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- Report to the Governor of the Blue



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REPORT TO THE GOVERNOR OF THE BLUE RIBBON COMMISSION ON FINANCIAL MANAGEMENT OF THE UNIVERSITY OF MINNESOTA

DECEMBER 1, 1988

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EDSON W. SPENCER
Chairman of the Board

November 15, 1988

The Honorable Rudy Perpich
Governor of the State of Minnesota
130 State Capitol
St. Paul, MN 55155

Dear Governor Perpich:

Herewith I am transmitting the report of the Governor's Blue Ribbon Commission on the University of Minnesota. It has been my privilege to have served as chairman of that commission.

Circumstances surrounding the University of Minnesota in 1988 raised credibility issues about the financial management of the institution. The effectiveness of the governance system was also publicly questioned. Fortunately, the academic side of the University was not touched by these well-publicized problems.

Academic freedom is something this nation can ill afford to tamper with. The autonomy of our great University is established by our state constitution and has been upheld by the courts. The autonomy of the University is essential for maintaining its academic freedom.

The University of Minnesota has, by charter, an obligation to provide excellence of education for Minnesota students and to contribute to the economic development and prosperity of our state. It receives over one-third of its funding from the taxpayers of Minnesota through appropriation by the state legislature. The University is accountable to the citizens of Minnesota and, therefore, has an obligation to manage its affairs in a way that merits approval and support from the citizens of our state.

Fortunately, we can report to you and to the people of Minnesota that the University is, in most regards, soundly managed. It is important, however, to restore trust between the Board of Regents on one hand, and the President of the University on the other. That trust has been eroding for many years. We are making some recommendations that we believe will contribute to improved relationships between the Board of Regents and the President, and to strengthening the Board.

The University's accounting for funds and expenditures is thorough and accurate. But its budgeting, planning and financial reporting and control systems are not up-to-date in comparison with other large public and private universities. Failure of some of these systems, coupled with the lack of trust referred to above, contributed to the incidents of financial mismanagement that became public in 1988. Work to correct these deficiencies has been underway for a number of years, but more years, many millions of dollars, and a dedication by the Board of Regents and the President will be needed to bring these systems up to an acceptable standard. We have some recommendations that will help if supported by legislative appropriations and implemented by the University administration.

There is a perception in higher education circles that the University of Minnesota has slipped in comparison to other large public and private universities. While a number of departments are truly outstanding, the overall impression is that the University of Minnesota is not ranked as highly today as it was two decades ago, relative to its peers and relative to some of the well-funded emerging public universities in other states. This can be corrected by a new president and a dedicated faculty, but it will require funding levels beyond those in budgets of the recent past.

The "Commitment to Focus" program is the University's plan to restore its position among the top-ranked universities of our country. Success of that program will depend on many factors -- leadership by the new president; support by the Board of Regents; dedication by the faculty to implement the changes approved in the academic priorities; and, most important, the ability to attract exciting new faculty leaders in a very competitive environment in the 1990's. The highly successful capital fund drive, and the funding of 127 new faculty chairs will help establish the salary levels necessary to retain and attract a top-caliber faculty. But more needs to be done.

Minnesota -- a small state of four million people -- has always been a leader in providing financial support to and benefiting from high-quality results in our K-12 system. We have a fine higher education system in this state, built on our vocational institutes, community colleges, State College System, outstanding private colleges, with one of the nation's leading universities at the top. That university has to earn its way back to the eminent position it used to hold among its peers. We believe there is every opportunity for that to happen.

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As in any major institution, individuals will make mistakes. These mistakes were not catastrophic and are correctable. The University has an unparalleled opportunity in front of it. It has a vision of its future in the Commitment to Focus. It will have an exciting new president. The public airing of the problems and the dedication of all involved to solve them will restore the credibility of the University with the people of Minnesota.

We hope that, along with many others, we have contributed in a modest way to a bright future for a great University. It is also our hope that never again will a governor be required to appoint a commission to look into the affairs of the University of Minnesota.

We all have enjoyed our assignment and appreciate the opportunity to have served.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Ed Spencer". The signature is fluid and cursive, with the first name "Ed" being more prominent.

Chairman,
Governor's Blue Ribbon Commission
on the University of Minnesota

EWSpencer:jcg

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GOVERNOR'S CHARGE TO THE COMMISSION

On March 22, 1988, Governor Rudy Perpich announced the formation of a Blue Ribbon Commission to recommend changes in the financial management structure and procedures at the University of Minnesota.

The Commission was instructed to address:

- The appropriateness of the University's administration and financial management structure;
- The efficiency, productivity, accountability, and security of the University's fiscal control systems;
- Improvement of the University's long-range financial and physical planning process.

MEMBERS OF THE COMMISSION

Chairman: *Edson Spencer*, Chairman, Honeywell Inc.,
Minneapolis; Chairman of the Ford Foundation.

**Vice
Chairman:** *Gus Donhowe*, President and CEO, Fairview
Hospitals, Minneapolis.

**Chair, Sub-committee
on Organization:** *Jean Keffeler*, Vice President and Chief Financial
Officer, Imprimus Technology Inc., a subsidiary
of Control Data Corp., Bloomington;
Marvin Borman, Senior Partner, the Maslon,
Edelman, Borman and Brand law firm,
Minneapolis;
George Dixon, retired Chairman, First Bank
Systems, Minneapolis;
Harvey Golub, Chairman, IDS, Minneapolis;
Karl Grittner, retired school administrator and
state legislator, Maplewood;
William Ness, Chairman, Arctco, Inc., Thief
River Falls;
Dr. Terry Saario, President, Northwest Area
Foundation, St. Paul;
Donald Stella, President, Minnesota Corn
Processors, Marshall;
Thomas Vecchi, President, Thomas and Vecchi
architects, Duluth;
Michael Wright, Chairman, Super Valu Stores,
Inc., Minneapolis.

CONSULTANTS TO THE COMMISSION

Mr. James F. Brinkerhoff
Vice President Finance
University of Michigan

Dr. Harold L. Enarson
Former president of Ohio State and
Founder and former president of
Cleveland State University

Dr. William Friday
Former chancellor of
North Carolina University

Dr. Arthur G. Hansen
Former president of Purdue and
Former president of Texas A&M

Dr. William Massy
Vice President
Business & Finance
Stanford University

Coopers & Lybrand
Minneapolis, Minnesota

CHAPTER 1

The University of Minnesota

No public institution in Minnesota elicits stronger emotions among a greater number of citizens than the University of Minnesota.

Minnesotans feel strongly about the University because it plays so large a role in the life and growth of their state. The institution's importance to Minnesota — not only in the education of its young people, but in direct economic benefits, agricultural productivity and industrial output, technology advancement, health care and public policy, and the cultural life of its communities — is incalculable. In the words of the Senior Advisors to this Commission, "Few public universities in the land possess the rich and deep tradition of academic excellence and the proud heritage of public service as does the University of Minnesota."

The University was chartered in 1851, seven years before Minnesota was granted statehood, and given land-grant status and responsibilities under the Morrill Act of 1862. Since 1869, when it opened its doors as an institution of higher learning, it has been the centerpiece of the state's commitment to the democratic ideal of an educated and enlightened citizenry. The autonomy of its 12-member Board of Regents, guaranteed by the state's Constitution, has been upheld by the state Supreme Court. From the beginning, the University has not belonged to any single cause or faction, but to all the people of Minnesota.

The University originally comprised fewer than a dozen faculty members and fewer than two-dozen students on a single small campus in Minneapolis. Today the University "family" includes more than 7,000 faculty members and nearly 60,000 full-time students on five campuses and at several research and extension facilities statewide. Last year alone, on the basis of more than \$180 million in grants and contracts awarded to its scholars, the University created more than 10,000 jobs, half of them outside the institution itself.

The University has always had its critics. But the historic support given it by legislators providing appropriations; private donors responding to fund-raising appeals; governments, foundations, and corporations supplying research and teaching grants, and citizens paying taxes and enrolling in its classes has sustained it through good times and bad. The recently completed "Minnesota Campaign" raised more than \$367 million from some 180,000 individual donors and resulted in, among other things, the addition of 127 endowed chairs, funded in perpetuity.

Such achievements, as well as the progress made by the University's Commitment to Focus plans, have been jeopardized, however, by recent problems. The credibility of the institution's leadership has been questioned; the soundness of its management systems and operations challenged; and the traditional confidence given it by the citizens of Minnesota and their elected representatives shaken. In addition concerned voices both on and off campus have suggested that the overall quality of the education provided by the University has slipped, though many of its individual schools and departments are consistently ranked among the nation's best.

In 1988 revelations of cost overruns in the renovation of Eastcliff, the University President's official residence, and of "secret" reserves have drawn fire from legislators, the media, and individual citizens around the state. Rules violations and charges of criminal activity in the University's intercollegiate athletic department have further clouded the University's public image. Questions as to who is in charge and what is going on have led to the resignation of the

President, the Vice President for Finance and Physical Planning, and others. Those questions have also led to the creation of several investigative and advisory initiatives, including this Commission.

The University's public relations problems are not a part of this Commission's purview, but how the public perceives its University is crucial to the institution's future. The University has never been the exclusive concern of the Legislature or the Board of Regents or even its own administration, staff, and faculty. It is, as always, the concern of all the citizens of Minnesota. Their love for, confidence in, and support of the University are, in the end, what matter most.

There are significant problems at the University of Minnesota in 1988. The efficient resolution of these problems is essential not only for this particular institution, but for the entire state. It is to recommend solutions to these problems that this Commission has dedicated itself.

CHAPTER 2

How the Commission Worked

The Governor's Blue Ribbon Commission on the Financial Management of the University of Minnesota was composed of private citizens chosen for their community stature and their familiarity with budgets, accountability, and the governance of a variety of enterprises and institutions. Some members are graduates of the University of Minnesota. A few have assisted or are now assisting the University in one capacity or another.

All share a respect for the University and for its contributions to the state of Minnesota, and recognize the importance of a great university to the future of the state. All agreed to serve on the Commission with a desire to help a university that does most things extraordinarily well, but did a few things badly enough to cause its credibility to be weakened with the Governor, the Legislature, and the people of Minnesota.

The Commission and its sub-committees met in 10 public meetings and heard testimony or presentations from 36 persons — representing government, business, and the University's alumni, faculty, Board of Regents, and administration. In addition, individual Commission members spent many hours, alone and in small groups, in discussions with dozens of men and women who are associated with the University and who share with us an interest in its problems. We also met frequently, both individually and in small groups, with our various consultants.

The Governor's office originally suggested, and the Commission embraced, the idea of having expert consultants gather technical data and make their recommendations for the Commission to review. Since the major problems appeared to be in the area of financial management and control systems, bids were solicited through the State Department of Administration, and proposals were submitted by nine accounting and financial consulting firms. The accounting firm of Coopers & Lybrand was selected on the basis of its knowledge of the problems as described in its proposal, its experience in similar work at other large public universities, the credentials of its assigned staff, and the thoroughness of its proposal.

Coopers & Lybrand interviewed 80 persons associated with the University, either directly or indirectly, and tested its findings in group focus sessions. (An Executive Summary of the firm's report is attached in Appendix 2.) As a result of Coopers & Lybrand's thorough analysis of financial management at the University, the Commission recommended a number of steps the University should take promptly to help restore its financial credibility. These recommendations are contained in Chapter 4. Many other recommendations are contained in the Coopers & Lybrand report, and these, too, should be given careful consideration by the University.

In addition, the Commission decided that the quality of its work would be enhanced by employing, as consultants, two persons who had served as chief financial officers at major universities with outstanding financial systems. They were Dr. William Massy, Vice President and Chief Financial Officer of Stanford University, and Mr. James F. Brinkerhoff, recently retired Vice President and Chief Financial Officer of the University of Michigan. (Mr. Brinkerhoff served in a similar capacity at the University of Minnesota for five years.)

