The University of Nebraska
Task Force on Administrative Efficiency

Report to the Board of Regents
November 5, 1999

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Dr. L. Dennis Smith
University of Nebraska
3835 Holdrege
Lincoln, Nebraska 68583

Dear President Smith:

I am pleased to provide you with the report of the University of Nebraska Task Force on Administrative Efficiency (hereinafter the Burns Committee or the Committee).

When we accepted your charge on February 19 of this year, you set forth a target of identifying cost avoidances or savings of $20 million dollars. In light of the University's annual overhead budget being $110 million dollars, all on our Committee felt this was a lofty target. At the same time, no areas were "off limits," save the academic portion of the enterprise. We were invited to be aggressive in our efforts.

I am pleased to report to you that the group, representing the combined efforts of selected University personnel and the Committee, has identified areas which could provide cost avoidance or savings over the next four to five years approximating $15 million dollars. By adding "stretch" goals on top of each sub-committee's results, the overall result is $20 million.

This report should also stand as an affirmation that the University, in terms of its business overhead, is generally well run. The absence of any overhead appropriations for many years by the Legislature has created an artificial "bottom line," forcing administrative management and staff to routinely look for savings to allow services to students and faculty to continue at a high level of quality.

The following few pages present a selection from among the findings of the Committee. The Overview section beginning at page 8 and sub-committee reports at page 18 amplify the Committee's findings.

University Strengths

- The Board of Regents, President and Chancellors have worked hard to create a common direction in terms of policy development. This process of establishing a common direction and pulling together was fundamental in allowing forward movement in other parts of the academy.
- The four campuses have their individual strategies, structures and systems fairly well aligned. Each has strengths that can contribute to "best practices" for the University as a whole.
- The personnel at the University with whom the Committee worked are strong, dedicated, and appear anxious to move forward in further re-engineering business processes.

One University – The Need for Strategy, Structure, and Systems

One of the most pressing, overarching needs of the University is to better align its strategies, structures, and systems in both the academic and business portions of the enterprise. This disciplined approach will enable the creation of "one University" that has been sought by the studies that preceded the Burns Committee: Strauss, KPMG and Angle. The Committee would also like to recognize and reaffirm the differentiated missions and build on the strengths of each of the four campuses. The Committee believes the concept of "one University" and respect for missions of the campuses are not mutually exclusive.

It is the feeling of the Committee that in the current environment systems are created, which foster structure then become strategy. The exact opposite should be the case. The President, in concert with the Chancellors, academic and business officers, should formulate strategy. The Board should provide advice and consent. The strategy must be driven down to engender structure and systems. Campus strategies must fit under the umbrella of the overall framework. Moreover, the framework must allow regular measurement of results obtained. Campus strategies, structures and systems that do not fit within the overall construct of the University must be eliminated.

The Committee recognizes because of several factors, particularly the nature of its student population and its business relationship with Nebraska Health System (NHS), the Medical Center may have some goals that are not congruent with those of the three other campuses. However, the participation of the Medical Center, with its historic focus on customers and external economic factors in shaping its strategies and structures, is vital in fostering a more cohesive University.

Action Steps:
- Develop a strategic framework that is "smart": specific, measurable, achievable, relevant and timely.
- Deploy the framework University-wide.

Coordination of Functional Areas

A challenge that is not new to the Burns Committee, in that others have also recommended this course of action, is the coordination of functional areas such as purchasing, printing, motor pool, and others. The term "coordination" does not equate to "centralization," or the age-old fear of all support functions reverting to the University's central administration. Rather, it refers to creating a "virtual" team across the University. In this method of operation, a University-wide champion shepherds the efforts of the entire University in a particular functional endeavor. Purchasing has largely completed this process and is into phase II of its evolution. Other sub-committees should continue to meet and seek similar coordination, consolidation, and pooling of resources.

Distance Education

Distance Education represents an exciting challenge to the University, with both positive and negative potentialities. It can be an avenue to provide a responsive learning environment for the geographically dispersed citizens of Nebraska and the larger community of learners. At the same time, an approach to this developing area that is not tightly orchestrated will be a significant siphoning of resources from the University.

Action Steps:
- Develop a strategic plan, with action steps, to carefully move the distance education product into the marketplace. This includes measurable goals and timelines that reflect the fast-moving nature and evolution of distance education and aggressive movement of many players into this field.
- Eliminate or disband the multitude of committees now in existence and replace them with one action-oriented group that will be responsive to the rapidly changing distance education marketplace. If distance education is a high priority, it should be the full-time, sole responsibility of a senior member of the University administration.

Elimination of Duplication and Simplification

Many of the committees dealt with issues of duplication, both intra- and inter-University and simplification of processes. These are recapped for consideration:

- Simplifying the project delivery process in the architectural and engineering area could avoid as much as $800,000 of costs per year, which could be used to greatly enhance the capital projects versus continually looking for deducts.
- Mandating use of the University's purchasing card and "ghost" card could lead to savings or cost avoidance of $2 million per year.

Information Technology

One of the largest opportunities for cost avoidance and savings lies in the area of Information Technology (IT). Standardization, collaboration and optimization are the keys in cost avoidance and capturing savings in this area. Nationally, information technology costs are benchmarked at 5-7% of college and university budgets, making the University's estimated $60 million dollars of expenditures a fertile ground for improvement. Compounding the importance of IT is its critical role in distance education efforts.

Connectivity clearly negates the need for many different islands of computing. Cost considerations make different operating platforms, hardware and software configurations that exist today an unaffordable and unsupportable extravagance. Therefore the focus in computing must be to gain a common clearinghouse in the areas of procurement, contracting and prioritization. The University simply cannot afford to have IT investments, maintenance of its computing capacity, and computing resources widely dispersed outside of the core group of computing directors.

Action Steps:
- Computing decisions must be coordinated through the CIO and campus computing directors.
- Funding, budgeting, contracting, and procurement should be coordinated in a similar fashion to achieve needed efficiencies.
- The decisions in the two bullets above must be subject to oversight and prioritization by computing's "customers," the business and academic communities, to obtain maximum utility.

SAP

The University has implemented the SAP software (SAP is the name of the vendor that sells the software) in the areas of financials and human resources. When the system was selected, capturing best business practices was one of the pivotal reasons for SAP's selection. However, the funding model adopted did not go beyond the implementation of the basic components of the system (i.e., lack of life cycle funding). Without continued development, much of the investment to-date will be lost within an estimated five-seven years. To be fully responsive to the needs of its academic and business users, continued funding and development is a must.

Action Steps:
- Make the commitment to funding continued implementation a permanent part of the University budget.
- Develop a team of academic and business officers to develop a joint list of priorities to guide future development.
- Create teams to stimulate adoption of best practices and continuous improvement throughout the University, choosing 5-10 projects per year to improve customer access to and usefulness of information.

Summary

Lastly, I would be remiss to close without commenting on the quality of the personnel the Committee met and worked with across the University. Their dedication, enthusiasm, and professionalism toward making the University a better place was commented on favorably by all members of the Committee.

The enclosed report confronts many institutionalized practices and by its nature is critical. In addressing the challenges our Committee has set forth in a timely, forthright manner, you will create a better University of Nebraska. The institution will be a University that is more responsive to the needs of students, faculty, and staff; a University that better prepared to meet the challenges of tomorrow; and a University that meets the demands of the citizens of Nebraska for quality, access and accountability.

Sincerely,

Ronald J. Burns
Chair

University of Nebraska
Task Force on Administrative Efficiency
Membership Roster

Ron Burns, Chair	Chairman, Burns Capital Partners
Tom Henning	President and CEO, Security Mutual Life Insurance Company
Beth Klosterman	Farmer, Homemaker, Teacher and Civic Volunteer
Dr. Fred Luthans	Professor of Management, University of Nebraska – Lincoln
Gates Minnick	Chairman of the Board, DuTeau Chevrolet Company
Lynn Phares	Vice President for Corporate Relations, ConAgra, Inc.
Lew Trowbridge	President and Chief Executive Officer, Silverstone Group
Gary Warren	Executive Vice President, Hamilton Telecommunications

Ex-Officio and Staff

Drew Miller	University of Nebraska Board of Regents
Nancy O'Brien	Chair, University of Nebraska Board of Regents
Nancy Belck	Chancellor, University of Nebraska at Omaha
Gladys Styles Johnston	Chancellor, University of Nebraska at Kearney
James Moeser	Chancellor, University of Nebraska - Lincoln
Harold Maurer	Chancellor, University of Nebraska Medical Center
Irv Omtvedt	Vice Chancellor, Institute of Agriculture and Natural Resources
David Lechner	Vice President for Business and Finance, University of Nebraska
Theodora Walker	Administrative Coordinator, University of Nebraska
Gary Carrico	Vice Chancellor for Business and Finance, UNO
Randy Haack	Vice Chancellor for Business and Finance, UNK
Melvin Jones	Vice Chancellor for Business and Finance, UNL
Don Leuenberger	Vice Chancellor for Business and Finance, UNMC
Alan Moeller	Assistant Vice Chancellor, IANR

University of Nebraska
Task Force on Administrative Efficiency

Overview

Background. President L. Dennis Smith convened the University of Nebraska Task Force on Administrative Efficiency (referred to herein as the Burns Committee or the Committee) in February of 1999. The Committee was designed to examine the administrative functions of the University of Nebraska with the goal of identifying savings, pinpointing cost avoidance opportunities, and increasing efficiencies of the business component of the University. The academic portion of the enterprise and the administrative overhead costs associated with that segment of the University system were not examined.

