

Minutes*

Senate Committee on Finance and Planning
Tuesday, December 15, 2009
2:00 – 3:45
238A Morrill Hall

Present: Russell Luepker (chair), Jon Binks, Sarah Chambers, Steen Erikson, Lyndel King, Joseph Konstan, Judith Martin, Fred Morrison, Paul Olin, Michael Rollefson, Karen Seashore, Mandy Stahre, Warren Warwick, John Worden

Absent: David Chapman, Jennifer Dens, Devin Driscoll, Lincoln Kallsen, Kara Kersteter, Thomas Klein, Kathleen O'Brien, Richard Pfitzenreuter, Gwen Rudney, Terry Roe, Thomas Stinson, Michael Volna, Aks Zaheer

Guests: Associate Vice President Gail Klatt (Department of Audits)

[In these minutes: (1) retreat on health-care issues; (2) draft statement on space use and costs; (3) institutional risk and spending political capital; (4) internal audit trends]

1. Retreat on Health-Care Issues

Professor Luepker convened the meeting at 2:05 and began by explaining that the Committee retreat to discuss health-care issues had been postponed because the program had not been sufficiently developed. He asked Committee members for suggestions of topics and guests who should be invited.

Professor Luepker reported that he had recently been at a meeting that included Senior Vice President Cerra; Dr. Cerra had commented that the University could save about \$7 million if it provided employee health-care coverage similar to that provided by similar institutions. To save that much money would require increased co-pays and deductions, Professor Luepker commented. Even if health care were not a national issue, it could be one part of the package as the University grapples with budget issues. (He agreed with Ms. King that health care falls under the bailiwick of Human Resources and Vice President Carrier, but said it is also a major financial issue that comes under the purview of this Committee.)

Professor Konstan said there were three separate issues involved, in his view. One, as a fringe benefit, how do health-care expenditures trade off against other areas in which the University could spend money to attract and retain a high-quality workforce (and the way it would be spent might not be the same for faculty, P&A staff, and for civil service staff)? Two, should the University, with its large academic health center and health-care programs, structure its health-care coverage for employees to take advantage of those assets? Three, does the University wish to deal with the eroding support for families (and particularly for spousal health care)? This may be a problem that disproportionately affects faculty and administrators, but the University benefits when faculty who would choose to can afford to have a stay-at-home spouse supporting their work. Health care changes here have penalized that.

* 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.

Professor Morrison noted, first, that there is the Benefits Advisory Committee (BAC), a peculiar committee focused on health and life insurance benefits. It is peculiar because it cuts across all employee groups, including those in the bargaining units. This is the appropriate committee to look at the general directions of health care, but BAC deals with the levels of co-pays, etc. He urged that the Committee not forget about BAC and include its chair in the discussions.

Professor Morrison's noted secondly that about ten years ago he chaired the committee that recommended the University split from the State of Minnesota in deciding on health-care choices for employees and that he has been on BAC every since. That experience leads him to make several observations. One, the University will be caught in a double bind: how will the University accommodate declining state funding? Zero salary increases? Improve compensation by cutting health-care benefits? Some other way? On the other side of the bind will be new health-care legislation; while the University will have a grandfathered plan, it will still feel the impact of federal legislation. There have been proposals to tax Cadillac health-care plans provided by employers; the University has a Buick Regal that could become a Cadillac depending on where the numbers come out, and in any event it is pushing up against the maximum benefits that would be allowed. And if the benefits go above that level, are they taxable, Professor Luepker asked? They are, Professor Morrison said—to the institution. It pays Social Security and other taxes already, and this would be an additional tax. Worse, it would label the University as an excessive spender on health care for its employees, a situation the University does not want to be in. It is not there now, but it could be a struggle to avoid getting into the Cadillac category simply because health care costs increase significantly while the cap to avoid the Cadillac category will likely only increase with the CPI.

There are other elements of the health-care legislation that could affect the University. For example, anyone who must pay more than 10% of his or her salary to cover the cost of the premium of the employer-provided health plan would have the option to select an exchange plan at a lower cost—and the employer would be subject to another tax.