It quickly became apparent, moreover, that the financial shortcomings of the University, so

widely publicized, might really be the symptom of a much deeper problem. It appeared to the Commission that the University's loss of credibility with the Governor, the Legislature, and the citizens of Minnesota was due to the institution's system of governance. Clearly, the Governor and the Legislature wanted the Commission to address this problem, as well as the problems of financial management and organization.

To this end, the Commission asked a group of retired chief executives of major university systems to address the University's governance system and to see if there were other areas in which they could contribute to the Commission's work. These Senior Advisors were: Dr. Harold L. Enarson, founder and first President of Cleveland State University, and President of Ohio State University for nine years; Dr. William Friday, Chancellor of the North Carolina University System, in which he served for more than 20 years as campus, university, and then system Chancellor; and Dr. Arthur G. Hansen, President of Purdue University for 11 years and President of Texas A&M University for four years.

The Senior Advisors received all documents and reports provided to the Commission. They attended Commission meetings and met with commissioners individually and in small groups. They met leading members of the Legislature. They had several discussions with the Interim President and the Chairman of the Board of Regents. They interviewed the current and former Chancellors of the University of Minnesota at Duluth and the Chancellors of the campuses at Morris, Crookston, and Waseca, as well as five former Chairpersons of the Board of Regents. They had access to the interviews with individual members of the Board of Regents conducted by Coopers & Lybrand. Their report includes a number of recommendations aimed at improving the governance system, and some suggestions on organization. These are contained in Chapters 3 and 5.

Costs associated with consultants' fees, final report preparation, and meeting expenses were financed by a \$200,000 appropriation from the Legislative Advisory Commission, and by \$95,000 contributed by private foundations.

The members of the Commission served without compensation. Our reward will be watching the implementation of our recommendations, and seeing the University of Minnesota properly restored to its respected position as a university of recognized excellence, not only in Minnesota but nationwide.

CHAPTER 3

Recommendations on Governance

Summary

- A new relationship of confidence and trust must be established between the University President and its Board of Regents. The Board must respect the President's position as chief executive officer and must understand the difference in the governance systems between the Board's responsibility for oversight of policy and the President's responsibility for management of the institution.
- The new President has an unprecedented opportunity to improve communications and restore credibility within the University, among the campuses, with the Board of Regents, with the political leadership of the state, and with the people of Minnesota. It is an opportunity that must be grasped quickly.
- The Regent Candidate Advisory Council and the Legislature also have an unprecedented opportunity to set a new standard for Regent selection and to insist that Regents represent all the citizens of Minnesota and not narrow constituencies.
- The constitutional autonomy of the University must be preserved. It is a great source of strength. At the same time, the University must recognize that it has the responsibility that goes with being accountable to the people of Minnesota for its actions.

Discussion

As the Commission began looking into the well-publicized problems of financial management and control, it quickly became apparent that these were symptoms of deeper problems in the governance of the University. The financial problems that led to the formation of this Commission are not monumental, and they have developed over a period of years, regardless of how they have been presented by the media. They are correctable, and the corrective process is well under way. The Commission found, however, that the governance system itself is not working well and warrants attention.

The Commission received immeasurable help and insight into the problems of governing a great public university from its three Senior Advisors, all emeritus presidents or chancellors of large public university systems. Their report, Appendix 1, should be required reading for anyone involved or interested in governance at the University of Minnesota — or, for that matter, at any public university. The words of the Senior Advisors speak for themselves:

“Few public universities in the land possess the rich and deep tradition of academic excellence and the proud heritage of public service as does the University of Minnesota....

“It is undeniable that the credibility of the University of Minnesota was damaged in the eyes of the Governor, the Legislature, the faculty, the students, and its many constituencies — alumni, donors, friends everywhere. But in all that most matters in the daily life of this great University — teaching, research, public service — the work of the University has proceeded on without interruption....

“While the current difficulties are real, the people of Minnesota need to understand that other vital and dynamic universities in the United States have experienced similar

disruptions in communications and in relationships with constituents. The task, then, is to view the situation as honestly and openly as possible, determine corrective changes and healing procedures, and get about the task of implementation.”

The Commission’s recommendations are as follow:

To the Board of Regents and President

- The President is the chief executive officer of the University, functioning under the Board of Regents. The President is the spokesperson for the University. The line of communication must be from the Board through the President to the institution and vice versa. Other procedures are not acceptable and should not be tolerated by the President or the Chairperson of the Board of Regents. An arm’s length or adversarial relationship cannot be allowed to develop between the Board and the President. The two must work together as a mutually supportive team.
- The Board Chairperson should be the only spokesperson for the Board. Debate to develop policy is essential, but once policy is decided, it must be supported publicly and privately by all Regents. The Board should not permit individual members to become spokespersons, representing particular constituencies. Board members should recognize that such actions bypass the President and thus ignore his place in the governance system.
- The President must do a better job preparing concise and understandable reports for the Board, reports that focus on important policies and issues requiring the Board’s attention. In short, the President must provide the kind of information that enables the Board to fulfill its responsibility in the governance system. At the same time, the Board has an obligation to know what questions to ask, what subjects to probe, and what information in what form it needs to exercise its responsibilities by focusing on approval and oversight of policy, not on operations.
- The Board should strongly resist suggestions for establishing its own separate staff. Such a step would only drive a wedge between the Board and the President.
- The President must improve the communication between the University and the citizens of Minnesota, among the campuses of the University, and between the University and the political leadership of the state. Regents must help this communication effort — now happily under way under the leadership of the Interim President. The University, and all its officials, must find better ways to gain the support for budgets and for programs from those who stand to benefit most from the strengths of the University — namely, the citizens of Minnesota.
- The President and the Regents should agree on a schedule and the required budget to implement the financial recommendations contained in Chapter 4 of this report. These recommendations suggest improved financial reporting systems, accountability, and oversight. Interim reporting and a follow-up system should be implemented to assure progress in following the recommendations.
- The Board and the President should devote more attention than has been paid in the past to the orientation of new Regents and to the continuing education of Board members. The Board and the President must recognize that Regents come from diverse backgrounds, and that many are not knowledgeable of either the functioning of a public university or the role of the Board in the governance system or the difference between governance and management.

- The University should publish a guideline or code setting forth the powers, duties, and responsibilities of the Board and the President in the governance system, and this code should be regularly updated. Just as the Board has an obligation to evaluate the performance of the President, it should periodically evaluate its own performance and the performance of individual Regents against this code of governance. We strongly urge that the Commission's recommendations for improving a governance system that has not worked well should become the basis for this code, and that the code then be adhered to by all parties.

To the Regent Candidate Advisory Council

- The law establishing this Council instructed it to develop two statements, one describing the Regents' duties and the other outlining criteria to be applied in recommending candidates. The Commission recommends that the Council implement pertinent parts of the excellent report of the Senior Advisors (Appendix 1), which contains valuable suggestions relating to both these statements.
- Diversity of background and experience is necessary for a Board representing all the citizens of Minnesota. The Commission recommends, however, that it be made plain to candidates recommended to the Legislature for election, that once elected, they represent all the people of the state, and not a particular interest, ideology, region, or community. Current members of the Board not up for re-election should also consider this recommendation as it refers to their own responsibility for representing all the people of Minnesota.

To the State Legislature

- The Legislature must be careful to distinguish between the autonomy of the University guaranteed by the Constitution of the state, and the accountability of the University to the people of the state. The Commission believes that a great public university cannot be run from the Capitol, but that at the same time the University has a responsibility to best serve the needs of the state. The Legislature must exercise oversight of the University carefully, and not impose restrictions that impinge on the governance of the institution.

The Senior Advisors discussed autonomy and accountability as follows:

"Constitutional autonomy is a symbol — a powerful sign that the people understand the special nature of their university. We know of no truly great state universities that have developed in states that indulge in micromanagement from the statehouse....

"Of equal importance, however, the University must be fully accountable — not only to the Legislature on a great variety of matters, but also to private donors and to federal, state, and private agencies for grants and contracts. The University must nurture a spirit of accountability in every aspect of the enterprise."

- The University's autonomy was reaffirmed in 1928 by the Minnesota Supreme Court in the State vs. Chase. It is worth reviewing part of that opinion, as it states the case for autonomy of a great public university:

The objective of constitutional autonomy is "to put the management of the greatest state educational institution beyond the dangers of vacillating policy, ill-informed or careless meddling and partisan ambition that would be possible in the case of management by either legislature or executive chosen at frequent intervals and for functions and because of qualities and activities vastly different from those which qualify for the management of an institution of higher education."

The Carnegie Foundation for the Advancement of Teaching said in 1982:

"If the integrity of higher education is to be preserved, the academy must have full authority over those essential functions that relate to teaching and research.... It is here that the integrity of the campus must be uncompromisingly defended."

- The University is accountable to the taxpayers of Minnesota for more than one-third of its budget. It has an obligation to teach qualified Minnesota students, support the economic development of the state, and play a leading role in public service in the interest of the state.

It is this accountability that falls to the Board of Regents to oversee as part of their elected responsibility. The Commission recommends that the Legislature hold the Board responsible for accountability to the state, but that the Legislature exercise extreme caution in any consideration that might impose restraints on the autonomy of the University.

- The qualities of the individuals elected as Regents are extraordinarily important for the successful governance of the University. The Commission feels strongly that the ultimate responsibility for the performance of the Board of Regents rests with the Legislature that elects individual Regents. The Commission recommends that the Legislature elect Regents only from the candidates presented by the Regent Candidate Advisory Council, and that the Legislature make it clear that elected Regents represent all the people of Minnesota and all the campuses of the University, and not any particular constituency.
- The Commission also recommends that the Legislature further evaluate the Regent selection process after the 1989 vacancies are filled, to see if additional improvements are appropriate. Specifically, the Legislature should consider assuring a fresh and vital Board by limiting Regent service to two six-year terms.
- The state's open meeting or "sunshine" laws serve a valuable purpose in making government more visible to the public. These laws also make some aspects of managing a university far more difficult, particularly where an individual's rights of privacy must be protected. We recommend that the Legislature exempt from the application of these laws the selection process for President of the University and any Board of Regents meeting where the performance of the Board, the President, or other individuals is formally discussed.

CHAPTER 4

Recommendations on Financial Management

Summary

The Commission endorses the recommendations of the Coopers & Lybrand study, as quoted below.

- “Financial accountability measures and reporting requirements must be established between the University and the legislature and between the University management and the Board of Regents.
- “Comprehensive plans to aggressively correct the University’s financial management and reporting systems must be developed by the administration and be approved by the Board of Regents.
- “Key staff [must be recruited, trained, and assigned] responsibility to implement the planned improvements.
- “Compliance with University financial controls should be the responsibility of all University personnel and should be supplemented with a comprehensive audit and enforcement program.”

The Commission recommends the following as initial steps:

- The University should select and employ a strong Chief Financial Officer at the earliest feasible date.
- The University should develop a plan of implementation in response to the Commission’s recommendations for approval by the Regents and legislative review prior to the end of the 1989 session.
- Because of the long lead times required, the University should promptly begin developing a plan for the overhaul of computer based financial systems.
- The first system for redesign should be the budget system, and that system should be operational in time for the 1991 legislative session.
- Policies and procedures should be promptly documented and widely distributed, with completion in 120 days.
- The Legislative Auditor’s report on physical plan operations highlights the differences between governance and management decisions requiring early attention. The University should act promptly on that report.

Discussion

The Commission recognizes that the essential mission of the University is education, research, and service. The role of financial management is to provide the tools that allow the University to employ scarce resources so that the mission is achieved and accountability is discharged. This basic understanding positions the Commission’s recommendations and its purpose in making them.

