Minutes[*]

Senate Committee on Finance and Planning
Tuesday, June 4, 2002
2:30 – 4:00
238A Morrill Hall

Present: Charles Speaks (chair), Prince Amattoe, Stanley Bonnema, Robert Cudeck, Daniel Feeney, Greg Fox, Gary Jahn, Cynthia Jara, Thomas Klein, Elo Charity Oju, Richard Pfutzenreuter, Terry Roe, Susan VanVoorhis, Michael Volna, Warren Warwick, Susan Carlson Weinberg

Absent: Brittny McCarthy Barnes, Jean Bauer, Charles Campbell, David Chapman, Wendell Johnson, Michael Korth, Marvin Marshak, J. Peter Zetterberg

[In these minutes: (1) sponsored projects debt collection; (2) new financial system; (3) budget and capital request issues]

Professor Speaks convened the meeting at 2:35; part-way into it, he called for introductions for the new members, Mr. Klein, Ms. Van Voorhis, and Professor Warwick.

1. Sponsored Projects Collections

Professor Speaks now welcomed Mr. Volna to discuss collections of receivables for sponsored projects.

Mr. Volna distributed copies of slides and walked the Committee through them. He noted that the University has about $400 million in sponsored activities, so there is a great deal of collection required. If a sponsored project is current, there is never a problem: the University sends a bill and it is paid. What happens, however, if a sponsor does not pay (which might occur because of financial difficulties, computer problems, etc.)?

Mr. Volna explained that a process redesign project has been underway in Sponsored Financial Reporting (SFR) since 2000. The expected project outcomes include improved systems and technology, changes to policies and procedures, and clarifications or changes to roles and responsibilities. Implementation began in June 2001.

The current collections process: Collection activity on past-due accounts is handled by a special unit within Sponsored Financial Reporting (SFR). First action is taken on unpaid invoices more than 60 days old, and will typically be a collection letter or telephone call. Collection activities increase progressively, as the age and/or amount of the unpaid balance increases. SFR works closely with the department and Principal Investigator on collections.

[*] 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 represents the views of, nor are they binding on, the Senate or Assembly, the Administration, or the Board of Regents.

There are deficiencies in the current process, Mr. Volna told the Committee. There is inadequate capture and communication of information on sponsor history; action is always after the fact. There is no history on sponsors, similar to a Dun and Bradstreet credit history; the University needs to be able to identify sponsors who do not pay. Is there a particular class of sponsors who do not pay, Professor Speaks asked? Business and industry and non-profit foundations, Mr. Volna said; the federal government is NEVER delinquent. In addition, most federal funds require one report per year while some business and industry projects may require one report per month--there is a much higher workload for the money from business and industry.

Existing policies are weak, Mr. Volna said. Current policies only cover incurred uncollectibles and there is no definition of roles and responsibilities for PREVENTING uncollectibles. As a result, the University is subject to financial risk because spending continues on awards that are delinquent and may become uncollectible and there is the potential that new awards may be accepted from sponsors with poor payment performance.

Mr. Volna reported that he is proposing policy and procedure changes (that have already been presented to the research associate deans and to Vice President Maziar; they will also go to the deans). The changes include establishing mechanisms for communicating sponsor payment information to SPA, PIs, departments, and deans, defining conditions under which spending on existing awards will be limited or stopped, identifying circumstances in which acceptance of future awards may be prohibited, and codification of roles and responsibilities for making decisions on spending and acceptance of awards.

How much of a problem is this, Professor Roe asked? At any one time the University has about $5 - 10 million in uncollectibles, Mr. Volna said. Why not wait for the funds to be delivered before starting work, Professor Cudeck asked? That would be possible, Mr. Volna agreed; information would have to be provided to Sponsored Projects Administration (SPA). SPA, however, will also say that that issue is negotiable; because they have not had data, they have not negotiated such requirements. Mr. Pfutzenreuter agreed and wondered how much research money the University would lose if it imposed such a requirement. The University should have reasonable assurance it will be paid or it should not do the research. This is a lot of money, Professor Cudeck concluded; the University could run its athletic programs on the uncollectibles.

The reasons for the proposed changes are to better utilize and disseminate collections and sponsor payment information, establish clear roles, responsibilities, policies and procedures relative to collection activities, to reduce financial risks to the University, departments, and colleges, and to minimize the risk that sponsored project activities will be disrupted for financial reasons. The tentative timing of the process is this: In May - July 2002 there will be initial communication with stakeholders and affected parties, in July - October 2002 there will be documentation (policies, procedures, etc.) completed, and in late 2002 or early 2003 the new process, policies, and procedures will be implemented.

Mr. Volna then explained a matrix his office had developed identifying roles and responsibilities with respect to outstanding receivables, depending on the status of the payment (delinquent, default with a payment plan in place, default with no payment plan, and legal action). He said he hopes to put the matrix in place once there is a database on sponsors available.