Third and finally, Professor Morrison pointed out, University employees are getting older; with no compulsory retirement age, the average age of employees has been creeping up. There are now a lot more employees in their 70s and 80s who are covered by the University's health-care plan than there were in the past; older people consume more health care so the plan is getting more and more expensive each year.

What the Committee should think about, Professor Morrison suggested, is (1) whether the University should consider bigger co-pays or deductibles, (2) whether the University should be more aggressive on wellness (e.g., smokers would pay a surcharge on their insurance premiums, there would be mandatory exercises every morning in the building, etc.), and (3) more intriguing but perhaps unachievable, whether the University could (should) identify highly-efficient and highly-effective preferred providers, doctors and clinics with very good outcomes that are also very economical, and tell employees they must go there (at no co-pay), and that if they choose to go elsewhere, there will be large co-pays. The University needs to talk to people about these kinds of options for the future.

And in the middle of all this, Professor Morrison concluded, because of the way University purchasing is organized, the institution is supposed to put its medical plan out for RFPs in 2010-11—about the time it will be known what is in the federal health-care law and how bad the state's financial situation is. A principle articulated over the last ten years is that this is an insurance system, one where

employees share the burden, and not a system that places great burdens on the sick. One of the experts that has been mentioned as someone to join a Committee retreat on health care promotes high-deductible health-insurance plans, which is one way to go and is predicated on a notion of individual responsibility, but it is not clear, Professor Morrison commented, that that is the way the University community wants to go nor is it clear that it is an option the federal law will allow.

Professor Martin recalled that there had been discussion last year about shifting some of the money the University contributes to the Faculty Retirement Plan to health-care savings plans. It might behoove the Committee to try again, especially if there turn out to be high-deductible health plans. Professor Morrison reported, however, that the health-care savings plans may be changed or eliminated in the proposed federal legislation, so he suggested the University do nothing until a federal bill is passed.

Professor Martin suggested that at the retreat on health-care costs, the Committee should invite experts from outside the University as well as from inside.

Professor Warwick commented that he has traveled around the world and is familiar with doctors and patients in Europe and Canada, all of which have insurance for everyone. The only complaint is that they have to wait a little while to see the doctor, not that they cannot get care. The amount of money given to people who run health-care and drug companies could be used to provide benefits. He used to be opposed to universal health care but is now a strong believer that that is the only way to go. The Mayo Clinic has the best care in the world and it could be worth hearing how they do things and what elements of their program the University could adopt.

Ms. Stahre asked when the University began requiring students to have health care. Professor Seashore thought it was probably in the 1950s. Professor Morrison noted that the University established Boynton Health Service just before that, a little infirmary. Now there are several levels: undergraduate-student insurance (mandatory unless one has proof of coverage under a parental plan) and a graduate-student plan since about 2000 or so (before that, they were on their own). The federal law may require that people be covered by their parents' plan up to age 27. What is the cost of the student coverage to the University, given that it is self-insured, Ms. Stahre asked. Professor Morrison said he believes the University bankrolls the student coverage but that the premiums collected equal the benefit paid out (with fluctuations from year to year).

If children are covered to age 27, that does not mean the University covers them, does it, Professor Seashore asked? It does not, Professor Morrison said—but if one is an employee who opts for family coverage, the University pays 85% of the cost. If children up to age 27 are added, there will be more people to cover. One now pays more if one is covering children, Professor Luepker noted. That is because of single-parent families, Professor Morrison said. "Kids are cheap." Before, one parent (employee) with one child was paying the same rate as two parents with two (or more) children, and that was seen as unfair.

It is necessary to understand the University's values, Professor Konstan said. For example (in the national debate), it could be that from a purely financial standpoint a woman who gets an abortion should receive a discount on health insurance because of the risks and costs of delivering a child, so the debate about covering abortion is about values, not economics. The question of values comes up with coverage of spouses, children, pre-existing conditions, etc. If one were to put the University's values together, then one can craft policy options that accord with the values.