Refining the Charge and Expanding the Committee. Several committees scrutinized the administrative cost issue before: the Strauss Committee, KPMG, and the Angle Committee. Upon dissecting the work of those groups, all of whom had studied the administrative practices of the University, and reflecting upon results achieved, it was determined that all suffered from a key weakness. There was a lack of involvement from persons most directly involved in the day-to-day business of the University: its management and staff. These same persons would undoubtedly be those charged with making the changes and be most directly affected by any proposed modifications.

Presentations to the Committee disclosed the administrative part of the University's budget had not increased significantly over the last four-five years, averaging less than 3% per year.

The Committee quickly determined because of time constraints it could not feasibly delve deeply into nor become familiar with the detailed business practices across the landscape of the four campuses of the University.

For the three foregoing reasons, the Committee was expanded to include the Chief Business Officers (CBO's) of all campuses. Accepting the theory that the increases in administrative overhead were, at face, reasonable, the CBO's were asked to identify areas where the Burns Committee should concentrate its efforts to bring the most value to the project. Ten areas were defined for further, detailed review.

In each of these named areas, experts or "champions" were nominated who would act as a liaison with the Burns Committee. These persons, in turn, drafted members from each campus to form a sub-committee with the two-fold goal of obtaining a University-wide perspective and fostering University-wide solutions. Each sub-committee had a Burns Committee member as one of its members.

In addition to building the University-wide, grass-roots support noted above, the Chancellors and others were interviewed to obtain perspectives and feedback to further enhance, refine or redirect the efforts of the Burns Committee.

Synopses of each committee's findings are contained in the detailed section of this report starting on page 18.

Overarching, University Wide Issues. Many of the issues that will act as drivers in the successful implementation of the recommendations of the Committee are not confined to a sub-committee, but were derived from interviews and committee meetings. These are broad issues, some of which will require attacking barriers that exist at various levels. There are items to be worked on in partnership with the Governor and the Legislature, there are issues that require Regents' attention, other issues necessitate the attention and cooperation of the faculty and there are cross-campus barriers to achieving success.

Creating A Culture of One University. At a recent NACUBO conference, Larry Faulkner, President of the University of Texas system shared the following analogy regarding leadership of a major higher education institution. "Being president of a major university system is like being the person that mows the grass at the cemetery. There are a lot of people under you, but some are not listening."

The University has come a long way since President Smith took charge of the system in 1995. The communication of the President with the Chancellors was cited several times as having improved and coalesced the group. The improved relationships and positive cooperation with the Board of Regents was also mentioned. In essence, the policy side of the house seems to be in good working order: everyone seems to be listening.

However, on the administrative side, in many cases the campuses continue to operate as totally unrelated units. Especially when it comes to services and support, the detailed sub-committee reports cite many instances where efficiencies can be gained through consolidation. To make this a reality, there is a need for a strong, empowered chief operating officer to drive best business practices, including both consolidation and coordination with campuses. During the Committee meetings, people from outside of the University were surprised to learn that there was not an active mechanism to mandate best practices. There should be a formalized system for sharing and communicating best practices, especially in a knowledge institution, where the knowledge of one person should readily become the knowledge of all. The diminished, second-tier role the business officers occupy in today's University of Nebraska, when compared to their private sector counterparts, is surprising. The University cannot succeed in the business aspects of its operations with its CBO's operating as scorekeepers. CBO's must operate in a forward looking manner and become trusted business advisors to the chancellors and academic community.

When best practices were discussed, the words culture and mission were invariably thrown out as the first line of defense as to "why not." Culture and mission should be enablers, watchwords that distinguish, differentiate, and inspire each of the campuses. Their use as excuses in lobbying against business practices in a time where overlap and duplication simply cannot be afforded, should be summarily and permanently retired.

Creation of University-wide and one-university focal points for business practices does not mean making Varner Hall larger. University management has done some work in this area, but needs to continually seek to coordinate better service delivery by providing seamless, cross-campus provision of those services. A University-wide, best practices team should be created to standardize business practices versus allowing processes to continue that may not add value to the enterprise as a whole.

A large part of creating a better University is the retirement of the Varner Hall stigma. Staff at Varner Hall and on the campuses need to work to create a unified University of Nebraska. The goal should be to work together for the benefit of the institution as a whole. Any "passing of the blame" to a campus or "Varner Hall" engenders a balkanizing, we/they mentality that will not allow the University as a whole to advance.

Formulation of Aligned Strategy, Structure, Systems, Goals, and Objectives. Creation of one university also requires a common strategy, common goals and common objectives. With the separate missions and cultures of the campuses, there will be differences, but all of the strategies should fit under the umbrella of an overall strategy set forth by the President. A key to this process is, as well known re-engineering author Michael Hammer states:

> "The single most important thing you can do to help your company thrive in the modern era of tough customers, intense competition, and relentless change is this: help every single person in the company understand the business in the same big-picture terms that the CEO does. Everyone needs to understand the economics of the company and its industry, its strategy and cost structure, its processes, products, and competitors."[i]

There must be shared vision. The President has done tremendous work in pulling the campuses together. It is now time to take it to the next level so that the vision of the President and his Chancellors (who operate collectively as the President's Council) becomes one. Deliberative discourse and disagreement among senior leadership, especially in a group such as the President's Council, is a natural part of any large enterprise. However, once the direction has been charted, the Chancellors must become spokespersons for the team and promote the overall agenda.

One of the weaknesses in the last strategic framework is that it is too generalized. Literally any undertaking could be seen as fitting under this framework and many colleges and universities are similarly guilty of utilizing the strategic shotgun. An example of what can happen in a "one size fits all" strategic framework is that the marketplace ends up defining who you are versus carefully selecting niches of excellence. The market philosophy of Jack Welch, the popular, often-cited CEO of General Electric, epitomizes marketplace focus: either numbers one or two in the marketplace or exit the industry and deploy valuable human and economic resources elsewhere.

The necessary next step is the strategic framework needs a detailed operational underpinning to support it. Without quantitative goals, pushed down to all levels of the organization, measurement of results is not possible. Without measurable goals and a shared vision, people are afraid to act and do nothing. The result is bureaucracy.

The vision of the University must be kinetic. It must be able to change, and change rapidly. Yes, the dynamics in the college and university sector are difficult to encompass, but a backbone of a roadmap is better than none at all. The University must elevate its ability to act quickly, collectively, and collaboratively.

One of the areas discussed in the detailed section that would benefit greatly from strategic direction is the area of distance education. The distance education initiative to-date involves several committees and many months of meetings with a mixed bag to show in the way of achievements. A strategic plan and an operational/business plan that is clearly stated and focused is needed to meet, in a timely fashion, the President's objective of providing quality distance education to the citizens of Nebraska.

Accountability and Responsibility. There are varied and sundry reporting relationships at Varner Hall and at the campuses. These structures lead to similar disparate levels of accountability and responsibility.

One campus and Varner Hall have adopted the "strong academic officer" model where there is an academic officer inserted between the President/Chancellor and the Vice Presidents/Vice Chancellors. Others have Vice Chancellors reporting directly to the Chancellors.

The reporting lines of the computing directors are mixed. At Varner, the chief information officer reports to the Vice President for External Affairs, at one campus the reporting line goes to a triumvirate of persons: the senior academic officer, chief business officer and a second vice chancellor, at another, the CIO reports to the chief academic officer, while the other two campus CIO's report to the chancellor and to the chief business officer, respectively. It is easy to understand how the priorities and results can be mixed. In the private sector, the chief information officer reports to either the chief executive officer or the chief financial officer. The University should re-consider the reporting lines in this key area.

Without co-terminus reporting lines, the ability to act decisively and collaboratively is compromised. Information in this scenario can easily be misconstrued, under communicated, and causes, unfortunately, the President's and the Chancellor's directives to be either not driven throughout the organization or executed with unnecessary varying levels of success.