The Commission has studied the report of Coopers & Lybrand and endorses the conclusions and recommendations made by its consultants. Those conclusions and recommendations are quoted below.

Coopers & Lybrand's Summary Conclusions

1. "Gaps in the financial management infrastructure impede University-wide control of the institution.

"The financial management infrastructure should provide for: the translation of management and academic objectives into financial measurements; consistent policies, procedures, and systems to capture and report against measurements; and monitoring mechanisms that enable the timely initiation of corrective action.

- (1) "We identified the following areas of concern in which serious gaps were found leading to actual and potential lapses in control:
 - "Accountability and reporting weaknesses are significant problems facing the University of Minnesota; yet, the constitutional and legislative underpinnings of the financial governance structure are fundamentally sound.
 - "The planning and budgeting process fails to adequately incorporate non-academic with academic needs, and the budget process fails to be well understood and inhibits reallocation of appropriated funds according to plans.
 - "Financial information systems do not support informed decision-making, and long overdue improvements are proceeding in an unplanned, slow, and disjointed fashion.
 - "The lack of comprehensive policies and procedures, proper continuing education and training, and systems capable of delivering accurate and reliable financial information allows for lapses in control.
 - "The University's total audit program has not been used effectively to identify University-wide problem areas and issues, and it has not been supported by a process that assesses, ranks, and implements solutions to its findings.
 - (2) "In addition, we reviewed the management of balance sheet assets and found a well conceived, reported, and managed program in the following areas:
 - "A Cash Management Program that utilizes advanced techniques to expedite cash handling.
 - "A Debt Management Program that has reduced interest rate costs from 10.9 to 6 percent.
 - "A Central Reserve Program similar in size and nature to comparable universities.
 - "An Endowment and Investment Program that has achieved high returns for the University.
 - (3) "We are concerned, however, with the University's lack of understanding of the needed reinvestment in existing physical assets.
 - "The University has not developed a plan nor do they have an accurate cost estimate to address the deferred maintenance of its aging buildings and facilities.
 - "Proper funding to provide on-going maintenance has not been established.
2. "The University has not placed a high priority on correcting the shortcomings of its financial management system.

- (1) "Corrective action of problem areas identified by internal staff and /or external consultants has been either non existent or slow in forthcoming.
 - "Immediate implementation, as requested by the University President, of financial management recommendations formulated by a University task force in October 1986 has not taken place. These recommendations include:
 - "Comprehensive and linked academic and non-academic planning.
 - "Centralized planning and budgeting unit reporting to the President.
 - "Automated budgeting.
 - "Complete-base budgeting.
 - "Establishment of priorities for financial information systems.
 - "Proposals brought forward by internal staff to the senior management team to establish an office responsible for Policies and Procedures have not received action.
 - "Comments and observations of weaknesses in the financial management system by the University's external auditors have appeared in successive management letters. Approximately 70% of the detailed recommendations are corrected within 18 months, and subsequent years' letters usually contain repeat comments on 50% of the previous year's observations. Some University-wide issues have been corrected quickly, some have been corrected over time, and some remain open.
 - "The following are examples of University-wide issues and their current status:
 - "Audit Committee - First recommended 1983; implemented 1984.
 - "Student Loan System - First recommended 1982; implemented 1986.
 - "Administrative Information Systems - First recommended 1983; open.
 - "Policies and Procedures - First recommended 1985; open.
- (2) "A comprehensive and prioritized plan to address the areas of concern and a request for the needed funding to support the plan have not been advanced to the Board of Regents by senior administration.
 - "Senior administration has not developed a comprehensive plan with a request for the total funds required for repair.
 - "Absent a plan or request from senior administration, the Board has not taken action to address University-wide shortcomings identified in audit findings that were communicated to both senior administration and the Board.
3. "Leadership, accountability, time, and resources are necessary for the University to repair its financial management system.
 - (1) "Top management at the University has not displayed the skill level or experience required to lead the repairs of the financial management system.
 - "Direction, guidance, and the establishment of priorities for the repair of the financial management system should be derived from three key positions/entities that include:
 - "President of the University.
 - "Chief Financial Officer of the University.
 - "Financial/ Audit Committee members of the Board of Regents.

- “The University and Board Selection Committee must critique the background and skills of any individuals currently under consideration for the aforementioned positions in light of the present University needs.
- (2) “Unclear, undefined, and unaccepted measures of accountability for the required repairs have interfered with the University’s attempts to move forward.
- “The roles and responsibilities of the key financial management positions entities have not been clearly defined, particularly when contrasted with each other.
 - “Communication and formal acceptance of responsibilities related to the development and maintenance of a sound financial management system has not taken place.
 - “The University has struggled when defining measureable yardsticks for performance of these responsibilities.
- (3) “The current financial management system has developed and evolved over the last 20 years; repairs to the system will not take place overnight.
- “Financial management of the University occurs through a combination of centrally and decentrally-developed methods and techniques. Manual data-gathering techniques, hand-me-down procedures, and shadow systems supplement the process of the centrally-managed infrastructure.
 - “Development, replacement, and refinement of a central system conducive to system-wide financial management will require several years.
- (4) “Insufficient funds have been allocated in the past to support the development and maintenance of the required financial system.
- “High priorities and associated funds have been assigned in the past to support the academic mission of the University to the detriment of the financial management system.
 - “Funds must be reallocated and/or new funds requested and received to meet the University’s needs.
4. “Successful implementation of agreed-upon solutions with appropriate accountability measures precludes the need to make changes to the existing constitutional and regulatory framework.
- (1) “Effective and efficient solutions are best derived from within the University itself.
- “The University is best able to differentiate between cause and effect of problems existing today.
 - “The University can obtain the required expertise internally and externally to direct the successful implementation of the solutions.
- (2) “Autonomy enables the University to develop its highly-regarded academic programs.
- “The Minnesota state constitution established the University as an independent unit for furthering the higher education goals of the state and populace.
 - “The University is recognized as a leader in the academic community.
- (3) “Successful implementation monitored through successful performance measures

eliminates the need for external intervention.

- “Corrective solutions are dependent upon the acquisition and allocation of appropriate resources and the assignment of accountability for implementation.
- “The University must develop the feedback mechanisms necessary to assure all interested parties of the progress being made.
- “Outside intervention, that may be ineffective, inefficient, or prove to create artificial barriers, is not necessary with successful implementation of solutions.”

Coopers & Lybrand’s Summary Recommendations

1. “Financial accountability measures and reporting requirements must be established between the University and the Legislature and between the University management and the Board of Regents.

“Restoration of confidence and credibility at the University is imperative. Management of financial affairs is a duty shared by both the University management and the Board of Regents. Concise reports and accountability measures that portray sound financial management must be developed by the University, approved by the Board, and reviewed by the Legislature. Prior agreement as to content and format of these reports and the duties of personnel responsible for results will restore the confidence and credibility from within and without the University.

- (1) “The University must take the initiative to work with the Legislature in developing, communicating, and mutually agreeing upon the Legislature’s expectations of financial management performance at the University.
 - “An ‘accountability framework’ should be developed with the objective of providing the Legislature and other public officials with assurances that the University is accomplishing its mission, that public assets are being safeguarded, and that financial transactions are being appropriately executed and properly recorded.
 - “Critical financial data and performance measurements should be made part of a limited set of information to be reported from the University to the Legislature annually.
- (2) “The Board of Regents and the University management must mutually agree upon a set of critical financial performance indicators that are acceptable to both.
 - “Identification of the University’s specific information requirements should involve: (1) the identification of critical decision areas and (2) the selection of key indicators that portray the condition of critical decision areas.
 - “ ‘Critical decision areas’ are the relatively small number of truly important strategic areas on which the Board and senior University executives should focus their attention.
 - “ ‘Key indicators’ for such critical decision areas should be identified that reflect the overall condition and movement of the system and individual institutions in this strategic context.

- “The respective functions and responsibilities of the University President and the Board of Regents should be clarified, set down in writing, and adopted formally as a policy of the Board.
2. “Comprehensive plans to aggressively correct the University’s financial management and reporting systems must be developed by the administration and be approved by the Board of Regents.

“The development of comprehensive plans will enable the University to deal with the magnitude of the corrective actions, while establishing accountability for the delivery of requirements, resources, and personnel required to implement the plans.

(1) “The six areas where corrective measures must be undertaken are:

- “Integration of planning, budgeting, and funding for academic and non-academic objectives.
- “Enhancement of the budget development process and reporting system.
- “Revision and enforcement of financial policies and procedures.
- “Replacement of computerized financial information systems.
- “Correction of the deterioration of the physical plant.
- “Development of a comprehensive audit program.

(2) “Develop plans that will act as clearly understandable roadmaps against which the University’s progress can be measured and should include:

- “Major deliverances or accomplishments.
- “Priority and sequence of activities.
- “Resources and time period requirements.
- “Personnel requirements and responsibilities.

(3) “Corrective measures will require an investment of time and money estimated at three to five years and \$12.5 - \$18 million.

- “The replacement/upgrading of financial information systems will require the largest percentage of the investment in time and money. The costs to revise policies and procedures and work flows that coincide with changes in the information systems are included in the aforementioned estimates.

— “The development of the plan for the financial information systems is estimated to require six to nine months of effort and cost \$680,000 to \$1,020,000.

- “Excluded from this estimate of costs are on-going operational costs, staff training costs, cost for committee and review time, costs associated with any changes to the accounting code structure and revision costs for policies and procedures not directly linked with financial information systems.

3. “Recruit and train key staff and assign responsibility to implement the planned improvements.

“Skilled professionals are required to drive and administer the implementation of needed improvements. People are the single most ‘critical’ component required to effect the changes

and improvements necessary at the University. Without the right individuals placed in the right jobs, improvements will not take place.

(1) "Emphasis must be placed on the selection of knowledgeable and experienced individuals.

- "Two positions critical to the implementation of improved financial management at the University are the President and the Chief Financial Officer. A first priority of the new President should be to fill the CFO position.
- "We concur with the recent realignment of Physical Plant and Physical Planning under the same officer. In view of the attention that will be required by the CFO in improving the financial management systems, consideration should be given to place Physical Plant and Physical Planning under a new officer level position reporting to the President.
- "It is equally as important that the composition and experience level of the Board members on the Financial and Audit sub-committees should be consistent with University needs. These members must be able to interpret financial results, direct activities, and analyze recommendations of both the internal and external auditors. Issues that merit the attention of the entire Board must be brought forward by these committees.

(2) "A continuing education and training program should be established at all levels of financial management.

- "The formal education and experience background of all individuals involved in the University's financial management should be supplemented through sound orientation programs, seminars, and classroom training.
- "The University should take advantage of and continue peer group meetings and discussions with comparable universities to further educational opportunities.

(3) "Successful implementation of needed improvements depends upon personnel who are responsible and accountable for effecting change.

- "The University must identify and assign personnel responsible for developing action plans that coincide with each area of improvement.
- "The progress of implementation should be tracked through reviews, performance measurements, and major milestones as work continues.

4. "Compliance with University financial controls should be the responsibility of all University personnel and should be supplemented with a comprehensive audit and enforcement program.

"The existence of and compliance with financial controls ensures that University assets are safeguarded and financial records are accurate. University assets should be treated as precious resources that are preserved and utilized only in an effective and efficient manner to accomplish the University's mission. Personnel charged with the responsibility of financial management must be able to rely on the records and financial information received in order to accomplish their duties.

(1) "Well-documented policies and procedures must be developed to provide guidelines for all financial transactions.