Mr. Worden differed with Professor Warwick; he said his father and grandfather both died under the Mexican health-care system so he would oppose universal coverage. He also said that a number of students are opposed to paying for Boynton because of the cost; students pay fees but sometimes never use it. With tuition increases, that fee will be an increasing concern.

What about dental insurance, Professor Luepker asked? Professor Olin said the University has pre-paid dental plans, not insurance. Most people have seen very little change in the yearly maximum benefit, so there is less and less coverage because of inflation in costs.

Professor Seashore asked what can be done to generate the conversation about values that Professor Konstan suggested. BAC can work out the technical details of a plan, but it may not be the right place to work out the values. If they are not addressed in some public fashion, there will be problems. Professor Morrison said there is a set of principles that were developed when the University separated from the State, principles that were debated in the University Senate as well as by CAPA's predecessor and the Civil Service Committee. Now that all employees are represented in the Senate, that may be a good place to have the debate. The principles in place will govern what is done until they are changed (e.g., the insurance principle). It may be necessary to revisit them in light of dramatic revisions that may be required. Professor Luepker said he worried that any changes will be driven by money, not by principles of fairness or equity.

Professor Luepker said the retreat would be held as early as possible in spring semester. He also reported briefly on the discussions about integration of clinical services.

2. Draft Statement on Space Use and Costs

Professor Luepker next asked Committee members to review a draft statement on space use and costs, prepared in response to the questions posed by Associate Vice President Berthelsen at the last meeting. The draft read as follows (between the * * *)

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The Senate Committee on Finance and Planning received from Vice President for University Services Kathleen O'Brien and Associate Vice President Michael Berthelsen (Facilities Management) a set of questions related to space use and cost planning. The Committee is very aware of environmental and financial reasons to optimize space utilization on campus. The Committee [recommends to the University/Faculty Senate that it adopt the following recommendations][makes the following recommendations to Vice President O'Brien and Associate Vice President Berthelsen]. (The questions from University Services are in bold.)

1. To maximize energy savings, the U would need to be willing to set operational boundaries for space use. The largest drivers of energy are hours of operation and being able to predictably *turn buildings down* when unoccupied. To do so would impact the environment or possible operation of select buildings with one or a few users. Is the U ready to implement such changes?

The University should identify which buildings can be closed, locked, and "turned down" outside of normal business hours, or outside of business plus evening hours, and those which can only be closed

after business plus evening/Saturday hours. Some buildings may need to be open all or most of the time; but many other buildings reasonably can be closed and turned down at different times of the week. (For example, buildings with animals in them may need to be maintained at normal temperatures and lighting, at least in part, 24/7; student unions may be open longer than office/classroom buildings, and so on.) The Committee invites University Services to draft standards, for Committee review, by which to make decisions about building hours.

Once such standards have been adopted, following appropriate consultation, the level at which they are to be applied must be determined. One option is central control: any building meeting certain standards will be closed and turned down during the appropriate hours. Another is to allow local (e.g., college) application of the standards. The Committee leans toward recommending local control, but also suggests that the administration impose financial penalties on units that choose to exceed the standards (that is, for example, levy a "tax" on the units for the excess of the actual cost of operating the buildings outside the hours suggested by the standards).

The Committee acknowledges the distinction between (1) turning down a building and, (2) closing, locking, and turning down a building. The Committee does not believe in denying access to a building to appropriate people (faculty, staff, graduate students, etc.), but it must be understood that if individuals choose to enter a building to carry on University work during "off" hours, the light and HVAC systems will not be changed because of their presence.

2. We know that single purpose buildings (examples: labs, classrooms, offices) are both cheaper to build and to operate. However, this would require some adjustments to current practice. Is the U ready for such changes?

The University already has several single-purpose classroom buildings. The Committee recommends that Capital Planning and Project Management distinguish between (1) large lecture classrooms used for introductory and other undergraduate courses, and (2) instructional spaces that are used for advanced undergraduate and graduate/professional student instruction. Buildings that are composed entirely of large lecture classrooms are desirable for their efficiency. Buildings that house graduate students, labs, and faculty offices should continue to be built.