The Gartner Group refers to the combination of many of the factors noted above (culture, strategy, and people factors) as Enterprise IQ (EIQ). "EIQ is an assessment of the overall knowledge capability of the enterprise. EIQ represents the ability to both read and react to market, business, and internal forces. This assessment allows:

- knowledge of the dynamics of the market, extended marketplace and how to position the firm
- knowledge of how the business products and services are performing
- knowledge of how customers behave and what they expect
- the ability of the firm to process this knowledge and to engage its resources to aggressively act or react."[ii]

This point about relationships noted in the Gartner quote points out what the Committee might call the need for a new vision of the campus/Varner Hall relationship. Varner should be looked upon as a source of strong policymaking and planning, strong computing, strong accountability and finance, and other services supporting all of the organization. These roles should not be replicated on each of the campuses.

It's Time for All Academic Units to Be a Part of the Business System. The Burns Committee believes the bigger task, in terms of capturing real administrative cost savings, lies with the committee studying academics. Paraphrasing Robert Dickison's thoughts in his comments to the Board of Regents on August 28, 1999:

- Academic programs are the heart of the institution and drive costs.
- Academic programs have been permitted to grow without regard to relative worth.
- Campuses are striving to be all things to all people.
- There is a growing incongruence between programs and resources to mount them with quality.

Confirming that there are administrative savings to be achieved in academics is a recent re-engineering program at an institution very close to the University of Nebraska, the University of Missouri. There it was found that over 55% of the procurement costs (one of the most costly administrative areas) were in the academic units.[iii]

There will be resistance to administrative/academic pruning, but the facts and circumstances facing the University demand a hand-in-hand forward movement by faculty and administration. Ideas for such changes can no longer be wholly discarded because of academic debate around the fringes. As noted higher education management consultant Rod Napier observes, "these debates guarantee several outcomes over time:

- Conscientious faculty withdraw from the game into isolation of their own work, leaving the politics and resistance to others
- The politics of the system are left by default in the hands of the least compromising and most intransigent. It is this group who then faces the administration and ensures further polarization of the organization.
- Disillusionment, followed by apathy and low morale, often results and can become endemic among a faculty and bleed into all aspects of campus life."[iv]

The process of making some of the cultural changes called for in this section is not easy. John Seely Brown, Vice President and Chief Scientist of Xerox Corporation, in his contribution to an article in *Fast Company* entitled "Lessons on Learning", addresses this challenge:

> "Learning is important, for both people and organizations. But the real challenge today is unlearning, which is much harder. Each of us has a 'mental model' that we've used over the years to make sense of the world. But the new world of business – built on digital technologies and increasing-returns economics – behaves differently from the world in which we grew up. Before any of us can learn new things, we have to make our current assumptions explicit and find new ways to challenge them.

This is no academic exercise, and it doesn't come naturally. The harder you fight to hold onto specific assumptions, the more likely there's gold in letting go of them. Step back, reflect – and listen!"[v]

Redefining the Customer. The University of today is drastically different than that of even a few years ago. The challenge to attract quality students is greatly increased. When the layers of the college and university "onion" are peeled away, students are at the core.

The barriers to entry into the business of education have gone away with concepts like Open University providing asynchronous learning in a variety of subjects, without the investments in brick and mortar. The University needs to be an organization that is more responsive to this new reality in the external environment. Efforts of faculty and staff must be focused with the student viewed as the most important customer. The challenge of recruitment and making the University a better, more efficient place, attractive to the student customer, must come with heavy input and commitment by the faculty. With shared governance must come shared responsibility. The same is true of the other stakeholders (customers) of today's and tomorrow's University. In particular, the attention given to students must also be devoted to all levels of employees, to public and private organizations, and people of the State, nation and world.

Sub-Committee Highlights. As mentioned earlier, the sub-committees pulled people together from across all the campuses and created insightful considerations that could achieve great savings for the University. The committees were understandably hesitant to attach dollars to their findings and were even more reticent to stratify the savings over the next four-five years. Among the committees with the most promise are those detailed below. Not surprisingly, these groups are the same groups that have existed or actively operated in one form or another since the Angle Committee.

Estimated cost avoidance and savings summary by sub-committee (in thousands):

Committee	Committee Results	Additional Stretch Target	Final Goal
Architectural/Engineering	$2,900	$725	$3,625
Card Technology	50	1,000	1,050
Distance Education	None	250	250
Information Technology	5,000	1,250	6,250
Intellectual Property	None	50	50
Motor Pool	220	55	275
Printing	None	250	250
Purchasing	3,000	750	3,750
Risk Management	10	10	20
Telecommunications	None	250	250
Travel	450	110	560
Utilities	1,500	375	1,875
SAP	880	220	1,100
State	400	100	500
Total	$14,410	$5,395	$19,805

Purchasing. The purchasing group provided cost avoidance and savings ideas approximating $3 million. Harvesting the estimated savings is, in theory, quite simple: standardization of procurement practices across all the campuses both in the business and academic structure of the University. There are best business practices and expertises within purchasing that simply are not being fully exploited. Purchasing and ghost card use should be made mandatory. This would greatly curtail the clerically intensive process of purchase orders, requisitions, invoicing and keypunching, saving an estimated $20 per transaction. It could also lead to the gradual elimination of the quick-order, quick-pay program that has served as an important, but now outdated, interim step.

Faculty are also an important part of the solution according to the purchasing committee. There are increasingly more and more items being ordered through the academic side of the University that are not processed through the purchasing function. These arrangements fail to take advantage of strategic vendor relationships and pricing considerations that are available based on volume.

The purchasing function has produced dramatic results. With the cooperation of faculty, staff and others, great savings through standardization can be achieved that will yield more dollars for academic pursuits and other strategic investments.

Computing. Computing, when adding up all of its components (salaries, hardware, software, and administrative costs) is estimated to be a $60 million dollar cost to the University yearly. Estimates of savings by the committee approximate $5 million dollars.

Again, as in purchasing, the solution sounds simple: collaboration, consultation and coordination. It is also worthy to note again, that coordination does not mean Varner Hall driven. One of the largest areas where real money can be saved is in the area of computing center contracts. All contracts (leasing/rental of equipment, licenses and maintenance, purchases of personal computers and software, purchases of servers and related software, and computer supply contracts) should roll through a central point, most likely a committee of the computing directors from all campuses. These directors can assess available capacity of existing resources, reassign priorities, and leverage existing computing relationships versus persons operating independently. This process should also take advantage of the strengths offered by the purchasing function.

An integral part of the process of capturing the savings here revolves around alignment of the mission with the technology required. Without such alignment we are saddled with unnecessary costs and campus duplication, a lack of computing standards across the University, frustration and underutilization of assets, and obsolescence and neglect.

Oversight of computing suffers from the same malady of who is in charge. The chief information officer finds himself running very hard to satisfy "customers" who have widely varying interests. An oversight group comprised of business and academic leaders should be created to set university-wide priorities for computing. This practice existed in the past and worked well. As such, computing is managed as a utility with limited resources to serve the University-wide community. Accordingly, economics dictates that prioritization, which would be the main role of this committee, must take place to best serve the needs of the University as a whole.

<u>SAP</u>. The University has gone "live" with the financials and HR portions of the SAP software. The first phase of the project is drawing to a successful close. The University has achieved this accomplishment on a budget and in a timeline that is truly remarkable. The $12.8 million dollar price tag pales in comparison with the University of Minnesota's reported $50 million and similar price tags at comparable institutions. But, there is major work yet to be accomplished.

The remaining portions of SAP implementation are those that will accomplish a majority of the hard dollar savings estimated in the initial selection and budget setting. There is a wide expectation gap that must be bridged and this gap can only be closed through investment of time and money. Among the solutions needed and business imperatives:

- Sales and distribution – Allows customer accounting not available in current packages. This module would conceivably create greater cash flow and allow centralized processing on all campuses. By increasing cash balances 3% additional interest income generated could be an estimated $300,000 per year.
- Budgeting – Without additional work on budgeting, the University will continue to utilize systems that are out-dated and derived from state systems. Reaction to variances and behaviors causing variances will be long after the fact.
- Grants accounting – In this increasingly important area, we are relying on sub-systems that cannot support the stated research growth goals of the Chancellors and the President. Grants, cash flow and tracking of research commitments will continue to grow and become a bigger issue and, accordingly, business risk.
- Electronic Interfaces – The University still is paper based in some of its most elemental areas: timesheets and time reporting, vendor interfaces, and benefits elections. The University must be ready to use this new tool to capture a place in the e-business world. Our purchase order must become the vendors' sales invoice. We must create seamless inter-enterprise relationships with vendors. We must have an enterprise portal that provides a single entry place for all persons to "do their job." The SAP tool when fully empowered allows us to go this next step. The payback in the e-business area is very inviting. The return on investment for e-procurement is dramatic, with the average return on investment in excess of 300 percent and an average reduction in spending of nearly nine percent.[vi]
- Facilities Management – Greatly enhances the ability of the University to manage, monitor and maintain the physical plant of the University, which approximates $1 billion of assets at June 30, 1999. Space management, construction project tracking, electronic work orders, enhanced time tracking and equipment histories are among the strengths offered by this module.