- “A comprehensive policies and procedures manual should include the following:
 - “Board of Regents policies.
 - “Central administration policies and procedures.
 - “Topical subject procedures such as purchasing, payroll, gifts, contributions, etc.
 - “College and departmental procedures.
- (2) “Responsibility for compliance with University policy and procedures rests at the department, college, and administrative unit level.
- “All personnel must have access to current policies and procedures.
 - “Distribution and maintenance of up-to-date policies and procedures should be the responsibility of a centralized authority.
 - “Each department, collegiate, and administrative unit must be the recipient of these updates.
 - “Methods of operation should be reviewed at each unit level in light of newly developed policies and procedures.
 - “Comments and recommendations provided by internal and external auditors concerning controls should be incorporated into each unit’s operations.
- (3) “A comprehensive audit approach must be developed in order to coordinate the efforts of the internal and external audit teams and to address the need for periodic operational audits.
- “Internal and external auditors should plan and work together in order to avoid duplicative coverage by the internal audit group in financial audits.
 - “The Audit Committee of the Board must actively participate in the analysis and follow-up of all audit findings and recommendations and establish a process that holds management responsible for correcting any noted situations.
 - “Operational or management audits should become a budgeted activity of the internal audit group. Some of the audit activities would include special projects designated to identify the magnitude, alternatives, and validity of solutions for recommended changes.
- (4) “The Chief Financial Officer (CFO) and his/her designee should be ultimately responsible for the enforcement and consistent application of all University financial policies and procedures.
- “Appropriate policies and procedures must be developed that have University-wide jurisdiction and that are enforced on a consistent basis.”

A Formidable Task

The recommendations of Coopers & Lybrand present a formidable task to University management and the Board of Regents.

- The scope of the changes are extensive.

Taken together, the recommendations call for a major overhaul of systems, the disciplines

of management, and qualitative relationships. Our Senior Financial Advisors could cite no university that had attempted this scale of change in its management systems. In recommending this undertaking, the Commission understands the size and complexity of the task.

- There is an urgency for planning the implementation of these recommendations and putting in place several priority pieces according to a demanding timetable.

While we fully recognize the difficulty of moving swiftly and doing the job right, we also understand the need of the institution to move with speed. The nature and timing of the Legislature's biennial budget process creates its own imperatives. We believe the 1989 Legislature should have the opportunity to review the plan for implementation of these recommendations before it adjourns next spring. The credibility of that plan can do much to begin rebuilding the Legislature's trust and confidence in the University. By the beginning of the 1991 legislative session, a number of high-priority recommendations should be visibly in place and demonstrably operating.

- The difficult corollary is that the computer-based systems implementation will require a four-to-five-year plan to accomplish the full range of these recommendations.

A quick fix with large, complex computer-based financial/management systems is not feasible. The time required is a function of the need to plan a comprehensive interrelated system, to install the system without major problems, and to train its many users in the benefits it offers. This reality, however, does not prevent the selection of priority segments of the system that must be operational well in advance of the system as a whole.

- The University needs to value the function of management.

The academic environment does not readily value management. But management is necessary to achieve the educational, research, and service goals of the University's Commitment to Focus. Indeed, the stewardship of resources will, and ought to, be a condition of the funding the University seeks from the Legislature to carry out Commitment to Focus. Management is simply the means by which to meet the obligations of stewardship.

- After a prolonged period of funding neglect, the current finance staff does not have the resources to carry out the Commission's recommendations.

It will be necessary to add resources in a judicious balance of permanent staff and temporary consulting support to carry out our recommendations. We believe that one reason many items need fixing is simply that while the volume of transaction work has increased dramatically, the University's finance staff has not grown apace. This condition leaves a staff no alternative but to do the elementary obligatory transactional work, with a diminishing capacity to update systems or even interpret and provide intelligence to the volumes of data being generated. In addition, the Commission's recommendations require a specialized talent in the form of project management. Effectively moving large projects through a complicated institution according to a demanding timetable is difficult. Finding such capability within existing staff is questionable, given the gaps of significant updates in systems. Acquiring this capability is thus a major component of the need to expand management staff overall.

Initial Steps

The Commission recommends that the Interim President and the Board of Regents consider several beginning steps:

- The University should select and employ a strong Chief Financial Officer at the earliest feasible date. We understand that the search committee for this position has a strong pool of candidates. We urge the search committee to move its selection process ahead as speedily as it can. The final list of candidates should be available for presidential selection as soon as the new President has been elected.

Without doubt, it is desirable for the next President to select his or her principal officers. But, should there be any significant delay in the election of the permanent President, we doubt the Commission's recommendations can be vigorously advanced. It is noteworthy that the University of Michigan, when confronted with a delay in selecting its president (and without our pressing agenda for change), selected its CFO before it selected its president.

- The University should develop a plan of implementation in response to the Commission's recommendations that includes specific accomplishments, timetables, and resource requirements.

For best results, that plan should be approved by the Regents and made available for legislative review and funding during the 1989 session. The odds are slight, however, that such a plan can be adequately crafted and approved in the absence of the person who will be accountable for the discharge of the plan.

- Long lead times require a prompt beginning in developing a plan for the overhaul of computer-based financial systems.

The Coopers & Lybrand report documents the many sub-systems of the total financial management system. A comprehensive plan and the involvement of both finance staff and users in the planning process is obviously desirable. Unhappily, it also raises the prospect of taking large amounts of time. Inasmuch as the staff has not had the opportunity to demonstrate a capability to carry out this kind of comprehensive planning in a context of conflicting user demands, we are not optimistic that a cost-effective system can be planned within reasonable time constraints.

Almost beyond a doubt, the University will be obliged to purchase existing software rather than create its own. Cost, time, and prior experience with custom systems seem persuasive. A widespread conclusion among senior staff is that standard software packages are adequate for smaller, less complex universities, but would not meet the functionality requirements of the University of Minnesota without major modifications.

We therefore urge that the object of the University's systems planning be to clone the best system in operation in a comparable large, complex university with a track record of excellent management. Cloning another system may not seem the optimal solution for this University. But this University has neither the time nor the record of management excellence to create the best possible system on its own.

- We urge that the first system for redesign and installation be the budget system.

We believe the redesigned budget system should be operational in time for the 1991

legislative session. The credibility of the University would be significantly enhanced, and the institution badly needs such a system to achieve its academic goals. A well-designed budget system and the timely availability of budget vs. actual reports is an indispensable tool at the collegiate and departmental levels to carry out the decentralized management of these units. Central administration needs the system to carry out its resource allocation decisions and to make Commitment to Focus operational.

We urge that critical outcomes measures be incorporated in the budget design for both academic and support units. We understand that such outcomes data are collected for other purposes and could be incorporated in the budget process.

- Policies and procedures need to be promptly documented and widely distributed. Training sessions must be conducted with users.

No financial system will work without the discipline of adherence to clear policy and execution according to established procedures. The University's existing accounting system is inadequate and creaky — but it will continue to be the University's system for several more years. That system must be made to work as well as its design allows. The only way to make sure that happens is to document policy and train people how to use it.

This project can run a parallel track with the overhaul of the computer-based systems. The project will require incremental staff.

A policy manual is the core of the internal audit program. Compliance with policy is the basic circumstance internal auditing attempts to verify. The Coopers & Lybrand study points out that the internal audit staff is obliged to spend large amounts of time advising audited units about appropriate policies and procedures in addition to determining compliance.

We believe this task can be completed in 120 days.

- The Legislative Auditor's report on physical plant operations highlights the governance and management decisions requiring early attention.

The list of recommendations in the Legislative Auditor's report is extensive. Many of the Legislative Auditor's findings parallel those delineated in the Coopers & Lybrand study. We would highlight two items that relate to critical management functions and the appropriate distinction between governance and management.

The Coopers & Lybrand study compares the size of the University's physical plant to the total square footage of all the office space in downtown Minneapolis and St. Paul. That comparison creates a clear picture of the scale and complexity of the University's physical plant operations. The picture is all the more dramatic when linked to the Legislative Auditor's findings of years of neglect regarding financial controls and management systems. The Auditor's report notes a 1986 proposal by the Physical Plant Associate Director to hire nine planner-schedulers for the maintenance shops that was denied by the Board of Regents. This follows the standard practice of the Regents approving all management positions and classifications.

We suggest that these sets of circumstances call for two early responses. First, the management of the University's physical plant requires a full-time executive reporting to a senior officer. The sheer size of the management task, plus the management condition of the department, demand no less. A full-time executive with direct access to the CFO or other senior officer should assure the Board of Regents on points of management priority and provide clear

accountability.

Second, the task of governance is to approve plans and resource commitment and then appraise the performance of the senior officers of administration. The task of management is to plan, organize, and deploy resources to achieve agreed-upon objectives. The confusion of the roles of governance and management is evident in matters related to the University's physical plant. There is more than enough for both governance and management to do in order to put matters right in the physical plant. We suggest this is a good place to sort out the proper roles and to begin to fix the problems.

We conclude with the observation of one of our Senior Advisors. "The University of Minnesota got the hard part done first — the academic planning. The academic planning frequently falls behind in higher education. In this case, the hard job was done first. In fact, the non-academic units are driven by the academic planning."

We agree.

CHAPTER 5

Recommendations on Organization

Summary

The Commission urges the University to:

- Retain the current “dual-hat” relationship for the President and selected Vice Presidents in those functions of administration that have responsibility for both the entire University system and the Twin Cities campus.
- Implement open, predictable, clear, timely, and rational decision-making processes, concentrating on planning and resource allocation.
- Establish a President’s Cabinet consisting of campus Chancellors and top senior staff.
- Strengthen the role of the Chancellors.
- Streamline and strengthen the position of Chief Financial Officer.
- Create a new position of Vice President and Chief Administrative Officer.

Discussion

The recommendations on organization presented in this chapter are drawn from the work of a sub-committee of this Commission appointed to consider problems related to the coordinate campuses and central administration.

The sub-committee received testimony from Chancellor Lawrence A. Ianni of Duluth, Chancellor John Q. Imholte of Morris, Chancellor Edward C. Frederick of Waseca, and Chancellor Donald G. Sargeant of Crookston. Retired Chancellor Robert L. Heller of Duluth also testified. In addition, the sub-committee reviewed the reports of the Senior Advisors and Coopers & Lybrand and the *Functional Organization Review* (May 1986) prepared by Peat, Marwick, Mitchell & Co.

The most frequently cited organizational barrier to effective management at the University of Minnesota is the overlapping reporting structure for both system-wide responsibilities and Twin Cities campus operational responsibilities. That is, the President, several Vice Presidents, and key staff members have responsibility for central administration matters at the same time that they directly oversee the programs of the Twin Cities campus. This “dual-hat” situation, coupled with geographic distance and poor communication, has contributed to a perception that decision-making at the central-administration level of the University is biased in favor of the Twin Cities campus. Also, as observed by Peat, Marwick in its *Functional Organization Review*:

“Too often the complexity of administering the day-to-day operations of a multicampus university system interferes with systematic coordination activities, policy generation, implementation and evaluation and strategic planning efforts. This is particularly true for a system with a flagship campus, where the flagship often dominates the time and attention of those with system-wide responsibilities....”

The Peat, Marwick report recommends resolving the “dual-hat” problem by separating the President and senior executives from the operational responsibility for the Twin Cities campus, while centralizing all responsibility for the Twin Cities campus under a single line executive. The

Commission's Senior Advisors, however, referring to this approach as the "CEO model," recommend against it. The Commission concurs with the recommendation of its Senior Advisors.

