting with the deans and/or chancellors, along with finance and human resources from Phase 1. Following the higher level leadership meetings, they have had follow up meetings with supervisors of affected employees.

Nardie-Warner encouraged employees to use the PEAK central email, which is closely monitored to ensure all questions are answered.

Davis thanked the PEAK team for their time and the information they shared on the PEAK Initiative.

3. **Indirect Cost Recovery Funds (ICR) and Facilities and Administrative Rate (F&A) Overview**

Davis introduced and welcomed Pamela Webb, associate vice president, Research Administration, Office of the Vice President for Research (OVPR), who shared an overview of F&A Costs of Research.

F&A Costs Overview

- F&A costs are commonly referred to as indirect costs or overhead; note, F&A have also been incorrectly referred to as "profit."
- F&A costs are incurred while conducting research and are identified for common or joint objectives that are not easy to identify on an individual cost basis on a sponsored project. (Examples may include, payroll, accounting, purchasing, etc.)
- F&A costs are based on a calculated average rate that is developed and negotiated in accordance with the Code of Federal Regulations (CFR) Part 200.
- F&A rate is a federally created cost recovery mechanism.
- The University is currently working on negotiating the final F&A rate for fiscal (FY) year 2023; the goal is to keep it as close to FY22 as possible, which was 55 % modified total direct cost.
- It is possible that the negotiated FY23 F&A rate will be lower than the FY23 rate, and will remain so for about four years.

Cost Sharing

- Cost sharing is defined as any cost that the University incurs for a project that is not covered by a sponsor.
- Cost sharing increases the overall University cost for a project.
- Cost sharing currently results in a 1% decrease in the University F&A rate (more than $3 million in lost F&A revenue annually).
- Some cost sharing is inevitable, including a portion of salaries for faculty who exceed a sponsor-imposed salary cap, such as the one imposed by NIH, or projects where the sponsor imposes a mandatory percentage of cost-shared costs that the recipient must include in their budget in order to compete. Other cost-sharing is voluntary, and the University seeks to minimize the latter.

Importance of F&A

- F&A ensures the University is able to recover a portion of the additional infrastructure costs required to conduct research.
- 100% of F&A recovery is returned to the school or college that generated it.

- F&A provides schools and colleges with funding that can be applied toward their collegiate and departmental expenses related to sponsored projects (including cost pool allocations).

Webb introduced David Hagen, Director, Office of Cost Analysis, who shared common misconceptions about F&A and clarified those falsities.

- Based on the direct costs awarded at the full federally negotiated FY22 rate, an additional 55% was awarded by the sponsor to cover the allocable share of indirect costs.
- The University does not recover all of its costs. The University recovers about 80% of costs; it is not a revenue generating proposition, however, it does help significantly with recovering a lot of indirect costs related to research.
- Voluntary waivers of F&A funds can cost the University about $3.5 million dollars in loss of funds annually.
- Administrative costs are not responsible for the increases in the F&A rate because reimbursements for administrative costs are capped by the federal government at 26%.
- The University's F&A rate is in the lowest quartile among the top 20 public institutions in the United States.

Webb opened the floor to questions. Davis asked if additional F&A funds are awarded if the grants received are capped. Hagen clarified that if a grant is capped, then the F&A rate is included in the capped grant and not additional awarded funds.

Rosen asked for clarification on the non sponsored funds effect on the F&A rate and if gift and foundation accounts are included. Hagen explained that it is cost sharing that affects the F&A rate to decrease.

Rosen also asked if there is any way the University can ask the state to cover some of the overhead. Tonneson explained that in some areas the state has begun to pay some overhead, however, the state's argument is that they already pay $700 million in operations.

Rosen also asked if commodity groups were an option. Webb explained that many commodity groups include in their bylaws that they do not pay F&A. She recommended including any direct administrative costs in the budget so at least a small portion of what could have been covered by F&A can be included in the out of pocket unit level costs.

Pankow asked for clarification on what components of facilities go into the formula for F&A and if new construction is included. Hagen said that new construction was included in the formula and actually really drives the increase in the F&A rate.

Pankow also asked if the cost of living accounts for the variation and ranking of the institutions' F&A rates. Hagen explained that much of the differences in the F&A rate rankings is due to the facilities costs, not administrative because that is federally capped at 26%. In order to increase the F&A rate, new facilities need to be built.

Juliussen asked how F&A affected or was related to the PEAK Initiative. Tonneson said there is no impact to PEAK.

Davis asked if it is a misconception that the cost variations in the required facilities for research projects were shared. For example, research that has low facility costs is sharing the expense with research that has higher indirect costs. Hagen said that it goes both ways in that the F&A rate is an institutional average so indirect costs are shared, but departments/colleges with low facility costs also benefit through budget allocations.

Iselin asked if agencies took into consideration the F&A rates when awarding funds. Webb said that it depends on the agency.

Davis thanked the guest speakers for sharing the valuable information on F&A.

4. Committee Discussion: Debrief on Agenda Items

Davis opened the floor for discussion concerning either the ERM presentation or the F&A presentation. No questions or discussions.

Davis adjourned the meeting.

Erin Piel
University Senate Office