<u>The State and the University</u>. The State largely determines the success of the University of Nebraska through the level of resources provided. The University also provides value to the Sate through its educational and outreach missions as well as the $3.5 billion of business it generates in the State, a tremendous economic impact – a return of 10 times on the money invested in it by the Legislature.

In addition, the University provides the State with intangible returns. An example is the extension program. Often, University extension personnel are some of the most visible representatives of the State in many jurisdictions of Nebraska. The valuable social safety net these persons provide should not be lost.

The University and the State have worked well together and must continue to work jointly and even more closely to accomplish mutually beneficial goals. First, the oversight of the University must be restructured. The amount spent by the University just to comply with Coordinating Commission for Postsecondary Education requests was an estimated $280,000 in 1998. This supervision is on top of the oversight provided by the Board of Regents, DAS budget, and Unicameral fiscal professionals. Each level of internal control represents incremental cost to the State that must be weighed versus benefits received.

To leverage the talent of its employees, a practice that will allow the University to achieve great things, pay for performance and a system for payment of bonuses should be initiated post haste. The State and the University must shed themselves of the practice of "catching people doing something wrong" and focus on re-enforcing positive initiatives that accrue benefits and returns to the University and, in a larger sense, all of Nebraska's citizens.

What should the University furnish to the State in return? One answer is measurable results. Budget measurements alone are outdated and not responsive in today's fast paced higher ed world. In the Rockefeller Institute's second annual survey of State Higher Education Officers in the fifty states, more budgets are being linked to institutional performance. Of the states surveyed, 42% currently have at least one of these programs and suggest that another 20% are expected to adopt similar programs in the next five years.[vii] . Part of the SAP solution must yield a longer-term goal of outcome measurement that gives legislators greater feedback as to return on investment.

Summary. In general, we are pleased with the accomplishments of the sub-committees, which are detailed in the ensuing section. Several have come up with substantial cost avoidance strategies and savings, while others have additional work to do. To that end, a subset of the Committee will remain in place to monitor sub-committee activity in the coming months. In this manner, the Committee members will continue to act as advocates on the University's behalf to ensure elimination of barriers, identify further efficiencies, and confirm and capture the savings opportunities.

What we are prescribing, in its broadest sense, is change. Change is inevitable. The University must grasp and adapt to the changes taking place around it. Change and adaptation taken together spell survival. James Champy, co-author of *Reengineering the Corporation*, perhaps tells it best:

> "Years ago I stood gazing along the rocky New England coast. As the tide withdrew, I watched a starfish race the tide. It moved just fast enough to stay wet, shrinking one arm, then flowing its protoplasm to extend and rotate the deepest ones. Maybe it didn't have much of a brain, but it never lost its grip on the old as it reached for the new. That starfish knew how to survive."[viii]

We salute President Smith for undertaking this task and we as the Committee have been proud to be of service. We believe that the University has, and will continue to play an important, but changing, role in providing quality higher education to the citizens of Nebraska. The successful evolution of the University into a responsive, kinetic organization will be largely determined by the strategy, structure and systems that develop as a result of the challenges presented above and the strength and timing of the replies to those issues.

Burns Committee
Recap of Committee Reports

The Process and Committee Background.

On February 17, 1999, President L. Dennis Smith and Omaha investment executive Ron Burns convened the first meeting of the University of Nebraska Task Force on Administrative Efficiency (hereinafter, the Burns Committee or the Committee). Smith charged the group, comprised of Burns and seven other members from throughout the State, with aggressively examining the business practices throughout the University. The group, each with distinguished credentials from their own careers, was invited to apply those diverse backgrounds and experiences toward betterment of the business practices at the University. No areas were to be off-limits to the group, save academics, which were to be separately reviewed by a companion task force.

The opening comments by the Chancellors of the four campuses echoed Smith's and endorsed a close scrutiny of the practices on each of their campuses. Regents O'Brien and Miller both commended President Smith's initiative and goal of seeking additional savings and working to create an organization where change is encouraged. Chairman Burns closed the comments challenging the committee to act in this process as advocates for the University in knocking down barriers to success, to not deal with the "how" versus the "what", and to give President Smith and the chancellors a workable deliverable: a framework that could serve the University on a go-forward basis.

A historical perspective was offered at that meeting by Vice President David Lechner that chronicled the on-going efforts of the University to re-invent itself and to seek to further refine its operations.

- The seminal effort in the area improvement of higher education at the University of Nebraska was a report *Toward the 21St Century,* issued in December 1984. This report was the product of a citizen's commission appointed by Governor Kerrey that is commonly referred to as the Strauss report.

- Next, the University hired the accounting and consulting firm of KPMG who issued a follow-on effort in May of 1986 entitled an *Organization Study of Selected Administrative and Support Function*

- Lastly, in April of 1995, one of the first acts of then new President Smith was to empanel an eight-person group comprised of four private sector and four University representatives. This group was commonly known as the Angle Committee.

Each of these studies resulted in the University gaining new viewpoints and perspectives and incorporating them into its business acumen.

Upon closer inspection by Chairman Burns, the bottom line evaluation was that the Angle Committee report, the latest of the efforts chronicled above, had not had the broad impact that it could or should have had. Matter of fact, many of the observations contained in the Angle Committee could be traced back to both the KPMG and the Strauss reports. In those areas where real change occurred, there was a common motif, that being University personnel getting involved with the creation and implementation of the actions. The Angle report sought grass-roots change but did not achieve it.

There were three areas where persons incorporated the Angle findings into their business processes to a higher degree than others: purchasing, computing, and public-State-private partnerships and ventures. The success stories of these groups are detailed in a separate report, *The Angle Report Assessment of Progress*, published February, 1999.

Using these results, the methodology employed by the Burns Committee was designed with a granular, more bottom-up approach versus a broad swipe by a committee. It became apparent from the study of the groups that had gone before, that campus and university-wide involvement must be fostered to achieve the lasting framework desired.

First, Mr. Burns held one-on-one interviews with each of the Chancellors and Vice-Chancellor or IANR Irv Omtvedt. This provided valuable feedback in terms of what could best be sighted in for targeting by the Committee

A Macro View of University "Overhead"

The Chief Business Officers (CBO's) were brought into the committee as ex-officio members. Interviews were held with each of the CBO's to gain their input into how the Burns Committee could best help them.

A part of that process entailed a review of the "overhead" of the University. Overhead, for purposes of this discussion includes expenses for the following categories:

Physical Plant Administration	Building and Grounds
Utilities	Campus Security
Plant Operations	Executive Administration
Student Services	Business and Finance
General Expenses	University-wide Computing

Overhead does not include operational expenses of auxiliary enterprises (i.e., athletics, housing) that do not receive state support, but are self-supporting in nature.

The budgeted overhead of the University amounted to $113.5 million in 1998-1999. Going back to 1994-1995, the comparable figure was $101.6 million. In those four years, overhead of the University increased at an average of 2.9%. The *Bureau of Labor Statistics* put the Consumer Price Index at the end of 1994 at 141.3, versus a figure of 158.5 for the first half of 1999. This yields an inflation factor of 2.7% for that period.

In short, the University's increase in overhead was not significantly different from inflation. This is consistent with the intuition of the CBO's that the lack of operating increases by the Legislature had created a "de facto bottom line" and forced them to find ways to fund any inflationary changes through cuts elsewhere in University operations. Because of this dynamic, the CBO's urged Burns to focus the efforts of the Committee on selected areas versus examination of the areas above that were felt to be fairly efficient.

The areas set forth for the Burns Committee to examine were also assigned a "champion" in keeping with the concept of having active involvement by people from across the University. The topics chosen, the champions, and the Burns Committee person assigned to provide overview were as follows:

Area of Study	Campus Champion	Burns Committee Member
Architectural/Engineering	Rebecca Koller, UNCA	Gary Warren
Card Technologies	Glen Nelson, UNL	Gary Warren
Distance Education	James Emal, IANR	Beth Klosterman
Information Technology	Walter Weir, UNCA	Lew Trowbridge
Intellectual Property	Don Leuenberger, UNMC	Fred Luthans
Motor Pool	Mike Cacak, UNL	Gates Minnick
Printing/Publications	Ken Holm, UNL	Lynn Phares
Purchasing	Bill Bode, UNL	Fred Luthans
Risk Management	Greg Clayton, UNL	Tom Henning
State and SAP	David Lechner, UNCA	Ron Burns
Telecommunications	Ruth Michalecki, UNL	Ron Burns
Travel	James Main, UNL	Gates Minnick
Utilities	Nick Combs, UNMC	Ron Burns

Each of these champions were nominated by the CBO group and were invited to draw upon their peers from across the University to create a sub-committee to examine their particular area and report back to the Burns Committee.