The Commission finds as follows:

- The Peat, Marwick recommendation for resolving the "dual-hat" problem is not appropriate for the University.
- The "CEO model" would be more appropriate for a system consisting of many comparable campuses, whereas the Minnesota system consists of a flagship university located in the Twin Cities; a large and diverse university at Duluth; two-year technical colleges at Crookston and Waseca focused on agricultural education and closely linked to the Institute of Agriculture, Forestry, and Home Economics; and a small liberal arts college at Morris. Each campus is different.
- The overwhelming size and significance of the flagship university would make it difficult, if not impossible, to achieve an appropriate balance of authority and responsibility between the President of the Twin Cities campus and the system CEO.
- The drawbacks of the "dual-hat" structure can be overcome by the installation of open, predictable, clear, timely, and rational decision-making processes, especially regarding planning and resource allocation. The recent difficulties have been a function of execution as well as structure.
- There are limitations in every organization structure, and these limitations must be overcome by management competence, teamwork, and sound processes. Overall, the difficulties of overcoming the limitations of the "CEO model" would be greater than the difficulties presented by the "dual-hat" approach. In any case, we join our Senior Advisors in urging "the Board of Regents to put this matter finally to rest before choosing the next President."

There is no substitute for goodwill, good process, and management competence. However, there are several organizational and management changes that should be made to improve system-wide performance.

The Commission recommends the following:

- The University establish a Senior Administrative Council, or President's Cabinet, as suggested in the report of the Senior Advisors (Appendix 1).
- The University strengthen the role of the Chancellors, and increase the communication between and among its campuses.

The Chancellors should be included in the President's Cabinet, which would be the proper forum for executive debate and priority-setting among competing campus interests.

The Chancellors should be assured participation in all phases of the planning and resource-allocation process, and support the President in presentations to the Regents and the Legislature.

The University should identify the functions that can be decentralized, and expand the administrative responsibilities of the Chancellors in areas such as student policies, personnel, plant management, computer management, and business administration to the maximum extent possible consistent with University system goals and standards.

The University should also ensure regular communication between the University's Vice Presidents with system-wide responsibilities and their coordinate-campus counterparts.

- The University should streamline and strengthen the role of the Vice President, Finance and Physical Planning, and change the title to Vice President and Chief Financial Officer.

The management of the strategic planning process, including legislative requests and budgeting, should be consolidated in a single office. This would be a staff organization driven by the academic priorities of the University system, focusing on the management of planning processes (rather than determining the substance of the financial or strategic plans) and providing support and assistance to all participants. Ultimately, the responsibility for setting the strategic direction of the University rests, of course, with the President and the Board of Regents. There is considerable merit, therefore, to establishing the Office of Planning and Budgeting reporting directly to the President as recommended by Coopers & Lybrand. On balance, however, we believe that the importance of linking plans and resource allocation argues in favor of organizing the office under the direction of the Chief Financial Officer. In any case, it is imperative to integrate the planning, budgeting, and funding processes for academic and non-academic objectives.

A functional working and reporting relationship should be established between the financial officers of the various colleges and campuses and the Chief Financial Officer of the University system, while preserving the direct reporting relationship of the campus financial officers to their respective Chancellors. We believe this relationship will facilitate the implementation of proper financial controls and standards, and support appropriate decentralization and autonomy at the campus level.

The span of control of the Chief Financial Officer should be reduced by reassigning the non-financial functions. This will clarify the position and permit greater focus and emphasis on finance, control, and systems.

- Finally, the Commission recommends creating a new position — Vice President, Chief Administrative Officer — and assigning this position responsibility for physical plant and space planning, human resources (personnel, benefits, and employee and labor relations) and support services (e.g., food service, parking, printing, laundry, and auxiliary services). This arrangement would have several advantages. It would:
 - Allow the Chief Financial Officer to concentrate on the core functions of systems, finance, planning, control, and asset management. Several of these functions require significant intervention and improvement as discussed elsewhere in this report.
 - Allow the Chief Administrative Officer to devote significant attention to correcting the deficiencies of the physical plant.
 - Provide higher visibility and attention to the important human resources programs of the University.
 - Relieve the Vice President, Academic Affairs of responsibility for support services, thereby allowing greater concentration on academic priorities, and facilitate appropriate and timely attention to the support-services infrastructure of University operations.
 - Augment the administrative and management expertise of the President's Cabinet.

APPENDICES

APPENDIX 1	Report of the Senior Advisors.
APPENDIX 2	Executive Summary of the report of Coopers & Lybrand.
APPENDIX 3	Additional consultants and staff.
APPENDIX 4	People who testified before the Commission.

APPENDIX 1

Report of the Senior Advisors

**REPORT OF THE SENIOR ADVISERS
ON UNIVERSITY GOVERNANCE**

SUBMITTED TO

**GOVERNOR'S BLUE RIBBON COMMISSION ON THE
FINANCIAL MANAGEMENT OF THE
UNIVERSITY OF MINNESOTA**

**Harold L. Enarson
William Friday
Arthur G. Hansen**

October 1988

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Letter of Transmittal

October 13, 1988

Edson Spencer
Chairman
Governor's Blue Ribbon Commission
On the Financial Management of
The University of Minnesota
c/o Honeywell, Inc.
Honeywell Plaza
Minneapolis, MN 55408

Dear Mr. Spencer:

At the outset, the three senior advisers privileged to be a part of your deliberation process reaffirm their long time admiration for the University of Minnesota. We were working colleagues of its presidents beginning with the distinguished President J. Lewis Morrill. Few public universities in the land possess the rich and deep tradition of academic excellence and the proud heritage of public service as does the University of Minnesota.

In our judgment, the current episode in the life of the University should be viewed in the context of an ever-changing and constantly self-renewing institution moving toward a goal of yet greater excellence in teaching and research and in splendid service to its supporting constituency. The University of Minnesota is a truly great academic enterprise. It is international in its impact yet its goodness is felt in every county of the commonwealth.

While the current difficulties are real, the people of Minnesota need to understand that other vital and dynamic universities in the United States have experienced similar disruptions in communications and in relationships with constituents. The task, then, is to view the situation as honestly and openly as possible, determine corrective changes and healing procedures, and get about the task of implementation.

There is clearly no need for us to recite once again the succession of events over these last months, all of which have been reported and commented upon to the emotional exploitation of most concerned citizens. It is to the everlasting credit of these same citizens that their great love for the University has not abated; it has grown deeper. It must also be said that the legislative restraint manifested over these months is an accurate reflection of that public affection. The demonstrated discipline of the legislative branch is worthy of high commendation.

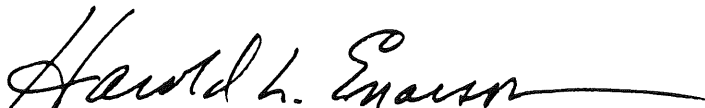
What we have learned from studying many documents and hearing much personal testimony is that insofar as governing and administrative processes are concerned, a real question of trust has existed. Failure of communication, violation of policy-making roles, interference in the management process--these and other violations of good practice are serious and must not be repeated. The great need is to reestablish and to recapture the sense of family within and among the components of the University. Its strength derives from its unity as a team effort.

Plainly, the University of Minnesota has suffered a loss of credibility. That credibility is, we believe, slowly being regained, thanks to the strong and capable leadership of Interim President Sauer working hand in hand with Chairman Lebedoff and the Board. As we reviewed our role in providing advice to the Commission, we asked ourselves two questions.

First, beyond the immediate causes for the loss of credibility, were there deeper causes at work?

Second, what might we recommend as ways in which credibility might be restored and similar losses of credibility avoided in the future? Our report, reflecting what we have heard and seen, attempts to answer these two questions. We hope that our report will be helpful not only to the Commission but to all who care about the welfare, integrity, and reputation of the University of Minnesota.

Sincerely yours,



Harold Enarson
President Emeritus
The Ohio State University



William Friday
Chancellor Emeritus
University of North Carolina



Arthur Hansen
President Emeritus
Purdue University; Texas A & M

**REPORT OF THE SENIOR ADVISERS ON UNIVERSITY GOVERNANCE
SUBMITTED TO THE GOVERNOR'S BLUE RIBBON COMMISSION ON THE
FINANCIAL MANAGEMENT OF THE UNIVERSITY OF MINNESOTA**

INTRODUCTION

Put simply, the University of Minnesota lost credibility as a direct consequence of two disclosures: substantial cost overruns on the Eastcliff facility and the size and probable abuses of the reserve fund. The rush of events, under the blinding glare of publicity, led to charges and counter-charges.

Amid turmoil, the Regents, individually and as a body, struggled with an emergency without precedent in their experience.

Amid turmoil, President Kenneth Keller resigned, with consequences no one even in calm retrospect can fully and fairly assess. There has been speculation enough, recrimination enough, and more than enough search for villains.

For some, the good reputations of a lifetime were tarnished. The reality, as many now see, is that there were no villains. Good and decent men and women in positions of power and influence lost sight of the fundamental principles and practices that make for a healthy and productive relationship between the President and the Board of Regents. The "Minnesota Tragedy" was that the key actors in the drama loved the University but failed in final analysis to serve it well.

The initial thrust of the Governor's Blue Ribbon Commission on the Financial Management of the University of Minnesota Commission was to delve deeply into the financial management at the University. To this end, Coopers and Lybrand was commissioned to do an in-depth analysis of all aspects of financial management. As the Commission heard testimony, and reviewed information from a variety of sources, however, it became clear that there were problems other than financial management that needed examination. It is the examination of such non-financial matters that led us inexorably to address the governance of the University.

It seems clear that many of the problems that arose to discredit the University stemmed from a failure of the Board of Regents and the University administration to work together effectively. On Eastcliff and the reserves the question arose: What did members of the Board, individually and collectively, know and when did they know it? Conversely, what did the President and the administration share, and when and in what form did they share it? The answers are elusive, but this is clear: whatever the limitations of the financial system, these do not explain the Eastcliff matter nor do these explain some questionable uses of the reserve fund.

The failure of the Board of Regents and the administration to work together reflects more than a clash of personalities, although that played a part. The apparent stress derives from the lack of a clear understanding of the role and responsibility

of the Board and individual board members, particularly and especially distinguishing policy-making functions from administrative responsibilities, and the clear and specific prescription of administrative responsibilities to the Board that the President must fulfill.

At present, from all appearances the Board and Interim President Sauer are reestablishing lines of communication and trust. It is imperative that this healing process continue. The University of Minnesota deserves, and must recruit, the best possible person to serve as its next President. It is also imperative that the University continue to move ahead on the new major thrust--A Commitment to Focus. The ambitious goals set forth in this singular strategy can be achieved if three conditions are met. One, there is a need to restore the financial credibility of the University with the Governor, the Legislature, and the taxpayers of Minnesota. Two, the Regents must select, and aggressively recruit, a truly outstanding individual to serve as its next president. Three, There must be a new beginning in Board-President relationships. In all candor, we must point out that first-rate candidates will be repelled if they believe that there are serious obstacles to a healthy relationship between the President and the Board. Clearly, the Board and the new administration must learn to work together in a harmonious and trusting fashion.

A good part of our report is devoted to practices that promise better governance. Some of our observations may seem

commonplace to students of governance, but they are directly relevant in this situation.

We devote the first section of the report to a discussion of the role of the Board of Regents along with recommendations that we believe will strengthen the Board's role as a full partner with the University's administration in realizing the great potential of the University.

In the second section we have observations and recommendations about the role of the President as partner of the Board in leading the University forward.

In the third section we emphasize the critical importance of the Board and the President working as a team.

In the fourth section we comment on the role of individual members of governing boards, each affecting greatly the performance of the board. We trust that our general observations will be helpful to present and future members of the Board.

The fifth section deals with the selection of board members. We are pleased with the creation of the new Regent Candidate Advisory Council. Our observations and recommendations underscore the need for a strengthened selection process which will attract the very best men and women. Service on the Board of Regents may well be the most important volunteer assignment in the state.

