Minutes[*]

**Senate Committee on Finance and Planning**
**Tuesday, September 5, 2006**
**2:30 – 4:15**
**238A Morrill Hall**

Present: Judith Martin (chair), Rose Blixt, Steve Fitzgerald, Marcie Jefferys, Lincoln Kallsen, Thomas Klein, Joseph Konstan, Michael Korth, Ian McMillan, Mikael Moseley, Richard Pfutzenreuter, Justin Revenaugh, Terry Roe, Karen Seashore, Charles Speaks, Michael Volna

Absent: Daniel Feeney, Kathryn Olson, Kathleen O'Brien, Thomas Stinson, Warren Warwick, George Wilcox, Aks Zaheer, John Ziegenhagen

Guests: Stuart Mason (University Chief Investment Officer), Greg Schooler (Asset Management)

Other: Jon Steadland (Office of the Board of Regents)

[In these minutes: (1) update on the new financial system; (2) divestment from companies doing business in Sudan; (3) impact and aspects of the new budget model]

## 1. Update on the Enterprise Financial System Project

Professor Martin called the meeting to order at 2:30. Mr. Pfutzenreuter said that the new financial system (EFS) project is moving into the critical phase and he turned to Mr. Volna for an update on the project.

Mr. Volna said that in the months since he last met with the Committee about the EFS, they have been in an analysis phase—what the system does, what it could do, where the fits and gaps are. He distributed copies of information about EFS that provided a snapshot of what the functional fit of the new system as delivered and what modifications need to be made. He explained the business processes associated with each module of the new system (e.g., A/R and billing, asset management, general ledger and chart of accounts, budgets, purchasing and e-procurement, etc.), the University requirements in each module, the "fits" and the "gaps" for each module, how many of the gaps will be addressed by modifications to the system, by policy changes, by organizational changes, by other solutions, and the like. Mr. Pfutzenreuter noted, for example, that in the "Grants, Projects, Contracts" module, there were a total of 704 requirements, of which the system had 582 "fits" and 122 "gaps," or a "fit" rate of 83%. Of the 122 gaps, 119 were met by modifying the system. This system, he said, has a pretty good fit with University requirements.

Professor Konstan asked if the approximately 17% of requirements not met with the new system were also not met with the current system; is this system aspirational or does it only get the University to where it is today? Mr. Pfutzenreuter said the old system was not broken because everything was done through CUFS. The system is being installed to accommodate the way the University does business; it's plain vanilla.

[*] 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.

An 83% fit rate sounds good, Professor Speaks said, but if one weighted the fits and gaps from trivial to essential, how would the number change? Mr. Volna thought not very much. The measure of complexity is in the number of requirements by each category (module) of activity—some had a large number of requirements and some had far fewer. Professor Speaks said he simply wanted to caution that the 17% gaps could be important and cause the system not to function—or they could be features that it would be nice to have but that are not essential. Mr. Volna said that they are sequencing the implementation (e.g., so that front-end functions are ready first and reporting comes later). He also explained that on the recommendation of the Budget and Finance team, when the University purchased the PeopleSoft financial system, it purchased a module that was part of a larger suite; the University did not buy that larger suite, which is so robust and complex that PeopleSoft considers it a separate system. To do what the University does today it is more efficient in the long term for the University to build what it needs. Mr. Pfutzenreuter said the University could then meet its own requirements, although this alternative may not be any cheaper.

Mr. Volna next turned to a chart depicting which financial services would be distributed (to departments), which would be performed at the collegiate level or shared (clustered) between units and colleges, and which would be centralized. The services they identify as collegiate or clustered are those they do not believe can be driven down to the department level. They will encourage clustering when it can be accomplished without a modification to the system; clustering responds to strategic positioning initiatives and already occurs across the University in many places. They also proposed to cluster services where there is high risk, there is a need for a high level of skill, and there is not sufficient critical mass at the departmental level. Professor Seashore commented that it would be helpful to centralize and routinize the accounting for sales tax on sales and services; there is a disincentive at the department level to deal with sales tax, with the result that there are a lot fewer sales; if that disincentive could be eliminated, the University would see a lot more departmental sales and services sold. Mr. Volna promised to look into the issue. Mr. Pfutzenreuter commented that even where a particular service is identified as distributed to departments, deans can cluster them.

Mr. Fitzgerald asked about the schedule and cost of EFS. Mr. Volna said they will go to the Regents in December with a revised schedule and budget. They are not prepared to say yet what either will be; they need to finish their analyses. Mr. Pfutzenreuter emphasized that there is no intention to increase the enterprise tax that units are currently paying.

Professor Hendel asked if there had been any attempt to identify the human resources costs of the work on the project. Mr. Volna said they are comparing shared services with what exists today and they cannot tell at this point what the situation will look like. If one looks at large research universities in the last decades, Professor Hendel said, there has been enormous growth in a number of employee categories—but not in the faculty. The University could have a great new system, but if it requires 300 new people, and no new faculty are hired, what has been gained? Mr. Pfutzenreuter commented that the need for a lot of the new people hired has been driven by regulatory requirements. Professor Hendel concurred.