Over the summer, the groups met and created plans, goals and action steps. Each sub-committee then presented the results of their findings to the entire Burns Committee on September 7, 1999.

The results of those reports are presented in the remainder of this document.

Architectural and Engineering   **Estimated Cost Avoidance/ Savings: $2,900.000**

Metrics. The architectural and engineering functions encompass 40.5 FTE's and a budget of $2,413,664 on all campuses. Project workload is currently:

Campus	A/E or PM Staff	Contracts>$200,000
Kearney	1.5	$16,300,000
Lincoln	20	$184,000,000
Medical Center	10	$97,200,000
Omaha	9	$89,300,000

Projects totaling $390,000,000 are currently in the planning through construction phases. For contracts totaling $250,000 and more $13,575,000 of architectural and engineering fees were paid to the private sector.

Primary Findings. The primary finding of the architectural and engineering group centers on simplifying the project delivery process. The outcome of this process will be time savings that could allow approximately $800,000 per year of cost avoidance to be funneled back into "brick and mortar." Streamlining project delivery included eliminating complex program statements, reducing number of design phases, providing internal or streamlined external review, and increasing thresholds for projects requiring review.

The primary barriers that must be overcome for the targeted costs to be avoided center on existing state, Board, and administrative policies. Streamlining of program statements will require Coordinating Commission for Postsecondary Education (CCPE) agreement. Changing review thresholds and procedures will require Board approval.

Challenges Remaining. The change in the project review board status would require changing Board of Regents policies. The Regents must ask themselves if this process provides almost a million dollars of value to the Board. Changes in policy that impact CCPE review will require negotiation with the Commission, the State, and the Legislature.

Partnering opportunities proposed by the sub-committee appear to have some potential and these activities should be pursued on an on-going basis. While the sub-committee expressed a need for a presence of architectural and engineering resources on each campus, regional resources were discussed and offer some efficiency. The Burns Committee believes further roll-ups should not be dismissed without further consideration. Another idea the sub-committee should pursue further is Kearney partnering with UNL, while the departments at UNMC and UNO continue blending their resources.

Card Technologies   <u>**Estimated Cost Avoidance/Savings: $50,000**</u>

Metrics. Currently the four campuses each have their own student, faculty, and employee identification system. On top of this, separate purchasing cards, travel charge cards, library cards, building access, and telephone calling cards are carried by various faculty, management and staff. Some persons carry all six cards. The UNL system is internally developed and has over one million lines of coding.

The campuses entered into a request for proposal (RFP) process seeking to combine many of these functionalities for students, faculty and staff through a single, university-wide card. The student version of this card would feature a magnetic stripe declining value feature, smart chip, ATM capabilities, library checkout, building access, copier and vending machine functions, and residence hall dining, along with serving as an identification card.

Additionally, for faculty and staff, the card could feasibly replace separate cards and technologies used by faculty/employees for identification, building and laboratory access, travel, purchasing card functions, and library checkout. The same chip and magnetic stripe features for students would be made available to faculty and employees.

Primary Findings. The RFP referred to above was created by an all campus team of persons from many disciplines throughout the University: housing, libraries, facilities management, and business and finance personnel. The RFP's yielded responses from all major vendors operating in this area, with bids being in the $1.6 to $2 million-dollar range. However, affinity and exclusivity responses, representing sponsorships by phone companies, financial institutions and others, offset very little of the proposed cost. Therefore, the project was sidelined by campus leadership until the project becomes cost neutral.

The campus card committee believes the card process should go forward and could produce net revenues in the fifth year after implementation of $50,000. Several Burns Committee members commented their daughter/son had such a card at other comparable institutions and they were delighted with the functionality and ease of use.

Challenges Remaining. One of the reasons that the card is not economically self-supporting is the limitation on banking powers imposed by the State Treasurer. The Treasurer maintains LB 70 does not allow the University to include any banking features on the card as those powers are reserved to him by that legislative bill. The University must gain the support of the State Treasurer because without his support, cards can be provided only through expenditure of state appropriations versus new outside funds generated by University resources.

The University must continue to pursue implementation of the smart card technology. By allowing banking features on the cards, sponsorships are available to make the card a revenue neutral, customer friendly convenience for all involved.

Metrics. The amount spent on distance education, based on the report received from the distance education committee is unknown or not quantified. Resource investments devoted to this endeavor cut across both the academic and business fabric of the enterprise: computers, instruction, licensing, and administrative support structures.

Several committees exist to address this need, not all of which are under the purview of the University: the Nebraska Information Technology Council (NITC), the University's Information Technology/Distance Education Task Force, the Office of Vice Chancellor for Extended Education, and a newly formed group comprised of campus computing, academic and distance education officers. Under the Associate Vice Chancellor for Extended Education at UNL are four administrative and advisory groups. There are currently University learning centers in Grand Island, Lincoln, Norfolk North Platte and Scottsbluff who themselves have partnerships with the community and state colleges.

Primary Findings. The report cites the need to create a lifelong learning culture that positions the University as an engaged institution in this fundamental endeavor. There is a strong need for strategic positioning by the University to become a kinetic institution: able to bend and flex with the dynamic environment. The report also recognizes there are many opportunities for efficiencies to be gained by carefully plotting the course of extended education and to develop an administrative management structure to encourage and facilitate faculty development and course delivery.

Challenges Remaining. The primary barriers pointed out in the report, aside from those clearly in the academic arena, are several. A sense of urgency is gleaned that this is a critical juncture in the development of distance learning at the University of Nebraska.

A listing of barriers identified by the NITC Education Council gives an indication of what stands in the way of achieving goals in coordination and dissemination of equitable distance education:

- Lack of vision statements – what are the statewide goals for Nebraska in terms of distance education.
- Lack of accountability – how is success going to be measured or returns needed on investments in this area.
- Lack of training – what will be the vehicle to provide training in this area.
- Bureaucracy – the movement is too slow to react or capitalize on market changes.
- Politics – the plan must be sufficiently flexible to withstand changes in administrations and technological changes.
- Technological changes – must factor the changes in technology carefully to do meaningful strategic planning.
- Access – issues in terms of inadequate infrastructure that is unevenly distributed among users of differing skill levels.
- Funding – the demands for technological resources and continuing upgrades exceed the supply of funds available.

A recurring motif cutting through many of the points set forth above by the NITC is business-type issues. The University must create a strategic business plan formulated by academic and business officers, with appropriate input from faculty and students, to capture as many of the variables as possible. The plan must clearly focus on customer-driven aspects of the business, points of market entry, and drive focused investments of limited resources available. Without such a plan, resources will not be as strategically expended, which is especially important in this fast-moving marketplace. With limited resources, the University simply cannot afford to fall victim to a trial-by-error approach to its entry into the distance education fray.

Alternatively, the University should carefully select marketplace niches or areas of excellence, identify venturing and partnering opportunities to share the financial burden and high cost of entry into this sector, and quit the "shotgun", multiple committee approach to understanding, defining and entering into the distance education arena.

Secondly, the administrative component of the University must create an accounting framework to capture the cost of creation and delivery of course materials. Only through such an exercise can a meaningful appropriation mechanism be presented to the State to reward institutions for meeting this demand of Nebraska's citizenry.

Information Technology   Estimated Cost Avoidance/Savings: $750,000-$5,000,000

Metrics. A finite figure spent by the University of Nebraska for information technology is not known. It is estimated that in an average college and university, a benchmark of 5% of the budget of the institution is expended in the information technology area including salaries, purchases of hardware, software, programming, and support. "Pioneering" organizations expend 7-8%. At the five-percent mark, this would place expenditures of the University, based on a billion-dollar budget, at approximately $50 million per year. These amounts do not appear in the University budget as campuses account for the costs of these enterprises differently. For example, Computing Systems Network (CSN) reports their costs under the caption "computing" whereas a campus may account for its computing resources under a "service" caption or subprogram.