The sixth section deals with the critical issue of administrative structure. As the Commission has heard, there is a strong belief on the part of some people, including

legislators, that the University should be restructured in such a manner that a new position be created, that of a chief executive officer to oversee the entire multi-campus system including the Twin Cities campus, which would have its own CEO. Accordingly, we have discussed multi-campus governance systems and have proposed courses of action that we feel will resolve many of the concerns about the present structure that have been raised.

The seventh section deals with concerns raised about the University's important constitutional autonomy, one of its great strengths as a public university.

Some summary comments conclude the report.

We would hope that this report, along with the collective wisdom of the Commission and other contributors, will set the stage for the emergence of a revitalized University of Minnesota with new strengths and an enhanced reputation.

1. THE BOARD OF REGENTS OF THE UNIVERSITY

The Board of Regents should undertake promptly a systematic evaluation of its obligations and its performance with the goal of achieving needed changes in attitudes as well as processes.

It becomes necessary in time of crisis to re-examine what a governing board must do--and must not do.

The lay board of trustees provides for accountability to the public interest without domination by government. Boards are, in Clark Kerr's words, "guardians," promoting the welfare of the

institution they oversee, protecting the integrity of the enterprise against bureaucratic or political intrusion, and assuring wise use of resources. It is a very special kind of institution--the colleges and the universities--which trustees hold "in trust," as prescribed in statutes and in unwritten tradition.

The responsibilities of the Board of Regents of the University of Minnesota are huge and becoming ever more complex. A multi-campus university, a "flagship university," a "research university," a "land-grant university"--the university is all of these and more. The Board deals necessarily with complex public policy issues, which often invite controversy. Virtually every matter before the Board touches on the vital interests of affected groups--tuition and student assistance, admission standards, pricing policies in the hospitals, contracts and leases, policies affecting tenure and promotion, patents, use of university facilities, and investments. And yes, intercollegiate athletics. The search for the public interest, however elusive, is the solemn obligation of these "guardians."

As the Board reviews its institutional mission, allocates scarce resources, prioritizes capital construction, sets personnel policies, reviews enrollment plans, it must keep its eyes focused on the future, on the "big picture." Amid constant distractions, this is the most important challenge and the most difficult.

How can an uncompensated, part-time lay Board oversee the myriad activities that make up the University of Minnesota? The answer lies in broad delegation to the President, its chief executive officer. The choice of the right person to serve as the next President of the University is crucial. No other decision has such far-reaching consequences, holds so much promise and so much risk. Following upon that choice, the Board' continuing responsibility lies in advising, supporting, and evaluating the President and the top administrators.

A lay board brings to the higher education enterprise a rich variety of experience and concerns. It "teams" itself with its chief executive officer, and much depends on the health of that relationship. Kenneth N. Dayton, in his essay entitled "Governance is Governance" says that, "As trustees we are there, it seems to me, to support, encourage, challenge, stimulate, and help that professional whom we pick to lead our endeavor."¹

The Board of Regents must constantly battle the temptation to move beyond policy into administration. This is difficult because of the sometimes blurred distinctions between "policy" and "administration."

The Board of Regents is constantly challenged to understand and to honor both the extent and the limitations of its power. Self-discipline of a high order is required, especially now, to reaffirm the role and function of the Board.

¹ Governance is Governance, An occasional paper. The Independent Sector, 1828 L Street, Washington, D.C. 20036, p. 8.

In our view the recent legislation "requesting" the Board of Regents to employ independent professional staff to prepare financial data for the Board is a bad proposal and should never be put into effect. It signals that the Board lacks confidence in the President and the President's staff. It also leads university personnel to conclude that there are two chains of command to whom they must answer. For any board to give to subordinate administrative officers independent access to it or to seek information except through the chief executive officer is a sure way to undermine administrative authority and, ultimately, the board's confidence in the CEO. Few things are more destructive than evidence or rumor that the board relies more confidently upon someone else than it relies upon the chief executive officer.

The Board of Regents should understand that to build its own separate professional staff would so weaken the presidency as to make it unattractive to a first-rate leader. We recommend that the Board take its stand on this matter, which speaks directly to the integrity of decision-making.

It is imperative that every element in the governance of the University be known and be widely available to any interested party. Accordingly, we recommend that the University prepare, codify, and publish a code of the University which would set forth all relevant constitutional and statutory provisions relating to the University, specific chapters on the powers, duties and responsibilities of the Board of Regents, the Office

of the President, the stated policy statements and by-laws heretofore promulgated. Provision should be made for amending and updating this code and providing copies to every Regent, institutional adviser, faculty member and student body president.

We further recommend that the Board of Regents establish promptly the policy that only the Chairperson of the Board of Regents shall be authorized to speak for the Board on official and policy matters, unless otherwise agreed upon. Some of the current stress has been generated by a lack of self-discipline that has proved to be harmful to the University and to the Board.

Once the new President is chosen, the Board of Regents must constantly and enthusiastically support that person and his or her policies as the leader of the University. Debate on policy issues and administrative practices is essential and expected in the proper forums of the University. Once policies are established, however, the President must have the full support of each Regent in the execution of the policies and in the exercise of administrative judgment in University matters. It is critically important that this relationship be made manifest promptly and no "end-runs" tolerated henceforth.

Further, from time to time, the Board and the President should evaluate his or her performance in office. The Board must always see to it that the President is properly compensated, that support staff is fully adequate, and that there is opportunity for physical, intellectual, and spiritual renewal each year.

2. THE OFFICE OF THE PRESIDENT

The President must be understood to be the chief executive of the University. Functioning under the Board of Regents, the President is the spokesperson of the University and the line of communication must be from the Board of Regents through the President to the institutions and in reverse from the campuses through the President to the Board of Regents. No other procedure is acceptable and should not be tolerated by the President or chairperson of the Regents.

The President must manage the University effectively. He or she must be the inspired leader of the entire institution instilling confidence, enthusiasm, cordiality, and trust through a first-rate performance in the implementation of the mission (here called the Commitment to Focus) which the President and the Board of Regents have charted for the future.

This kind and quality of performance and leadership must be demonstrated by the next President. After listening and studying, we offer the following specific suggestions to help renew the credibility of the President's office:

- a. The President should have a senior administrative council composed of the top central staff and the Chancellors, meeting monthly with the President to discuss the work of the University, the forthcoming agenda for the Board of Regents' meeting, and all other relevant policy and

administrative matters. The objective is involvement, participation, the elimination of surprise, and informed communication.

- b. Specific consultation should be formally scheduled for the preparation of the budget request going to the Legislature, and there should be discussions of institutional allocations once the Legislature has authorized funding for the next year. Chancellors of the coordinate campuses should accompany the President to legislative hearings on the budget request.
- c. The President should make presentations of budget proposals before the appropriate committee of the Board of Regents and the full Board, prior to submission to the legislative process. These presentations should include all budgets and all sources of funding so that the Board is fully informed.
- d. The new President should "take the University to the state." Within the first year in office, the President should convene campus external relations officials along with the several Chancellors to plan and establish regional meetings. These meetings should be hosted by the alumni of each constituent institution. The hosts should invite editors, school superintendents, college and

university presidents, mayors, legislators, business executives, and other opinion leaders to hear the President state the relevance of the University to their area, and how essential it is as the servant of the state and of the nation. A mailing should soon be developed going to state and county leadership on a regular basis to keep these initial contacts alive.

- e. The new President must establish direct and open communication with the Board of Regents on all important matters affecting the University and not just agenda items requiring immediate attention and decisions. There are times when general discussions of the state of the University are important.

The president must be seen to be fully in charge and fully accountable, assembling all relevant information from associates and sharing this with the Board and the Legislature.

3. THE BOARD OF REGENTS AND THE PRESIDENT WORKING PARTNERS OR ARMS-LENGTH ASSOCIATES?

The performance of a president depends on the conduct of the board above almost all else except for the personality and character of the president himself or herself; and the performance of a board almost equally depends on the conduct of the president. Clark Kerr, The Guardians, a forthcoming study for the Association of Governing Boards.

The best interests of the University must never again be sacrificed to an arms-length, even adversarial, relationship between the Regents and the President.

On critical matters the Board and the past President appear to have operated at arms length. Poor communication may have compounded the problem of lack of trust, and lack of trust may have led to escalating lack of communication: a classic downward spiral.

It is now imperative that the Board of Regents and its President function as a team enjoying mutual trust and confidence. Without trust and faithful sharing of information and concern, the system is on a slippery slope. An indifferent or disorganized board invites the president to exercise more power than is healthy. On the other hand, weak leadership on the part of the president invites strong board members to arrogate direct, hands-on management to the board itself. As Kenneth Dayton noted,

I have been utterly amazed over the years to observe how boards always tend to fill management voids. If management is weak in any aspect of its operation, a strong board or board member will move in and take over. The trick for management is to leave no voids, and the trick for the board is to see to it that management has a plan to fill any voids that occur, rather than to leap in and fill them itself.²

² Dayton, Ibid, p. 3.

It is essential that the Board discuss and agree on the role of an incoming chairperson. That individual should command the respect and confidence of colleagues on the Board and should work closely with the President, counseling the President on concerns of other board members and working with the President to shape board agenda. The careful crafting of the agenda is extremely important. Failing that, discussion becomes desultory and the board will not focus on the "big picture"; board members who become frustrated are likely to vent their frustration by meddling. (A good chairperson eases life for the president; a bad chairperson generates distraction and confusion and can make life unbearable for the president.)

Board members need the opportunity to discuss sensitive issues in confidence with the President and one another. The open meeting law is a significant barrier to such discussions. Ordinarily we would emphasize the value of retreats, especially at this time. Yet a retreat open to the media is a contradiction in terms. There are no easy answers here. Harlan Cleveland examined sunshine laws in a recent publication.³ In it he defines the "trilemma" composed of 1. the public's right to know, 2. the individuals, right to privacy and 3. the public institutions mandate to serve the public interest. All three elements are important, and each must be reconciled with the others. Ethics, he writes, is the art of combining them.

³ Harlan Cleveland, The Costs and Benefits of Openness: Sunshine Laws and Higher Education, Association of Governing Boards, (Washington, D.C., 1985.)

It is an analysis that we commend to the Commission and to the political leadership of the state.

The attitudes board members bring to the assignment affects greatly whether they will "grow" to become good board members. Prior successful experience as corporate directors, in business, as community leaders does not automatically equip one to be a good board member. Habits learned in other environments may not be easily transferable. The financial management practices of higher education, including methods of accounting and reporting, differ greatly from private business. New board members need to take the time and effort to learn the complexities and unique operating procedures of a university.

A decent respect for the opinions of one's colleagues is required for the board to avoid acrimony and poor interpersonal relations. In private as well as in public, board members owe it to their high office and the public which they serve, to exercise restraint in their criticisms, whether of colleagues or officers of the university. The proper place for critical evaluation of the performance of the president and other officers of the university is in executive session, never in the newspapers or on television.

The burden of creating a working team rests heavily on the president and his associates. There can be no substitute for the president's personal attention to the board and its individual members. It is never enough for a president to have a "vision" of the future, however bright and attractive, unless the "vision"

is clearly understood and enthusiastically supported by the board. It is shared vision that moves a university forward.

A wise president can learn much from board members. The next president of the University of Minnesota must understand that the Board must be a partner and can be a great asset. This is not to overlook the critically important role played by the faculty or of the need for attending to the concerns of the many publics which share in the life of the university. It is to note that board dissatisfaction with a president soon makes a presidency untenable; on the other hand, a harmonious and respectful relationship carries abundant promise.

Individual board members come and go; the authority of the board endures. In private colleges and universities, presidents play a major role in selecting members of their board. The presidents of public colleges and universities usually enjoy no such privilege. Board members are selected through the political process. A president necessarily deals with board members as they are, not as one (sometimes) might wish they were. In any event the president has the obligation to work loyally and in good faith to honor the legitimate authority of the board and to help it in every way to do its work. This is no easy mandate and the temptation of a busy, often beleaguered president, is to maneuver around the board. It is a temptation to be avoided at all costs. Pyrrhic victories may be won by guile or by withholding the truth; manipulative tactics ultimately self-destruct.