Professor Speaks asked what proportion of receivables more than 120 days delinquent and with no payment plan in pace are resolved in favor of the University. Virtually none ENTIRELY in the

University's favor, Mr. Volna said. Professor Speaks suggested that the proposed University response on new awards from the same sponsor (requiring 100% funding at the time of the award and/or full payment of outstanding invoices or a proposal will be rejected) was too lenient. Professor Cudeck said it was sad for everyone when legal action is required; is use of legal counsel reserved for big cases, he asked? The legal response does vary with the size of the amount due, Mr. Volna agreed. Mr. Pfutzenreuter agreed with Professor Speaks about the leniency of the response; he suggested the University should say it will only accept the project if it receives 100% of the money in advance AND the sponsor pays off any outstanding obligations. Mr. Volna said he would like to get the policy proposals in place first and then change them later, if need be.

Professor Speaks inquired about the $5 - 10 million in uncollectibles: Is that the amount the University loses each year or the amount outstanding at any one point? The latter, Mr. Volna said, and not all become uncollectible. How much money does the University never collect, on an annual basis, Professor Speaks asked? Mr. Pfutzenreuter said the amount is episodic; Mr. Volna said he would supply the information from the University's audit reports.

2. New Financial System

Mr. Volna turned next to the issue of the financial system replacement, about which he said there has been considerable discussion. There will be a steering committee on a new financial system. There are five enterprise systems at the University (student, grants management, human resources, libraries, and financial); all but the financial system have recently been reworked or replaced.

Mr. Volna reviewed the history of the current financial system. CUFS was implemented in November, 1991; the "Button Up CUFS" effort was in place during 1993-94; the data warehouse was enhanced and WEB reporting operationalized in 1996; CUFS was made Y2K compliant during 1998-99; Financial FormsNirvana was mandated for grants in 1999; and evaluations to replace CUFS have been going on since 1996.

There are a number of reasons to put in a new system, Mr. Volna explained to the Committee. First, there are increasing risks with existing systems. They have looked, for example, at the number of times there has been an impact on departments because CUFS has been down; it happens about once per month. If the system were to be down for 3-4 days, there would be financial risk for the University. Second, there is limited internal and no external support for the systems. Third, it is mainframe technology that uses Cobol and a proprietary code; there are not a lot of people fluent with the necessary language. Fourth, a new system would provide an opportunity to "increase functionality." Finally, the cost of operation would decline; CUFS is the last University system on a mainframe computer, which means the University is supporting multiple computing environments and needs to find and retain unique expertise to support the systems.

The University is pursuing a dual strategy in seeking to replace the system. One is the usual option of purchasing from one of the vendors currently marketing to higher education (Oracle, PeopleSoft, SAP, SCT, or J.D. Edwards). The other is to participate in a multi-school consortium that is exploring rewriting a system currently running at two large research universities. They are in the process of developing an RFP; once there are responses, a demonstration will be required. If that is positive, the schools could decide to negotiate a contract.

The consortium would consist of up to seven institutions and one commercial vendor: UC-Davis, Indiana University, University of Iowa, Michigan State University, Northwestern University, Purdue University, and the University of Minnesota; the vendor would be IMI, a niche vendor specializing in higher education that has ownership rights to portions of the system code the consortium would use. In the Big Ten, Indiana University has a later version of an AMS product (the company that produced CUFS) that has been highly modified to a client-server model that meets needs superbly but uses an old technology. They want to rebuild the system and have proposed that the Big Ten do so jointly and share costs. There is a complication that IMI, a spin-off from AMS, has a stake in the program, so the institutions are trying to negotiate legal, financial, and functional concerns. But they are doing so because they could save a lot of money by owning the system so they could upgrade without huge costs.

The benefits of a consortium, Mr. Volna recapitulated, include substantially-reduced software acquisition costs because development costs would be shared, conversion of an existing financial system with "mature functionality" to a new technology, the opportunity to enhance "functionality" with the new technology, increased control over future costs and upgrades, and addressing similar needs for similar institutions.

There are caveats to the consortium idea, Mr. Volna cautioned, and it could turn out to be a non-starter. It can be difficult to make consortia work, the motives of the vendor and the institutions in the consortium are not the same, the institutions are at different points of readiness (and even though they are all research universities, they all do things slightly differently), and there are legal and business risks. But for now the University faces little cost in pursuing the option; until it must sign up, it is a low-cost option to pursue.