Primary Findings. The findings by the information technologies group revolved around five themes:

- Funding, budgeting and prioritization – The current system lacks alignment of strategy, systems and structure. Campuses and the system as a whole vacillate from being pioneers in use of technology to being resistant to its effective use. Funding is inconsistent and therefore, training, networking, interfaces and maintenance are uneven. There is unnecessary duplication. With this approach, the money available to the University is diffused such that nobody has what he or she needs. There is no overall prioritization. Shadow systems and duplication must be killed by eliminating the funding for such systems.
- Collaboration and optimization – Collaboration efforts need to be increased at several levels including by and between individuals across the University, inter- and intra-campus efforts, and State and private industry ventures. Without collaboration, the result is very expensive splinter groups.
- Contracts and procurement – Campus-based computing directors have historically not worked in an optimal manner to create multi-campus contracts, rolled-up the University's volume to capture discounts normally associated with large contracts, or maximized the use of lease vs. purchase arrangements and collaborative procurement.
- Systems and processes – Many of the missions, objectives and projects being explored by the University have information technology (IT) as an important, if not integral, part of their execution. Again, consider distance education. For this initiative to move forward there are many IT and non-IT actions that need to happen. Another example is SAP (the name of the new software system at the University, SAP being the name of the vendor), where the University has invested in technology, but has not mapped out the changes in the non-technology structure to take advantage of the technology.
- Just do it – The last set of findings are those that are intuitive and would provide fast return to the University for actions taken: eliminating the VM system, moving SAP to an different operating environment, capitalizing on e-commerce, and the consolidating of many small servers on campuses.

Challenges Remaining. Funding, budgeting and prioritizing - A University-wide priority system must be created for information technology projects and funding. Currently, the chief information officer at Central Administration is responsible for balancing the computing needs of the academic portion of the enterprise with that of the administrative arm of the University, which must provide information to a host of internal and external users of information. A rational approach to balancing the needs of these constituencies and their needs must be created. This balance relates to many facets of the information technology landscape including design, purchasing, training, networking, interfaces and maintenance. Without alignment of priorities, the University will continue to suffer from unnecessary and costly campus duplication, underutilization of computing assets, obsolescence, and bearing the cost of support from departmental budgets.

Collaboration and optimization – Active exploration of partnering efforts at all levels must take place. A structure must be created to actively push this agenda. Performance and efforts of individuals can be best optimized through recognition and rewards.

An example cited by the sub-committee is one campus that has:
- a computing group within continuing studies
- a computing group within the library
- a computing group within the business and finance office, and
- a computing group being developed within ETV and distance education groups.

Each of these groups come with a concomitant overhead and support structure.

Contracts and procurement – All contracts for computing should go through a jointly managed process to ensure enterprise-wide goals are met. The latter point does not mean centrally administered (i.e. by "Varner Hall") but put through a group, i.e., the computing directors, in concert with business and academic officers, to ensure that University-wide objectives are met.

Systems and processes – As a knowledge institution, the University must actively pursue making data collection and dissemination one of the highest priorities. Business officers and others must expand and exploit the use of the SAP product, which is the business and operational information engine of the University. Following closely on the heels of the continued empowerment of SAP, computing resources must seamlessly mesh the Data Warehouse, an in-house developed information access tool, to meet the needs of all users. Standards must be developed including asset management, particularly in those areas where IT is a part of another strategic initiative.

Standardization may be the most important aspect of centralized processes and policy-making. Departmental based computing is largely inefficient, and lacks perspective, the clout of enterprise wide buying power and the synergy of a proficient support network. For example, the University cannot afford separate student information systems.

Just do it – These items require only a timeline for achievement of the objectives stated above.

In summary, the information technology committee sees information technology as an asset of the University versus an expense. This is especially true given the realities facing the University in the marketplace: increased competition for students and faculty, flattening public support for higher education, and the need for accountability and measurement of the economic costs and returns for all facets of University operations.

The returns to be gained through leveraging information technology identified by the committee are large, but require quick, decisive, collective action on the part of the University.

Intellectual Properties   **Estimated Cost Avoidance/Savings: Undetermined**

Metrics. Current revenue from intellectual properties is negligible.

Primary Findings. The academy has long been the wellspring of ideas and the product of the collective intellect of academe has been one of the most valuable assets offered to society. In today's economy, ideas, intangibles, and intellectual property are among its most valuable assets. Intellectual property is technically defined as intangible assets that are legally protected in some manner and degree. Such protection takes five forms in the United States: patents, copyrights, trademarks, trade secrets and semiconductor masks[ix].

Challenges Remaining. There are many aspects to intellectual property development. A study by KPMG in 1998[x] cites four stages of intellectual property management and strategy:

- Inventory – This process is not simply a cataloging, but the process of developing management tools to identify and protect each item, as well as assess each asset's status (idle, expiring, licensed out, earning royalties, fees paid).
- Assessment – Once property is inventoried, a competitive technical assessment can identify each asset's usefulness, determine economic value and help formulate deployment and pricing.
- Strategize – Assets not aligned with core business are viewed for licensing, alliances or partnerships, joint research and development.
- Deployment – Deployment activities that drive from the strategies are designed to yield incremental revenue to the organization.

The University must increase its upstream activity to foster research and development. One of the best examples of the nurturing that must take place occurred during the interview of Medical Center personnel in the initial stages of the work of the Burns Committee. Each campus person was able to recite the vision set forth by the Chancellor in his interview, which kicked off the process. Without such visioning, the pipeline of ideas and the focus of resources to generate the competitive advantage represented by intellectual property stagnates and dies.

Secondly, at this early stage of its development a sensible structure and work plan for managing and strategizing in the area of intellectual properties should be created. This should take place immediately to overcome hurdles relating to inter-campus communications and formulation of policy. Other important tasks to be tackled by the sub-committee should provide for increasing community support, leveraging of this asset in recruitment of faculty, developing policies to guide public/private ventures, establishing incentives relating to promotion, tenure and reward, and distributing revenues across multi-disciplinary and multi-campus lines.

Motor Pool   <u>**Estimated Savings: $220,000**</u>

Metrics. The personnel budget for motor pool operations at the various campuses is as follows:

Campus	Budget	Size of Fleet
Lincoln	$362,000	870 vehicles
Kearney	$89,000	45 vehicles
Medical Center	$63,000	53
Omaha	$58,000	Not Available

The fleet noted above encompasses all vehicles: cars, pick-ups, tractors, delivery vehicles and trucks. Approximately 20 individuals work in the motor pool area of all campuses.

Primary Findings. The motor pool area is one that has received some third party input over the past several years in improving its operations. The Lincoln campus had an outside group, with a specialty in fleet services, review their business structure that resulted in a favorable report on the efficiencies of the operation. The Lincoln campus has also made it a practice to benchmark their charges to departments against those of local, private sector service organizations. Those comparisons have proven their charges to be less than the market, while still allowing the department to break even. The Medical Center has largely vacated the practice of owning and servicing vehicles, choosing to rent and lease versus ownership.

The primary findings of the motor pool group revolved around consolidation of operations. The feasibility of merging the administrative, buying and management function on all four campuses into one unit with satellite operations on the individual campuses is being investigated. Even if a roll-up of all campuses could not be achieved, mini-consolidations could generate savings. The group estimated that by partnering UNK with the UNL Transportation Services department, UNK would achieve savings of $220,000 over a five-year period. UNO and UNMC are also moving toward a common operation and/or partnering with UNL.

Other sharing could achieve efficiencies in other areas:

- Using a common fleet management system to save on separate administrative systems.
- Adopting a common fuel card, which eliminates input of data on vehicles and the paying of vendors.
- Based on the subcommittee's meetings, transportation services and the motor pools have already initiated a policy of consolidating the sale of all University surplus vehicles into one event. Conducting the event in a campus-based format could save the 5-7% sales commission charged by the State.

Challenges Remaining. The group should push toward consolidation of operations at its first opportunity. Consolidations should be approached at the macro level, all campuses, before doing roll-ups of UNL/UNK and UNO/UNMC as suggested by the sub-committee.

The sub-committee is continuing to meet with the goal of making the shared efficiencies set forth in the paragraphs above a reality. The Motor Pool committee should continue to challenge whether some aspects of their operations could be pared back. For example, many for-profit businesses prohibit charging mileage for "in-town" trips. The University should investigate a policy of restricting car usage to those instances where the trip is out-of-town. This could conceivably eliminate a number of vehicles through concentrated usage. Employees could recover their costs by claiming unreimbursed costs on their tax returns.

Metrics. The printing budget (personnel costs only) for all of the campuses is as follows:

Campus	Budget	FTE
Kearney	$89,000	3
Lincoln	$1,800,000	55
Medical Center	$794,000	29
Omaha	$138,000	6

The printing and copying operations function as an "internal service" fund and set prices to allow operations to break even over the course of a year.

Primary Findings.   The work of this committee focused primarily on how the campuses might jointly or centrally create greater efficiencies. The outcome of the service review led to a recommendation that each campus continue to have professional printing and copying departments. The committee also urged regulation and termination of print buying at the departmental level.