3. If the U has less space with the same program, it would need to schedule its classes and events more intensely. With the advantage of technology to see all spaces, it is possible to centrally schedule. This would mean giving up some control of space assignments. Is the U ready for such a change?

The Committee believes this question refers primarily to classes. There are conflicting forces at play that must be considered. It could save considerable money if the number of classrooms could be reduced and those remaining scheduled more intensively. This could mean scheduling more classes earlier and later in the day. It would be appropriate to consider imposing usage fees on departments that seek to schedule classes during the peak hours of 10:00 – 3:00 (or, alternatively, offering a discount on space charges for classes scheduled outside the peak hours). The Committee does not devise the particular mechanism(s) that might be considered but invites proposals to develop them.

The one factor about which the Committee is wary is the impact of early and late classes on the four-year graduation rate. Many students must work part-time jobs, which may mean they wish to avoid

late-afternoon or early-morning classes. The Committee cautions that any incentives to spread classes more evenly throughout the day be tempered by information that may be available about the impact of such a change on graduation rates.

4. Technology advancements have made it possible to change space assignments and utilization. Is the U ready to reduce its fixed office space and move toward more remote office work and generic office space for faculty and staff while on campus?

Flexible office space is becoming the norm throughout the country in industry and elsewhere. Cubicles with movable partitions are already the norm in many University facilities. As remodeling and new construction is planned, this approach should dominate. Traditional offices with doors should require justification (e.g. privacy, security)

5. What suggestions do you have on how we can reduce recurring and necessary costs to maintain buildings so that more funding is available for programs?

The items above should reduce costs. The above suggestion about shared common spaces and meeting facilities should be a reminder about central planning of these facilities and limitations of them.

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This is an important topic and one on which the Committee should take a position, Professor Luepker commented. The Committee's response should go to the Senate, and it should put the force of the Committee behind doing things if it supports them. Everyone understands the environmental reasons for optimizing the use of space, and the financial situation of the University depends in part on the amount of space it operates. It is time to be a leader in saving energy and space.

Professor Morrison expressed concern about the response to #1. It goes to another topic the Committee has been considering: cost pools. The cost of energy is carried by collegiate units that occupy buildings and the statement is true for college-occupied buildings. Central control is a way for central support staff to manage collegiate units, but they should manage themselves. He said he is sure that Morrill Hall would like to see central staff decide what buildings are open when.

Professor Morrison said that there should be language in response to #1 providing that collegiate units that maintain their own buildings and pay for heat and light should operate them in a way that maximizes their use, a subject on which central staff can provide advice. Centrally-occupied buildings should be operated by central staff. The operation of college buildings requires tradeoffs about which Morrill Hall will have no knowledge. (He noted that for 70 or 80 years the Law School has prided itself on functioning 24 hours per day; it is part of the culture. Veterinary Medicine has animals that must be cared for.)

Professor Konstan said that Facilities Management should provide tools with which to manage buildings. It is not optimal, for example, to establish building security for a year when needs change from week to week; buildings occupied by departments have phases, so they might be open 24/7 for three weeks and then close on weekends at other times.

Professor Konstan said he was also worried about #4: The question and answer creates the assumption that faculty members do not need an office unless they can demonstrate they do. The job responsibilities and the privacy needs that go with a faculty position suggest that an office should be the default position; the proposed language goes overboard. It would be a mistake to put faculty members in cubes because they must grade student work and provide counseling, among other things.

Professor Konstan also commented on #5. As the University builds or renovates space, it should be designed to allow units to manage space flexibly (e.g., not all the lights have to be turned on centrally).

What this does not confront is the glacial pace at which faculty and student cultures change, Professor Seashore said. The Law School prides itself on being open 24 hours; she said she would like to see the space utilization at midnight on Sundays. There is that sense of entitlement; are there no alternatives for access? All students have computers now and many work at home. The building she teaches in used to be jammed full of students on Saturdays; now it is only her and her students—but all the lights are on. One needs to ask how many people would really be inconvenienced by changes.