What is the size of the Enterprise tax for next year, Professor Speaks asked? 1.25% of salaries, Mr. Pfutzenreuter reported; it will not be increased and is scheduled to be paid off in 2007-08. But it probably will not be, Professor Speaks responded, when one takes into account the need for computer upgrades and so on. He asked if there was any estimate of the different impact of a financial system purchased from a vendor versus one developed through a consortium. That depends on how long one is willing to pay the Enterprise tax, Mr. Pfutzenreuter said. The original cost was $60 million and the tax pays off the balance at $5 million per year; there is about $35 million left to pay. One could add to the balance to pay for a new financial system, he said, and add five years to the tax. He was NOT advocating that option; if the 1.25% is used to pay for systems as they reach the end of their life cycles, it might be better to increase the tax and not allow the repayment to be extended to 2015. Keeping it to a shorter period would allow a better system for recycling the systems.

What would the new financial system cost, Professor Cudeck asked? It is too early to tell, Mr. Pfutzenreuter said. It would not be a small amount, probably between $10 and 30 million. They hope to have a figure identified by the end of the year (or sooner). He also told the Committee that he has been harping about the cost of hiring consultants for these computer systems and the failure of the University to build a core staff. This year the University is putting in money to build a core staff who can be used for upgrades and then new systems. It is better to have staff than to pay consultants, he said.

Mr. Volna reported that the timeline calls for determining the best (vendor versus consortium) by the May - November, 2002, period. Later would come confirmation of institutional support for proceeding (December 2002 - early 2003), identification of a funding model (January - May 2003), completion of the procurement process and implementation planning (January - June 2003), and

beginning of implementation (July 2003). When should this issue come back to the Committee, Professor Speaks asked? It should come back twice, Mr. Pfutzenreuter said--in September and November. This Committee is important, he said. They should know by September if the consortium idea will work.

Will this go to the Board of Regents for information, Professor Speaks asked? One question is whether this item could be included in the biennial request, Mr. Pfutzenreuter said. The legislature might be interested in it, and it would require only one-time money.

Every university has to perform these functions, Professor Cudeck observed. Are these the two alternatives that other research universities face as well, he asked? So the next steps look prudent in relation to other activities? Mr. Volna said they are and they do. Michigan and Ohio State put in the PeopleSoft financial system at very high costs and a great deal of pain. He promised to bring a grid of comparative information for other institutions to the meeting in September. The only other option is for the University to build a system itself, which is not realistic. Iowa sees that as the low-cost option; if the other two options do not work for the University, it will have to build its own system. At the University of Illinois, he reported, they have a $190-million revolving debt over 10 years to replace all their computer systems.

As the consortium idea is pursued, Professor Jahn asked, has thought been given to future support? If the University has its own experts, could there be a group in the consortium that could handle problems even at a distance? There could be, Mr. Volna replied. The schools want to build their own support and share it--and give it to other schools. The vendor, of course, wants to sell support.

Professor Speaks thanked Mr. Volna for his presentation.

3. Budget and Capital Request Issues

Professor Speaks turned to Mr. Pfutzenreuter for a review of the final capital appropriation and the budget.

Mr. Pfutzenreuter reviewed the capital items for which the University received funding, after the legislature acted and the Governor vetoed certain items. The University is trying to keep the Translational Research Facility moving along despite the Governor's veto; it is also trying to figure out how it can spend the $10 million appropriated for the $24-million project of renovating Nicholson Hall.

The next six-year capital plan is due to the Board of Regents in September, including the 2004 request, which will be affected by how many projects were vetoed or not funded in the 2002 request. It is not clear how the process will work with the President leaving. The six-year capital plan was not prepared last year, but it cannot be skipped again or the University will not have plans ready for the 2004 legislative session.

In terms of the biennial request, it appears the University will have an interim president while the request is being prepared but a permanent president when the request goes to the legislature.

What was the reason for the Governor's vetoes, Mr. Amattoey asked? The state did not have the money or the projects were not reasonable? Is he required to give a reason, Professor Speaks added? He

is not, Mr. Pfutzenreuter said, but the Governor said the legislature did not balance the budget so did not have money for debt service on buildings.

Mr. Pfutzenreuter then reviewed the timeline for the development of the 2003-2005 biennial request; the Regents approve the final request at their October meeting. He noted that as with 1996, a new president will probably come in at the very end of the development of the request, so the new administration will have a request developed by the previous administration.

Mr. Pfutzenreuter said he had not heard that there would be any reverberations from President Yudof's departure for the approval of the 2002-03 budget. He also reported that the University has started to form a football steering committee (which will have faculty and student representation as well as representatives from the athletic department) because the legislature required the University and the Vikings to proceed on stadium predesign and to develop a memorandum of agreement. The legislature also appropriated funds for a stadium and provided that proceeds from the sale of the HHH Metrodome would go into an account for a new stadium. All of the work must be completed by December.

The Committee agreed it would meet in July and August to review the status of the development of the biennial request.

Professor Speaks adjourned the meeting at 3:50.

-- Gary Engstrand

University of Minnesota