Professor Martin thanked Mr. Volna for his presentation.

**2. Divestment from Companies Doing Business with Sudan**

Professor Martin turned next to Stuart Mason to discuss the implications of divesting from companies doing business in Sudan because of the events in Darfur.

Mr. Mason introduced himself to the Committee, noting that he is the Chief Investment Officer. One of his responsibilities is investment of the endowment and other reserve and temporary and investment pools. It is the endowment, however, that is the only one that invests long-term in securities outside the US. He also noted that the Senate Committee on Social Concerns is currently looking at this issue (but has made no recommendation on it thus far).

The current endowment is about $1 billion and one of its targets is that 20% of the investments will be outside US equity markets. Most of that 20% is invested in corporate equity in developed countries—pharmaceuticals, autos, etc.—and what they invest in is defined by Regents' policy, which includes taking into account social concerns issues. They look to the Social Concerns for advice on such matters. The sole limitation on investments at present is they may not invest in Totale Oil (because it employs underage workers for long hours in bad conditions).

In terms of Sudan and Darfur: The endowment has three-four managers who manage about $200 million in investments in large corporations in developed countries; they also use a manager for investments in third-world and emerging markets. They are comfortable with the investment performance of these managers, but they do have investments in Republic of Sudan notes worth about $200,000. Other universities have also created structures to look at companies doing business in Sudan. All the major oil companies do business there; so does Coke, for example. They do business at various levels. But the only direct investment in the Government of Sudan notes.

As a general strategy his office does not make decisions about companies that are good or bad; they wait on decisions from the Regents and look to the Social Concerns committee for recommendations. If there were to be a resolution regarding Sudan, they would figure out a way to extract University investments. Mr. Pfutzenreuter pointed out that the Social Concerns committee no longer reports to the Board of Regents, as it did until recently; it reports to the administration, so the administration must identify guidelines on how to deal with social concerns issues.

Has the Social Concerns committee taken a position on Sudan, Professor Konstan asked? (Not yet, Mr. Stuart said.) He said that he has usually been a critic of resolutions or recommendations that take big swipes on University disinvestment, but this is different. Here the government of Sudan is financing activity most find reprehensible and it would have trouble doing so without foreign investment. If Social Concerns were to adopt a narrowly-drawn resolution about the government of Sudan, and not a murkier statement about doing business in Sudan, he could support it. It is only a small percentage of the University's portfolio, and no one would probably notice a decision to disinvest, but it could be important to the government of Sudan.

Would it be difficult to get the funds out, Professor MacMillan asked? Mr. Mason explained that it is a unitized investment pool, like a mutual fund, and the choice would be to discontinue the University's relationship with that investment manager. That manager would still have investments in Government of Sudan notes, the University would just not be part of that pool. The impact on Sudan would be close to zero but there could be a moral impact for the University for being on the list of institutions that will not invest in Sudan. They could not sell the investment overnight but they could do so within 30 days or so.

Is this investment manager one that many universities work with, Professor Seashore asked? Perhaps a half dozen, Mr. Mason said; most of the clients are corporate and government pension plans. It would seem that coordinating with other universities could have an impact larger than a single sale by the University of Minnesota. It might be worth contacting other institutional investors. She said she approves of doing a moral act for the sake of doing a moral act, but it would even better if there were to

be some effect. The University could say to the investment manager that it is uncomfortable with the investment, Professor Konstan said, and talk to other investors, which could lead to other sales. That might persuade the investment manager to stop investing in Sudan because of concern about losing clients. Mr. Mason agreed. He pointed out, however, that his office does not make those decisions, and they look to the Social Concerns committee for advice. They have had similar discussions and are aware of the issue. He said he would bring to the Social Concerns committee the sentiments expressed by this Committee.

Professor Martin thanked Mr. Mason for his report.

**3. Budget Model**

Professor Martin recalled that the Committee, in conjunction with the Senate Research Committee, has established a joint ad hoc subcommittee on the budget model. Its members were asked to come to the Faculty Consultative Committee retreat to hear the discussion of the new budget model; Committee members were provided the draft minutes from that discussion. She noted that there was especial frustration expressed by those involved in the work of interdisciplinary centers. She asked Mr. Klein, who attended the retreat, for his perception of the discussion.

Mr. Klein said he was interested to hear the comments at the retreat. He said he heard three different definitions of the budget model; this Committee can perhaps help inform the discussion. One question that arose was whether the problems are a function of the new budget model or an ongoing University problem (e.g., the funding of interdisciplinary centers).