The individual board member can be expected to have concerns along with special competence--whether about a community, a geographical area, a profession, or of a special "public." It is the special genius of a lay board that it can provide a broad public perspective not likely to develop in the self-contained world of academe. A good board, with an appropriate mix of persons from different backgrounds, can provide the president with invaluable political counsel.

The President, in short, has a great resource in the Regents. It is an asset that must be put to use.

The orientation and continuing education of the board is the inescapable personal responsibility of a president--daunting as this task may seem at times. It is the task of the president to help the board understand the institution it governs: its past, its choice of priorities, its need for renewal. A wise president attends to the board, is familiar with its concerns, and is responsive to its policy directions. Sharing information--the bad and the good--with the board is the necessary point of departure. A board should never be surprised and embarrassed to learn of an important matter from news reports. In a crisis situation, information must be quickly shared with all members of the board.

Responding promptly and fully to requests for information from the board is always required. In a huge "multi-university" such as the University of Minnesota, it is essential that the Board receive the right kind of information, developed in a

timely fashion to illuminate decisions on policy. As we reviewed some of the earlier financial reports we were reminded of how easy it is for board members to founder on data that provides little relevant information.

Budget and finance and audit need to be "demystified." It is not enough for an administration to report on potentially sensitive financial matters and hope that the information conveyed is received as delivered. In dealings with the board, and for that matter with all elements of the university community, it is essential for the administration to "go the extra mile"--to make certain that the essence of the information was not only heard but understood.

Finally, the board needs help from the president in appreciating and interpreting the constraints under which a major university works: the intensifying competition for public resources (federal and state); the competition between the research enterprise and undergraduate teaching; the changing expectations of students, political leaders, and the business world; and the ever more convoluted processes of decision-making on campus, reflecting in part the fragmentation of the larger society.

We repeat: in the long run, mutual respect will build mutual trust, which will create the necessary teamwork. This is not a Pollyanna plea; it is a description of "what works" in the very best of the nation's universities.

4. THE ROLE OF THE INDIVIDUAL BOARD MEMBER

The Board needs to develop a shared understanding of what individual board members should do--and should not do.

It is the Board of Regents as a collective body which is invested with authority. The majority vote of the Board is the only official basis for action. Every Board member must remember that as individuals, Board members have no legal standing. It is a stern requirement not easily honored.

The Board can be no better than its members, and the requirements for a good member are demanding. A good member should have useful experience and skills and the stature to deal effectively with economic and political power structures; should have experience on boards of profit and/or nonprofit institutions; and should understand the appropriate relationships between a board and its chief executive officer. A good member should have a strong interest in the entire University, not just a part of it; should be committed to processes of consultation and the search for consensus. Most importantly, a good board member helps citizens understand their university, and helps professional educators understand the public's concerns. In controversies on academic freedom and responsibility, board members serve an important "buffering" role.

Individual Board members, generally prominent in their communities and their professions, soon discover that they are blessed with a host of new friends eager to request favors or to

report on atrocities. As a public official, a Board member may appropriately be willing to hear citizen complaints and concerns. However, if a Board member assumes the role of unauthorized ombudsman, the trickle of complaints will become a flood, and it will be increasingly hard to focus on the "big picture" issues.

The rule is absolute: the Board member has the clear obligation to promptly communicate to the President any significant concern or complaint received. To do otherwise is to tangle the lines of authority that enable the Board to hold their President accountable and thereby undermine the power and influence of the President. The rule attains whether the concern is for example, bad morale in the physical plant, dissension in the medical college, in-fighting at a campus, fraud in the award of contracts, favoritism anywhere, or any other like matter.

It is understandable that a physician may have a special concern about the medical school, or a businessman may have a strong interest in the business college. However, individual board members must not become unofficial investigators or champions. A legitimate, worthwhile interest or concern must not slip into one-person influence let alone de facto authority over any element of the university.

Inappropriate conduct by board members is not unknown in the United States. Neither presidents nor former trustees cover the topic in their memoirs. Yet there are lapses in ethical behavior, as any experienced president will testify. Some lapses are plainly wrong on their face, as for example, personal

intercession with the president or subordinates to secure favors in business transactions, or to influence a personnel decision. More frequently the impropriety is less obvious: trying to resolve quarrels in an academic department, or taking potshots at individuals in the press, or the exercise of influence masquerading as "just advice." The effect of these and other intrusive acts is to discourage top management and to create an atmosphere where it becomes accepted practice for each board member to make deals with the administration--deals which often could not stand public scrutiny.

A good rule for a president is never to take an action that would be embarrassing if it surfaced in the news. It is a rule equally applicable to individual board members. It is not naive to set such standards of probity and self-discipline, realizing always that there may be transgressions. What is important is that a board have a code of behavior to which it is committed--and which it will enforce.

In appearances before executive agencies and legislative bodies, the general rule must be that only members representing the board should speak for the board. It is a rule that should be understood and honored by political leaders as well. At a minimum, a board member owes it to colleagues to share with them conversations on important matters with important persons in state government.

In recent years it has become increasingly difficult to serve on governing boards of major universities. The business of

higher education has become more complex, more prone to controversy. The system of internal governance on campus no longer finally resolves issues such as tenure decisions, program discontinuance, reorganization of academic departments. On occasion, the campus is a sieve linked to the statehouse sieve. Arguments lost on campus may be appealed to higher authority, often beginning with individual board members. In part, the politicization of higher education has its roots on campus.

If service on the Board of Regents is one of the most prestigious assignments for the outstanding citizen, it is also the least appreciated. Over the years the Board of Regents has been well served by outstanding leaders who gave unstintingly of their time and talents. The challenge is to expect all board members to demonstrate the level of excellent service represented by the best members.

Service on the Regents should not be a thankless, as it now is. Public praise is as necessary, when appropriate, as public criticism. In this connection, we recommend that the top civic leadership of the state develop an awards ceremony, an event by which the people of the state can express their appreciation for exceptional service.

5. THE SELECTION OF BOARD MEMBERS

In the long run nothing is as essential to the future of

the University as a fundamental rethinking of the process of selecting Board members.

The quality of board members in Minnesota, as elsewhere, is a function of the selection process. If the selection process is flawed, the results are likely to be flawed. Just as faculty governance depends on the quality, and especially the integrity, of faculty leadership, so the quality of Regent governance depends, in the end, on these same attributes by individual board members. This may seem a truism, but if so it is a truism that needs to be dusted off, burnished, and made a first consideration in the selection of board members.

In public universities, whether selection is through gubernatorial appointment or by popular election, the individuals chosen obviously bring past and present loyalties to the assignment. They come from a particular community; they have interests and concerns arising from a lifetime of work; they enter into the regent role with convictions about higher education and about the university and the state whose interests they will serve. Regents are not politically immune, nor should they be. Nor can their interests ever be fully divorced from their involvement, past or present, in the life of their community and region of the state. But to argue from this that regents should be chosen to represent their political party, or their pressure group, or their ideology, and/or their community is a grievous error. From the moment that regents take the oath of office they are bound by a higher mandate: the overall, long-

term welfare of the university they hold in trust. This may be a difficult transition, but it is essential.

We do not suggest that "politics" can be wholly taken out of appointments. What is urgent and essential in Minnesota is for the Governor and the Legislature to make it clear to all candidates for election and all present appointees that Regents do not serve in a representational role. A "representational" board, where several board members are understood to represent constituencies, tempts the "representatives" to deal directly with subordinates on the campuses on behalf of special interests. The same affliction taints the operation in a politicized board, where board members may view themselves as emissaries of a political party or one or more powerful political leaders. In this situation, the errant member soon fails to share confidential information with colleagues. Sooner or later this will divide the Board, contaminate its decision-making, and destroy the trust so essential to the success of the enterprise.

Reasonable diversity, not representation, is the goal. Board members should be chosen so that the Board as a whole enjoys a diversity of experience and outlook. We are greatly encouraged by the Legislature's creation of the Regent Candidate Advisory Council to assist the Legislature in determining criteria for, and identifying and recruiting qualified candidates for membership on the Board of Regents. The key word is recruit. There will never be a shortage of willing and eager applicants with plausible credentials and a fervent desire for the position.

But the citizens of Minnesota deserve the very best minds--men and women of stature in their diverse communities and their work.

Plainly the new Advisory Council can, if permitted to do so, play a crucial role in screening and recruiting candidates. It is, of course, an aid to the legislative process, not a substitute for legislative decision-making. If the Legislature selects persons on the basis of representation, the Regents will function as a representational body, with all of the disabilities noted earlier.

For this reason we recommend that the Legislature, with the assistance of the Advisory Council, explicitly state as a matter of legislative intent that individual board members represent all of the people of the state, and no particular interest, ideology, or community.

The Legislature was on target in requiring that the Advisory Council develop a description of the responsibilities and duties of a Regent; it was wise in asking that the Advisory Council make use of the experience of current and former Regents and the administration of the University. The trauma of recent months should add both freshness and urgency to this important task.

Boards of regents everywhere stand continually in need of revitalization by input from new members. In this connection, we recommend that the Legislature reassess the basic framework, which has been largely untouched since the beginning of the University.

Specifically, we suggest:

- a. Consideration of moving away from congressional districts, either in whole or in part, as the geographical basis in selection of Board members. Selection on the basis of geographical area invites a representational mode of behavior, which we believe inappropriate and sometimes harmful. Alternatively, the four at-large regents might well be selected by the Governor from candidates submitted by the Regent Candidate Advisory Council.
- b. A fixed limit on the number of years a Regent may serve. Twelve years seems to be the recognized norm in the country.
- c. A thorough orientation process of new Board members including the explanations of duties, responsibilities, and authority of the Board, its members, and the President of the University. Visitations by members of the Board of Regents to a few of the best public universities in the land should be made to study their board structure and operational methods. Other governing boards have made such visitations with great success. Also, much can be gained by participation in the meetings of the Association of Governing Boards.

6. ADMINISTRATIVE STRUCTURE

The issue of the administrative structure of the University has been under consideration for some time. In 1986, Peat

Marwick prepared a full report on the matter of restructuring in conjunction with an on-going University study. To date, the recommendations of that report has not been implemented.

Restructuring has surfaced again during the current review. One reason expressed is the alleged lack of consideration by the main campus administration for the welfare and special problems of the coordinate campuses. It is argued that this is a consequence of the President wearing "two hats"--the operating officer of the main campus and the chief executive of the system that includes the coordinate campuses. The task of running the main campus is envisioned to be of such complexity and requiring so much time on the part of the President that the coordinate campuses are consequently overlooked. To remedy this problem, the suggestion has been made that a true system structure be instituted with a president as chief executive officer and with chief operating officers (chancellors) for each of the campuses including the Twin Cities "flagship." While we understand that this proposal is not under active review at this time by the Board of Regents, we believe that the issue will surface again if the conditions relating to governance of the coordinate campuses are not improved.

The Board of Regents and the President govern a small multi-campus system. That system includes a sizable regional campus (Duluth), the small campuses of the Technical Colleges at Crookston and Waseca, Morris, and the flagship campus--the Minneapolis-St. Paul graduate/research university. Plainly there

are system-wide responsibilities, but these do not in our view justify the drastic step of creating a dual system of governance, with a new and powerful CEO overseeing all five campuses including the Twin Cities campus. In our judgment, there is no sound basis for such radical restructuring. We believe that to create a new layer of authority over the Twin Cities campus would involve costs that would exceed the possible benefits.