Professor Chambers expressed concern about #4. Question #1 stresses local control but #4 suggests a default for faculty who will be dealing with students. For faculty in the humanities, their office is their lab, with their papers and books, and they could not do their research without their office.

Ms. Stahre noted that the statement focuses on classrooms and offices, but it is difficult to think about adopting it when the stadium lights are on even though there is no event taking place. Who pays the bill? Professor Martin said that athletics mainly pays for the stadium—it is their space.

Mr. Rollefson raised a point about #5: It might be useful to have an internal review of codes. He said he has the sense that the University imposes very high standards on itself, standards that cost a lot of money. The University builds to high standards because it is so afraid of risk. Millions of dollars of hot air go out the window every day because of air circulation in labs, for example, and the University in some cases is building to standards that exceed those of the Mayo Clinic. If the University's standards are the same as those of its peer institutions, perhaps they are acceptable, but if they are higher, then maybe they should be reconsidered.

The points in the draft statement emphasize local control, Professor Konstan observed, and the signs (e.g., sidewalk slips) around campus emphasize local control. But if the units do not save money from exercising control over costs, none of them will do so. The deans do not believe they will keep savings. There must be a guarantee that units will retain the funds—and not see their allocation of state funds cut the following year because of the savings they achieved. It is also the case that some centrally-administered efficiencies could be achieved. One example is coordinated changing of lights: It is much cheaper to change all the lights at one time than to do so one at a time in response to telephone calls. Professor Martin said that Vice President O'Brien would like to reduce the number of different kinds of lights around the campus, differences that result from local control. Mr. Todd said the President has recognized the re-lamping effort in classrooms.

Mr. Todd said that in #3, spaces outside central control are individually-managed, supported, and scheduled by individual academic departments at the University of Minnesota. Resource 25 (R25) is now the designated enterprise-level software tool for scheduling all department classrooms on the Twin Cities Campus. At the request of departments, colleges, and users, additional spaces (such as labs) are being

supported in R25 and are included in the departmental classroom system. One efficiency that can be gained is for departmental space to be included in the batch scheduling run using Schedule 25 (S25), which extracts the data from R25, assigns classrooms based on maximum enrollments, departmental building preferences, and the need for technology and then returns the classroom assignments to R25. Currently, course sections are manually assigned to departmental space; however, the use of S25 would allow departmental instructional space to be more efficiently utilized, while reducing departmental staff effort in the scheduling process.

Professor Luepker noted a recent conversation in the educational policy committee of his own college, in which there was a suggestion that the college needs its own continuing-education facility rather than use Humphrey or Carlson. That approach is an example of college freedom—and why the University has 29 million square feet of space. There are advantages to local control, but if a unit chooses to keep a building open, it should pay. Professor Seashore said this is related to Professor Konstan's point: If the units do not see the dollars from the savings, they will not make changes.

Professor Olin commented that while Committee members may oppose the idea of 35 faculty members in cubicles and a secretarial pool, they may not understand the depth of change that will be required to balance the budget. It may be that operating a building 24/7 will no longer be a reality. That may be true, Professor Morrison said, but he would prefer that the Dean of the Law School decide on the hours of operation on the basis of the Law School's resources than having a vice president make a decision based on a University strategy, for reasons that have no relationship to the educational program. But some units have more options for raising money than others, Professor Seashore pointed out, and said she would not want to see even more evidence of the difference between the haves and the have-nots.

3. Institutional Risk and Spending Political Capital

Professor Luepker announced that he had followed up on Professor Konstan's observation at the previous meeting that it would be useful to have a discussion about risk and political capital. Professor Konstan read a draft he had prepared on the topic (between the * * *).

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Introduction:

The University's public goodwill and political capital are valuable assets that contribute to or limit the University's ability to carry out its mission. These valuable assets require substantial care and effort to develop, and can be harmed through single well-publicized actions--even actions taken at a level well below that of the University's senior officials.