Challenges Remaining. The sub-committee pledged to continue meeting in an attempt to achieve savings for the University. The Burns Committee believes the sub-committee should consider the following:

- The printing/duplicating/copying arena has become very competitive in the private marketplace. Serious consideration should be given to rationalizing the number of "professional" printing locations needed. With the ability to transmit copy electronically and print remotely, the need for four separate facilities in today's environment is questionable.
- Adoption of benchmarking as a way of life. The observation during the presentation was that the "department breaks even" each year. Comparisons with private sector costs should be performed regularly, with costs being defined as "all-in" costs.
- The private sector has gained much of its profitability by being very fluid in its staffing schedules and use of temporary or part-time help is commonplace. University staffing patterns should be carefully examined and not be based on peak needs, but the mean.
- Coordination with the purchasing task force. Materials should be purchased within those contracts negotiated in conjunction with the purchasing departments on each campus. Printing supplies should be negotiated by purchasing on a University-wide basis, with all procurements made using purchase cards.

Purchasing   <u>**Estimated Cost Avoidance/Savings: $3,000,000**</u>

Metrics. The purchasing departments at each of the four campuses are comprised as follows (budgets representing personnel costs only):

Campus	Budget	FTE
Kearney	(Not a separate department)	N/A
Lincoln	$473,000	18.3
Medical Center	$358,000	10.9
Omaha	$124,000	3.1

The purchasing department is a group that has met as a team preceding even the Angle report. Accordingly, they have produced results that are clearly linked with the one-University vision they have gained and other groups are seeking.

Primary Findings. The findings of the purchasing committee are many and are projected to impact the University favorably by an estimated $3 million dollars over an estimated five-year timeframe.

Key among the suggestions is the concept of standardization/choice/mandatory use. In this area, purchasing is seeking empowerment to push down mandatory usage of tools that exist within the purchasing framework of all campuses. Plainly speaking, if faculty, staff, and employees did not go outside of the normal purchasing channels for items such as office supplies, furniture, scientific supplies, personal computers and custodial supplies, it is estimated that savings could be achieved approaching $250,000. Such a policy would include mandatory use of prime/preferred supplier agreements. Standardization across the university could foster purchasing consortiums and partnering ventures, both public and private, which would assist in garnering further savings.

The sub-committee also felt that the time had come to make the use of the purchasing card mandatory. This process saves a tremendous amount of time by virtually eliminating all clerical work associated with each vendor purchase. The purchasing committee went further to encourage the consideration of a one-card system for all travel, fleet, identification, and other purposes as discussed in an earlier section.

Tools are in existence now or can be created though SAP to facilitate capturing the savings sought by the purchasing sub-committee. Although the exploitation of SAP's capabilities is discussed at length elsewhere, it should be remembered that the system's roots are in manufacturing with its heavy emphasis on purchasing, inventory control, and enhanced buyer interfaces. Further e-commerce capabilities that should be leveraged include on-line registration of vendors, publication of bidding opportunities, electronic receipting of bids and RFP's, web publication of bid results and tabulations.

Virtually all businesses of the size of the University in the private sector utilize another SAP available product- electronic data interface (EDI). EDI promises many efficiencies including direct supplier links and auto-faxing/EDI ordering which eliminates re-keying and associated clerical duplication of traditional data transfer mechanisms.

Several other findings will greatly enhance the ability of the University to more resemble a billion dollar business without a significant loss of internal control or oversight. These include raising of sealed bid thresholds, raising the level of sole source reporting and agenda items to the Board to $50,000, $100,000 and $500,000, respectively. Elimination of the requirement for hard copy submittals on sealed bids and permitting various forms of electronic commerce would produce further efficiencies. Another suggested best practice is to change purchasing policies to permit exempt status for purchases made under state contracts or other cooperative/consortium agreements or contracts.

Challenges Remaining. The purchasing group remains the clear leader in the identification and adoption of best business practices at the University. To succeed further, the committee needs the assistance of the Regents, chief business officers and the administration to create and champion changes at the legislative, regental, and university-wide levels. They make a request that a permanent purchasing advocate in central administration act as a focal point in changing and pushing down purchasing policies. The committee feels policies and standardization wholly within the control of the campus purchasing managers have largely been achieved. Further creation of savings is dependent upon the aforementioned groups, but can create projected returns of $2.5 to $3 million dollars.

Metrics. There are currently insurance representatives on each campus, only one of which devotes more than 50% of his time to insurance matters.

Primary Findings. The report of the sub-committee, authored by Burns Committee member Tom Henning, was highly complimentary ("extremely impressed") of the insurance practices across the University. It cited the aggregation of coverages across all campuses to achieve economies of scale in seeking bids. The aggregation practice has elevated beyond the boundaries of the University to including pooling of risk with the Midwest Higher Education Commission in the area of property insurance. The report pointed out other practices deemed to benefit the University in saving money. The first was the owner controlled insurance program, which saves the cost of bonding in the University's construction projects. Another example was the wisdom of weighing the need to bid out coverages versus self-insuring to take advantage of soft markets.

Challenges Remaining. Three items remain to be monitored by the group or require action.

The University currently uses three insurance brokers. There is a feeling that putting the coverages under one broker may generate savings.

Another item that should be reinvestigated by the group is to weigh whether auto coverage should be continued in conjunction with the State. The savings alluded to above are estimations of what could be generated from a stand-alone policy. Another joint coverage with the State is workers compensation. This area is undergoing heavy scrutiny by the State with a potential change in carriers in the balance, along with a potentially expensive clean up of claims backlogs. University risk managers feel that the University's experience in this area is much better than the State's, due to the employee mix and should gain a better mod factor. The group as part of its on-going work should monitor the latter area.

The final recommendation of the group asks for a central resource or focal point in risk management. At one point, central administration at the University had a person who acted as risk manager coordinating the efforts of all campuses. The sub-committee feels such an investment or dedicated person is merited to conduct risk management research, seek out and promote joint ventures or favorable coverage combinations and generally manage this area of significant off-balance sheet risk.

Telecommunications   **Estimated Cost Avoidance/Savings: Undetermined**

Metrics. The current telecomm budget for Lincoln is approximately $7,000,000 of which only $500,000 represents salaries.

Primary Findings. The telecomm committee provided no estimate of cost savings. The final report to the committee touted the many cooperative efforts and savings that had been achieved by mutually beneficial relationships between Aliant (now ALLTEL) and the Lincoln campus. The benefits of this symbiotic duality has also accrued benefits to the State, city and county government as UNL has provided operator service, directory assistance and conferencing capabilities to those entities for the last 25 years.

Savings have been achieved by UNO and UNMC as well. Several years ago the two campuses jointly purchased a PABX system and fiber optics between the two campuses and share in the state's long distance contract.

The sub-committee believes that some savings can result from further cooperation between UNL and UNK.

Challenges Remaining. The sub-committee believes consolidation may provide increased services and lower costs but that further study is needed before any definitive action is taken.

The overall Burns Committee has several challenges to present to the telecomm committee for their further consideration.

The first deals with the telecomm environment in total. The market is rapidly consolidating with the $129 billion dollar WorldCom and Sprint merger in the last several months. As such, the economics are changing just as rapidly. Offers of retail long distance at 5 cents or less are common. Consensus has it that this market will continue to soften.

An external factor that could dramatically change the Lincoln campus' working relationship is the sale of Aliant to ALLTEL. The Aliant partnership was close and very beneficial to the Lincoln campus, but the reality is Lincoln no longer has a local telephone company. The Lincoln campus must move quickly to reinforce its ties with the new owners. UNL cannot afford an unpleasant surprise in terms of its long distance contracts. Alternatively, the confluence of the softer long distance market could allow the structuring of a deal with other providers that could provide greater returns to all campuses.

This is an area that is changing so rapidly that neither the telecomm subcommittee nor the University can afford to sit on the sidelines. The distinguished leadership of the past must serve as an active, fast moving springboard propelling change. The Burns Committee looks forward to monitoring the active involvement of the telecomm committee in their efforts to capture the wave of momentum in the telecommunications marketplace.

Metrics. The travel budget of the University ranges between $6 and $7 million dollars a year. This is all travel, including those amounts charged to grants, contracts and restricted sources. Currently, the University is served by a number of travel agencies at varying commission and transaction fee schedules.

Primary Findings. The study of this area was underway when the Burns Committee and the travel sub-committee took up the challenge to examine areas where the University might achieve efficiencies. Accordingly, the campus committee was able to share the results of proposals and subsequent negotiations with travel agencies.

The committee recommends that the University adopt a single travel agency who can consolidate all travel business. This practice would allow the agent to compile data in order to improve negotiations and leverage with vendors for airline discounts, airport parking, city pair rates, upgrades and limo/van service.

The single agency has proposed guaranteed savings which provide for a minimum signing bonus of $50,000 and which could go as high as $150,000 each year of the five-year agreement. Furthermore, utilizing a single agency allows the University to avoid a minimum of $375,000 in fees charged for transactions conducted with that agent. Alternatively, the University will have $375,000 in new fees if it cannot consolidate. This latter cost will be a "new" expense to the University as the prior arrangement allowed rebates in all cases.