Professor Roe reported that he serves as chair of his college Faculty Consultative Committee and has learned that departments share the same concerns. One is governance transparency (which varies by college) on how funds are allocated. Another is that colleges may have "revenue centers" which pull faculty from graduate level courses and push them into undergraduate courses, particularly in departments with a larger undergraduate program than other departments, in order to generate revenue.

Professor Konstan said that nothing in the draft FCC retreat minutes was a surprise; the same concerns were raised in this Committee two or three years ago. It was well-hashed out that this model puts greater authority, and greater responsibility, in the hands of deans. If deans were universally highly competent and loved there would be no need for the subcommittee. He said two things jumped out of the discussion for him. One is that centers need to change horses in mid-stream with the new budget model (departments already had a clean process-they deal with their college), so there is a need to re-charter centers and identify sources of revenue for them. For research is it indirect cost funds; where they go was not clear before and it is better now. The second issue was the link with quality. There is no mechanism that gives more power to the President (despite the rhetoric about presidential control over the state funds). There is nothing that speaks to "this money-losing operation is building the University's reputation and this money-making operation is harming the University because it is low-quality." There is nothing in the budget model that speaks to quality but there is in the compact process. He concluded that it is good to study the new budget model but he was not sure that anything more can be learned.

Mr. Klein said Professor Konstan may be right. He recalled that Ms. Tonneson commented at the FCC retreat that the goal of the new budget model is to provide more information. With more information, the question is who is using what resources can be answered. The budget model is intended to be a step in sharpening decision-making about trade-offs. This Committee worked hard to obtain data

about the subsidy to intercollegiate athletics; the budget model should provide that information in the future and let the University make decisions about aspirational goals.

There has been discussion in the current budget model group about tweaks to the system, Mr. Pfutzenreuter reported. He also said there is too much reliance on the compact process to ensure quality; the President, Provost, and senior vice presidents cannot do it. Quality has to improve as a result of college and department action; there is not way the central administration can oversee everything. It was that concern that gave rise to the metrics and measurement task force, Professor Roe commented, and an interest in seeing that the administration can measure outputs and quality. They did not want to let the budget model drive the University to low quality. They want to drive the analysis to individual faculty and see cross-college comparisons in productivity. Mr. Pfutzenreuter observed that there are a limited number of hours in the day for central officers and all of the work to improve quality cannot occur in Morrill Hall. Must of the leadership must come from the deans; they have said all along that the units need strong leadership.

Professor Martin said that the budget model discussion at the FCC retreat revealed that much is happening that was not expected and it is clear that not everything everyone does can be monetized. The Committee has talked a lot about common goods; everyone knows their value but it is difficult to put a dollar number on them. Professor Roe agreed that just because something cannot be measured does not mean it does not have value. But the nation computes the Gross Domestic Product, which is pretty complex.

One question is what the lowest level one should think about—all the discussion is about the colleges and making the system work for them. Departments are worried because the system has the potential for perverse incentives (all systems do). The change in the system brings the possible perverse incentives closer to home (at the decanal rather than central administrative level). There is nothing here about the unit level; one could imagine a declaration of rights of departments and centers—for example, a provision that a department could move to another college if unable to fulfill its mission in its current college. Often people do not trust the next administrative level, and while probably no departments would actually move, if they were to complain perhaps they could get attention. Such a structure would create competition among the deans to be effective managers, Professor Roe suggested.

Is there a work group one can go to to suggest tweaks to the budget model, Ms. Jefferys inquired? Mr. Pfutzenreuter said she could send him an email; they will take into account all the suggestions they consider valid.

Mr. Klein said he thought there would be more discussion at the FCC retreat about feedback mechanisms for the groups that are charging the units for the cost of their services about whether they are well-managed, operate efficiently, and so on. Presumably the ad hoc subcommittee will look at that issue. It is important the Committee talk about that, Mr. Pfutzenreuter said; they have started the process and the units are developing a committee to get advice on setting rates.

Professor Konstan said it would be helpful to have data about the personnel in central administrative and deans' offices. If there is more decision-making in deans' offices, presumably there will be more people in deans' offices and fewer in central administration. But one has the sense that deans do not feel they can hire more people, so there could be a lot more transparency with the new model that no one looks at.

Professor Roe asked if there was any insight about the impact of the new budget model on the Graduate School and the Vice President for Research. Mr. Pfutzenreuter said it should have no impact; it

is a budgetary decision whether to increase or decrease their funds. That is a campus discussion, Mr. Kallsen added. Professor Martin said the Committee could invite Dean Dubrow to talk with it. Nothing has changed, Mr. Pfutzenreuter said; they have asked each cost center and service unit to explain to the committee what services it provides, its priorities, new initiatives, what they are spending the money on, and they want that information to come back through the governance system to help the administration decide if funding for units should be increased (e.g., the Graduate School, the libraries, etc.).

Professor Martin thanked Mr. Pfutzenreuter and Mr. Klein and adjourned the meeting at 3:50.

Gary Engstrand

University of Minnesota