SCFP is interested in understanding how goodwill and political capital are managed strategically by the administration. Specifically, we are interested in the ways in which risk to such goodwill and capital are assessed, the level at which decisions with significant risks are made, and the support within the administration to assess and manage such risks.

We are motivated by a number of examples. The lengthy negotiations over light rail involved several delicate decisions, including repeated decisions on when to hold firm, when to compromise, and when to agree in principle while details had to be worked out later (which carries the problem of potential

perception of "going back" on an agreement). The decision to pursue the football stadium had similar public and legislative relations issues. Recent issues related to handling of conflict-of-interest, and the pending decisions on hospital and clinical structure as well. And such issues extend more broadly into the handling of public misconduct of student-athletes, to labor relations, and much more.

We are therefore interested in understanding:

- * How are public goodwill and political capital managed within the University? By management, we include responsibility for mitigating damage from events that have already occurred. Who has responsibility for assessing risks? Are there policies or procedures on when issues are brought to SVP, President, or Regents levels to address?
- * Does the University assess its public goodwill and political capital? If so, how? Is there a regular assessment of the risks to goodwill and political capital?
- * Is there a process (other than simply passing information up-the-line) for bringing issues related to the University's goodwill and political capital to the attention of the administration?

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Professor Luepker said that how these matters have been handled in the case of the Central Corridor light-rail transit has been of interest and importance. This is the Committee on Finance and Planning and it would like to learn if there is any plan. Professor Konstan said that the Committee discusses a lot of plans but it is not clear there is a plan in this area or if anyone is thinking strategically about it.

Professor Seashore observed that a handful of faculty members in the College of Education and Human Development (CEHD) wrote a set of recommendations for one component of a redesigned teacher-preparation program proposal to the Bush Foundation (developing cultural competence) that Star-Tribune columnist Katherine Kersten has turned into an international right-wing cause. Professor Seashore said she had no role in the task force work but read the subcommittee recommendations in a draft form and found some of the language unfortunate; she assumed that the intent was to generate a broader discussion—which it did. What happened after it was leaked beyond the college community is known to everyone who reads the newspaper or enters the blogosphere. If one goes on the CEHD website and looks at the elements of the (now funded) proposal for redesign, only a troglodyte could disagree with the aims. But no one with more experience in urgent damage control seems to have provided support for CEHD in responding to the now-international furor over an internal task force paper. [Subsequent to the meeting, Professor Seashore reported that University Relations has been very helpful to CEHD Dean Quam in responding to the controversy.]

The Committee should ask how it can be helpful, Professor Olin suggested. Is there a fast-response team, Professor Seashore asked? A slow-response team? Every year the University has an immediate issue and it also has long-term issues; is there any strategic sense of what it should do? Professor Luepker agreed with Professor Olin; he emphasized that as representatives of colleagues, the Committee has a role in being helpful to the institution. With respect to the health care benefit debate, for example, he said that Committee members would be better representatives the more they know.

Professor Morrison suggested to Professor Konstan that he add somewhere in the draft the phrase "consistent with academic freedom." As much as Ms. Kersten might not like what the faculty in CEHD proposed, that is what universities do: They pay people to think controversial thoughts. And there is a difference between a faculty report and University policy, Professor Seashore added. Colleges need help from people who understand how to deal with crises. Most colleges are not trained in damage control and crisis management, Ms. King agreed, but there are people who know how to do so. The units need to know who to call when they have a public-relations issue spinning out of control. Or are they just supposed to handle things themselves, and bungle it?

There was a question about state law and access to letters of recommendation, Professor Konstan recalled, and the administration said at the time that if the University wanted to change the law, it would require spending a lot of the institution's political capital. That implies someone was keeping track of it and deciding when to spend it.

Professor Martin recalled that CLA had a similar public-relations problem when the theater department staged "The Pope and the Witch." In that case the situation was handled exactly right – the focus on academic freedom was clear—and the issue faded away.

4. Internal Audit Trends

Professor Luepker now welcomed Associate Vice President Gail Klatt to the meeting to discuss internal audit trends.