In addition initiating the use of a ghost card to centrally bill the purchase of airline tickets, which saves one step in the employee reimbursement process, equals a potential savings/cost avoidance of $400,000 (utilizing $45 per transaction and eliminating half of the 18,000 current reimbursement transactions). Obviously, this centralized billing concept has tremendous savings/cost avoidance potential.

Challenges Remaining. The change and the savings noted above will not occur without the commitment to a cultural change in the University community. Limiting faculty and staff to one travel agency will not be readily accepted, even with the savings outlined above hanging in the balance. Accordingly, incentives and/or monetary penalties should be attached to travel agency choices that do not coincide with best business practices to cover incremental costs to the University.

Utilities   **Estimated Cost Avoidance/Savings: Up to $1,500,000**

Metrics. Present budgets for utilities estimated by the facilities management department approximate $15 million.

Primary Findings. The findings of the utilities committee were three-fold: establish an energy conservation fund, create a public works structure and formulate an energy conservation initiative.

The energy conservation fund proposal is designed to capture energy savings so that facilities managers can make further investments in energy conservation. Architectural engineering management estimates that approximately $3,500,000 of savings can be generated, which will be reinvested continuously to modernize and upgrade physical plant.

A second concept forwarded by the committee is to create a public works structure. The current system in the University has public works projects, especially infrastructure, competing for capital dollars with new buildings. Such a policy also creates an environment where items are replaced or updated only as they fail. This same line of thinking created the deferred maintenance backlog that the University, in concert with the State, is seeking to address. The current deferred maintenance backlog of utility projects is $15,000,000 at UNL alone. This proposal would require an investment each year of approximately $600,000. The committee believes the investment required from the State should be viewed in the same light as the deferred maintenance initiative – investing wisely today to save higher cost fixes in the future.

The third initiative provides a potential savings of approximately $1.5 million over five years. The suggestion is simple in concept, yet provides large dollars back to the University. The concept is nothing more than good energy conservation practices and the creation of an active energy conservation program. The committee believes, conservatively, that a 5% savings can be achieved by the fourth year of the program, a net savings of almost $400,000 per year.

Several other projects are suggested by the team, including collaborative procurement of raw utilities and utilities related services, collaborative capital project review of newly designed and installed mechanical systems, and performance contracting to accomplish deferred maintenance and energy conservation matters.

Challenges Remaining. The energy conservation fund bears further examination. The committee should take this up with the campus CBO's as these energy savings have been historically captured and utilized to make up budget shortfalls for equipment and other operating and funding needs for faculty and staff. This practice grew out of an understanding with the State that the University would be able to utilize these savings to help alleviate the lack of operating appropriations increases. The practice of creating a revolving account suggested by the committee is clearly not doable in the current environment or would take a major change in thinking at the State.

The committee should continue to discuss innovative ways of funding capital improvements and infrastructure modifications. If clear savings can be demonstrated and accurately accounted for, funding mechanisms can be created securitized by those savings. Such projects would have to be prioritized and presented to the Board of Regents prior to approval.

Metrics. The University has recently completed the successful migration and implementation of the SAP system. SAP (Systems, Applications and Products) is the name of the German-based enterprise that created the software. The $12.8 million dollar first phase of implementation encompasses financials and human resources. The $12.8 compares to reported costs in the range of $40 to $50 million dollars at three other universities: Missouri, Minnesota and Ohio State.

Primary Findings. The University has completed the first phases of a successful SAP implementation. This presents a number of opportunities and challenges to the University. One of the immediate dividends is the elimination of four "shadow" systems into the SAP software. Formerly, the University had a general ledger system from Dun & Bradstreet, a payroll system from Integral, and two internally developed financial reporting systems: Lincoln campus Bottom Line and another Bottom Line system at the Institute for Agriculture and Natural Resources.

Now that the base system is in place, the University must capitalize on its $12.8 million dollar investment.

First, the University must fully exploit the capabilities of the SAP software. Among the modules, or specialized "add-ons" relating to a particular segment yet to be implemented, (that the University already owns) are those relating to facilities management, sales and distribution, as well as employee self service, grants and contracts and workflow. These modules, which bolster the power of the base system, can provide dramatic hard dollar paybacks. To achieve those paybacks and the savings sought by the Regents and management, the University must invest the dollars and commit the personnel resources to add these parts onto the basic system. Most of the potential savings depicted above could be generated assuming additional SAP tools allow the University to improve cash flow (and interest earnings) by an average of three days per year.

Secondly, the University must develop an active, visible, mutually beneficial relationship with SAP, a $5 billion dollar enterprise who is the clear leader with 30% of the market and 12,000 users. SAP is a tremendously powerful tool for integrated enterprise-wide reporting of financial, cost and administrative data. It is widely recognized worldwide as on of the pre-eminent enterprise resource planning (ERP) systems and software providers. However, SAP is relatively new to the United States higher education arena, leveraging off of installations in over 160 colleges and universities in Europe. This entry into the U.S. marketplace, combined with the University being one of the early implementers, presents unique opportunities to the University.

SAP has asked the University to enter into several commitments to develop new products to enhance reporting and information technology that they can then roll out to all of their clients in higher education. In accepting these offers, while there is some cost involved, the new developments are built around the University's needs and gives it access to new technology and a seat at the inner circle of this important new market for the worlds largest ERP system provider. The sub-committee believes the University should take advantage of and leverage this opportunity.

Another business imperative is to capture the "best practices" promised with the advent of SAP. The University of Nebraska purposely chose to approach the change to SAP through going live with basic functions university-wide and then adding on or building around that success. Many other institutions will elect to go-live with all facets of the software, that process coming on the heels of substantive re-engineering efforts. The University deliberately chose the "small r" approach to re-engineering and change business practices after the implementation.

The time to enter the business change phase has arrived. The temptation is to map or interface current business practices, which vary widely from campus to campus, to the SAP system versus introspectively looking at and changing business processes to meet the changed information technology. Only through the aggressive deployment of these best business practices will the needs be identified and the savings captured. It is recognized that this practice will be on-going through the life of the software.

Metrics. The State of Nebraska is a partner with the University in helping it achieve its mission. It is the State's primary vehicle for focusing on the educational needs and aspirations of all of Nebraska's citizens. As such the University and the State have a history that is inter-woven and the structure has served the citizenry well.

Primary Findings. The sub-committee dealing with the relationship of the State with the University has several suggestions where savings can be achieved. .

Pre-Audit and DAS Charges – DAS currently charges the University $275,000 per year as a service charge. This service charge is an allocation of DAS' costs as they seek to recover their costs from constituent agencies. Part of this service related to a procedure known as "preaudit." Preaudit involves State employees who review University invoice packages to ensure completeness and compliance with State law. This practice is in addition to the controls provided by the internal control system in place at each of the campuses, the work of internal auditors at each of the campuses, the oversight afforded by the federal A-133 audit and the independent audit by the external auditors. DAS recognized the overlap presented here and recently entrusted the pre-audit procedures to the campuses, with limited sampling done by DAS on a periodic basis. This change provided savings to DAS. It is the understanding of the University that approximately four persons performed pre-audit of the University. The sub-committee believes the costs associated with taking over the pre-audit, estimated at $100,000, should be deducted from the assessment noted above.

Oversight Overload - An additional level of oversight and another level of costs is incurred in dealing with the Nebraska Coordinating Commission of Postsecondary Education (CCPE). It costs the University, in estimations contained in testimony presented in front of the Legislature last year, approximately $280,000 to comply with CCPE requests and costs of gathering information to meet those requests. This level of review is in addition to the University's internal controls, the Board of Regents, Legislative fiscal analysts, and DAS Budget personnel. To change or eliminate this level of oversight would require action by the Legislature.

Concept of "Use It or Lose It" – The University must work with the State to seek relief from the "use it or lose it" mentality. This practice in government has its place, but causes more irrational behavior than any savings or dollars reverting back to the State that may be gained. The concept behind lapsing funds at the end of a biennium is meant to capture surpluses back into the state's coffers. The typical manager will operate very judiciously during the year to protect fund balances should a blip in operations occur. When this does not occur, those same managers are left with fund balances that must cede to the State if not spent before June 30. This causes a great flurry of activity around each June 30 and undoubtedly leads to buying behaviors that are less than prudent.

Challenges Remaining. Both the State and the University have worked very hard to improve working relationships and to achieve efficiencies that accrue to all. This change has occurred for a number of reasons including efforts the past five years by the President, and the legislative and executive leadership. Personnel changes in Central Administration, as well as the openness demonstrated by the Johanns administration have also led to a stronger working relationship between the State and the University. A top priority must be given to continuing these relationships with an eye toward greater State/University partnerships and the willingness on the part of both parties to sunset those practices that no longer make sense in today's environment.

ENDNOTES

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