Ms. Klatt began by saying that she had been asked to provide two or three questions that it would be helpful for her to have the Committee's advice on; she was unable to do that but said she would like to review the trends with the Committee and have a discussion, and then discuss the challenges of using the work of her office (the Department of Audits) to support strategic planning and the leadership vision of the institution.

Earlier this year, during the transition to EFS, her office decided to use it as a point to look at audit trends across all of the University. Part of the reason for doing so is to look at the effectiveness of controls pre and post the EFS implementation to see if controls have improved, deteriorated, or seen no change. All of the audits included in the trending were completed within the CUFS environment. She distributed two handouts, one a table itemizing areas they had audited in selected units that report to the Provost and indicating (1) where they found the controls working or immaterial, (2) found things that could be improved, and (3) where they found significant problems that warranted timely corrective action by the unit leadership. (The units included, for example, the Registrar, the IT dean's office and selected units, the College of Continuing Education, Chemical Engineering and Materials Science, the Law School, the libraries, Physics and Astronomy, Psychology, the University Press, the Weisman Art Museum, Computer Science and Engineering, and so on.) Similar trending information was prepared for units reporting to other senior vice presidents and vice presidents.

The audits took place from 2006 to the second quarter of 2009; Ms. Klatt emphasized that the findings she reported were as of the time of the audit and did not take into account corrective actions taken since the audit findings. They trended audit findings both by organizational component (e.g., under one vice president) to see if trends were different with different leadership, and by business process (e.g.,

procurement, human resources, etc.) to see if there are systemic problems in business processes across the institution.

Ms. Klatt began with the good news.

1. Very few audit findings resulted in the areas of Accounts Payable, Purchasing, Use of Gift Funds, or Travel. All of these processes were found to be well controlled throughout the University. This does not mean that the policies promote the greatest efficiency, but people follow the policies well. There may be issues of frustration with policies, but not with compliance.

2. Payroll Management is generally well controlled – but is more problematic for the units within the Provost's portfolio – especially the College of Education and Human Development (CEHD) and the Institute of Technology. This is the area of the largest University expenditures so it is important. CEHD had more incidents than other colleges; Ms. Klatt said, in response to a question from Professor Seashore, that the evidence suggests the problems arose because of the merger of several units to create the current CEHD.

3. Research is well controlled for the most part. The College of Education was the exception, with a number of research related findings. The timeliness of Effort reporting is the most cited issue within the research compliance effort. The AHC also generated a pattern of findings related to the proper certification of effort by key personnel. Oversight of research involving human subjects was deficient in Psychiatry, Psychology, and CEHD.

-- The problems in CEHD, Ms. Klatt said, appear to be a manifestation of the complex research-funding portfolio in CEHD—it has the broadest range of funders of any college, each of which has different rules and requirements, so its research portfolio is very complicated to administer.

-- There does not appear to be any particular cause for the AHC certification-of-effort problems and may simply be a reflection of the fact that the AHC has the biggest volume of effort reporting.

-- Professor Konstan asked about the problems with oversight of human-subjects research: Is it just paperwork or is it the supervision of the research? It is both, Ms. Klatt said, in part because students do surveys, which involve human subjects, and that research is not handled as rigorously as medical research. She emphasized that her office says NOTHING about the science involved; they only look at the forms to ascertain whether the IRB prescriptions were followed.

-- Professor Seashore inquired about the inclusion of IRB/human-subjects compliance in assessment of collegiate compliance. Grants go through the department directly to the IRB, not through the college. Because they audit grants at the collegiate level, Ms. Klatt said. But they go through departments or centers and there is no collegiate function, Professor Seashore objected. This approach assumes colleges are intended to take on functions that departments have. It does not, Ms. Klatt said, but assumes that colleges are responsible for activities that occur in their colleges and centers.

Ms. Klatt turned next to "vulnerabilities."

1. Locally managed Information Systems continue to result in by far the highest number of audit findings across the University.

2. Cash receipt processing is problematic for many units, and especially more so for units which have small external sales operations (Recreational Sports, Weisman Art Museum, Housing and Dining). Cash receipting controls were also determined to be weak at UMD, Morris, Extension, and the Department of Surgery.
3. Internal Control Environment warranted improvement in the Office of Asset Management, College of Education, Weisman Art Museum, Molecular and Cellular Therapeutics, and the Office of Equity and Diversity.
4. Monitoring of controls was found to be insufficient in many areas of the University – but not with any notable pattern.
5. Internal Sales Organizations are a challenge to properly control throughout the University.
6. Lab Safety is an area of potential vulnerability with deficiencies noted in the AHC, IT, and UMD.

Ms. Klatt emphasized that by far the largest problem is #1, locally-managed information systems. Ms. King asked for examples; Ms. Klatt mentioned locally-managed servers without security, to which everyone has access, perhaps inappropriately cooled or heated, stored in a closet, with no encryption, lack support, and that do not support the University's firewalls. Professor Konstan commented that some of these recurring issues seem systemic. Does the audit team look at systemic root causes? For example, if so many departments run their own IT operations, does the audit team look for root causes? Is OIT not providing the needed services? Are their charges too high? With respect to the IRB questions, is our IRB requiring more than federal rules require? Is there a training problem? Do these questions come out?

They do, Ms. Klatt said, and they are working with OIT to get a handle on the server problems. They would not raise the question if the problems were not a risk to the management of the institution. Something they see over and over is a failure to use resources as well as they could be, when if something were done centrally it would solve the problem.

Professor Konstan related that his department received an audit report that dinged them for having their own services. A departmental committee spent a month identifying what changes were needed in OIT services to meet departmental requirements. They were told by audits that they had done what they needed to do but they had no sense that OIT was looking at the requirements. How is the loop closed in these cases? How should a department find out whether OIT is planning to make changes that will affect it, or has decided not to do so (and do the auditors stop raising the issue in the future)? Similarly, it is clear that many of the effort certification problems are systemic; there have been many complaints about our procedures and the software. The compliance problem won't be fixed until these are fixed.

That is why they provide information to business-process owners, Ms. Klatt commented. There are a number of problems in information technology and the question is how to deal with them. They go into a unit and find these issues; the best option is to move the management to a centralized facility, which is equipped to deal with the issues. But they do not make the decision, Ms. Klatt said, but if a unit decides to keep a server local, they indicate what must be done to meet audit standards. If a unit does

everything the audit report requires, the unit will be in compliance, but they do not know about issues that may preclude a unit from working things out with OIT.

Ms. Klatt said she had hoped that EFS would solve a number of the accounts receivable/cash receipting problems, a statement that elicited a round of laughter from Committee members. These vulnerabilities have been a problem for many years, and the EFS non-sponsored A/R functionality was expected to significantly improve the situation. While this functionality works well, it has not been rolled out to University units as broadly or as quickly as was originally planned due to a lack of resources. The good news is that there are very good controls in the areas where most of the University's money is received, such as the Bursar. The risks are in a lot of little A/R operations, and the risks are not huge for the University but they could be for the unit itself.

Professor Konstan said he has the sense that units spend too much time on compliance; he asked if Ms. Klatt had any sense of the efficiency in compliance, given the resources invested. From an institution-wide standpoint, Ms. Klatt said, the compliance function is efficiently organized. From a practical standpoint, the pendulum swings from lax to rigid, and the University is still quite risk-averse. The federal government requires effort certification once per year; the University has required it four times per year, and recently went to three times. So the institution can be its own enemy. One wants a margin for error but the question is how much of a margin is needed. Sometimes the University has added more requirements to protect itself. They audit the University's policies as they stand and they do not grant exceptions (they have no authority to do so), but they do provide advice when the policies appear to be more rigorous than the risks they seek to control.

Professor Luepker thanked Ms. Klatt for her report and said the Committee would like to hear from her again. He adjourned the meeting at 4:00.

-- Gary Engstrand

University of Minnesota