In this connection we strongly urge the Board of Regents to put this matter finally to rest before choosing the next President. If the next President is to preside over a system, but have no direct operational role in the Twin Cities campus, this is a much different presidency than at present (and as stated in the recruiting announcements).

Throughout all of our discussions, it has been made clear that strong leadership will be required to restore the credibility of the University and in saying this, the "University" has been virtually synonymous with the main campus. If, at this point, the system is restructured so that a CEO is sought to oversee all campuses, then a chancellor for the main campus will be required. What sort of qualifications would be prescribed for this position? If the chancellor is to have the leadership qualities that are currently being recommended, then the system president must have a wholly different set of qualities. Ultimately, one would suspect that the system president might well stand in the shadow of the main campus chancellor. If, on the other hand, the system president is a

strong leader whose attention would be primarily focused on the main campus, it would be highly probable that competition and conflict between the president and the main campus chancellor would eventually erupt.

The problems of system governance that have been aired can be solved more readily by adopting procedures that directly address the problems rather than by restructuring the system. In addition to the recommendations set forth in the section on the presidency relating to meetings with the chancellors and budget preparation, the following additional recommendations are therefore proposed:

- a. Consideration should be given to increased managerial authority for the coordinate campus chancellors. Issues of personnel and student policies, tenure and appointment procedures, and financial and physical plant planning should be among items reviewed.
- b. The campus chancellors (and other selected main campus officers and agency heads) should normally be present at Board meetings and be asked to give periodic reports of their operations.
- c. Consideration should be given by the Board to the creation of a committee that oversees coordinate campuses and agency needs that are not directly associated with the main campus. Alternatively, a way could be sought to build into current committees formal consideration of special concerns and problems of the coordinate campuses and agencies.

- d. When appropriate, special recognition should be given to individual and institutional achievements on all campuses with such recognition being made a part of Board meetings and so recorded. The intent of such action is to continually reinforce the concept of a unified University team.

7. THE CONSTITUTIONAL AUTONOMY OF THE UNIVERSITY OF MINNESOTA

In the firestorm of criticism following disclosures about Eastcliff and the reserves, the constitutional autonomy of the University of Minnesota resurfaced as a critical issue in the Legislature. The anger of legislators found a familiar target in the special protections against legislative intrusions that were defined in the University Charter in 1851 and reaffirmed in the state constitution adopted in 1857. Chapter 3, Territorial Laws, 1851, vested "the government of the university" in a Board of Regents with the power and duty to enact rules for the governance of the University. The Constitution carried forward and incorporated the rights, duties, and privileges set forth in the Charter.

The University of Minnesota has a unique legal status among the public colleges and universities of the state. It is a constitutionally autonomous state corporation. The University has autonomy in the management of its own affairs. To ask what is meant by "autonomy" is to enter over a century of occasional

conflict between the University and the political leadership of the state. The arena is a lawyer's delight, and a layman's despair. Let us try to put the matter in both historical and present day perspective.

In Minnesota, as in other states where the flagship university enjoys constitutional autonomy, the decision to guarantee protected status to the University reflected both populist distrust of the Legislature and an understanding that the University must be "off limits" to political intrusion. In a 1928 landmark case (*State v. Chase*, 175 Minn. 259, 220 NW 951) the Minnesota Supreme Court stated the case for autonomy clearly (and in a way sure to alienate the elected representatives of the people). The objective, said the court, is:

To put the management of the greatest state educational institution beyond the dangers of vacillating policy, ill informed or careless meddling and partisan ambition that would be possible in the case of management by either legislature or executive chosen at frequent intervals and for functions and because of qualities and activities vastly different from those which qualify for the management of an institution of higher education.

It was argued a century ago, in debates that are strikingly contemporary, that the state hospitals and the highway department also deserve to be free of "vacillating policy, ill-informed or careless meddling and partisan ambition." The answer, then as now, is that it is disastrous to the quality of higher education for the state to treat its colleges and universities as if they were simply another state agency.

In 1858, a year after the Minnesota Constitution was adopted, President Henry Tappan of the University of Michigan spoke of concerns about improper intervention in university affairs. In an age when sectarian and political intrusion threatened the integrity of the nation's newly-emerging state universities, Tappan warned of "three mistakes": the introduction of political partisanship and aims; local jealousies and competitions, and sectarian prejudices and demands into the management of the university. Today, the battles between religious sects no longer convulse higher education. With rare exceptions, decisions on faculty are insulated from political intrusion by federal law and tradition. "Local jealousies and competitions" are, of course, very much alive, coloring in significant ways how the state allocates its resources among competing areas and interests. Now controversy swirls about the dangers, real and imagined, of legislative and executive branch intrusion into the daily management of universities.

Tappan wrote, "As president of the University of Michigan, I claim to be an officer of the state...I have been appointed under an express provision of the Constitution. I have been appointed by Regents elected by the people. I am accountable directly to them, and to the people through them."⁴

⁴ Henry Tappan, "The Idea of the True University," in American Higher Education, Vol. 2, Richard Hofstadter and Wilson Smith, eds., The University of Chicago Press, 1961, page 527.

No present day president of the University of Michigan or the University of Minnesota would trace presidential authority as a direct line to the Regents and from the Regents to the people. The Governor and the Legislature loom large, indeed huge, in the perspective of the University of Minnesota, as well they should. The University is hardly a self-contained entity, sealed off from the statehouse by the Constitution. The University is dependent on the good will and confidence of the people of the state, as reflected in the actions of the Governor and Legislature. A truth never to be obscured or forgotten: the welfare, financial strength, and the integrity of the University of Minnesota is heavily dependent on the good will and good judgment of the political and civic leadership of the state.

What, then, does "autonomy" mean in 1988?

* It cannot mean the freedom of the University to starve. A public university requires regular, reasonable appropriations from the Legislature to do its work.

* It cannot mean immunity from the police power of the state. The courts have upheld the rightful authority of the state to legislate on a number of health and safety matters directly affecting the University.

* It cannot mean immunity from state audits, from the provision of reports and documents as required by various executive departments and the investigative arms of the Legislature.

The political leadership of the state is necessarily involved in the life of the university.

* It is the Legislature which specifies the budget and appropriation process, creates new campuses, enacts broad policies embracing tuition, student financial aid, admissions, and the like.

* It is the Legislature which chooses to fund special projects by line item--a practice which the University of Minnesota has not protested. Plainly, the state now reaches into the internal affairs of the University in a way that would have been unthinkable a century ago.

Is constitutional autonomy then an anachronism? We believe not, and for several powerful reasons.

One, while the University may choose to acquiesce in legislative actions that might be borderline violations of the constitutional provisions, the University has the right and obligation to challenge intrusions which it believes to be clearly improper. In controversies where passions run high, the University may need to defend itself by appeal to the protections of the Minnesota Constitution. This is a right not lightly discarded.

The "essential core" of the University must be protected at all costs from legislative or executive actions which threaten academic freedom. As the Carnegie Foundation for the Advancement of Teaching said,

If the integrity of higher education is to be preserved, the academy must have full authority over

those essential functions that relate to teaching and research. These include the selection of faculty, the content of courses, the processes of instruction, the establishment of academic standards and the assessment of performance. Academic integrity also requires that the university have control over the conduct of campus-based research and the dissemination of results. These functions, we believe, are the essential core of academic life. It is here that the integrity of the campus must be uncompromisingly defended.⁵

Thus, constitutional autonomy enshrines in the Constitution itself essential guarantees against all forms of political intrusion which threaten the integrity of the intellectual enterprise.

Two, constitutional autonomy is a symbol--a powerful sign that the people understand the special nature of their university. We know of no truly great state universities that have developed in states that indulge in micro-management from the statehouse. On the other hand, we can point to examples of major state universities where elaborate controls over their internal affairs paralyze initiative, handicap the drive for efficiency, and weaken the authority of the governing board. The unintended consequence of such controls is to diminish the university's capacity to be fully accountable for all aspects of its performance.

At the University of California, the University of Michigan, and other great universities, constitutional autonomy is not

⁵ The Carnegie Foundation for the Advancement of Teaching, (Princeton, NJ).

regarded as a license to ignore the state government. Instead, constitutional autonomy is seen as a special trust, a badge of honor. In our view any attempt to strip the University of Minnesota of the protections of the Constitution would be deeply divisive, catapulting the University into a political maelstrom.

Third, any attempt to deny the University protections enshrined in the Minnesota Constitution for over a century would send a chilling message to thoughtful observers around the nation. It would grossly exaggerate the present difficulties and signal, perhaps mistakenly, the prospect of legislative intrusions of unknown predictability and severity. In the intense competition for high-level faculty and staff talent, the University of Minnesota cannot afford the stigma associated with the destruction of its constitutional protections.

As a distinguished past Chairman of the Minnesota Board of Regents commented, "Universities are fragile institutions; they must be carefully nourished and protected." With or without constitutional protections, a university is not simply another state agency and it must never be so regarded.

Of equal importance, however, the University must be fully accountable--not only to the Legislature on a great variety of matters but also to private donors and to federal, state, and private agencies for grants and contracts. The University must nurture a spirit of accountability in every aspect of the enterprise.

All elements of the University community--Regents, the administration, faculty, students, alumni--must understand that the legislature and the governor exercise an oversight role, taking care to see that laws and policies are honored, that there is probity in the financial affairs, and that there is a full accounting for state monies. The mutual trust and respect which should characterize the relationships between the Regents and the President should be paralleled in the state/university relationship.

The best of the state universities around the nation function with substantial management flexibility. Flexibility will always be a matter of degree, as will independence, and autonomy. Stephen Bailey described the issue as part of a "persistent human paradox: the simultaneous need for structure and for anti-structure, for dependence and for autonomy, for involvement and for privacy." Bailey concluded that, "The public interest would not, in my estimation, be served if the academy were to enjoy untroubled immunity. Nor could the public interest be served by the academy's being subjected to an intimate surveillance. Whatever our current discomforts because of a sense that the state is crowding us a bit, the underlying tension is benign."⁶

⁶ Stephen K. Bailey, "Education and the State," in John F. Hughes, ed. Education and the State, (Washington, D.C.: American Council on Education, 1975), p. 1.

We observe that in many states the vitality of state colleges and universities is sapped by state controls which frustrate good management. The examples are legion: arbitrary controls on out-of-state travel; competitive bidding on extremely small accounts; delays in timely delivery because of centralized purchasing; recapture of end of year balances which encourage last minute spending; civil service provisions that fail to reflect specialized labor markets such as nurses at university hospitals; pay schedules that are obsolete; pre-audit of university purchases--guaranteeing costly delay; approval of personnel actions by a state personnel board; detailed line items imposed by legislative fiat; processing paychecks and vendor fees at the statehouse. Such micro-management destroys the accountability it purports to promote. This is a road not to be taken.

The investigative power is a historic right of state legislatures. It is a power that must be used with care and caution, as the experience in state government everywhere testifies. Investigative inquiries are useful in illuminating problem areas and in spurring public officials to do what they should have been doing. They also run the risk of overstatement and exaggeration. There is scarcely an activity in large organizations that, placed under microscopic examination, does not show "something wrong." The difficulty, and importance, of putting things in perspective should be obvious.

The reports of the Legislative Auditor appear to be professional in the best sense of the word. However, no amount of probing inquiries by the Legislative Auditor will create accountability. In its best and fullest sense, accountability requires a vigorous, disciplined Board of Regents exercising policy direction and oversight, an administration competent and purposeful as well as visionary, and a faculty dedicated to excellence in teaching, research, and service. This is the challenge before the University of Minnesota and the elected representatives whose understanding and support sustain it.

CONCLUDING COMMENT

As we reflect on the events that led to the creation of the Blue Ribbon Commission on the Financial Management of the University of Minnesota, we believe that what is most needed is the saving grace of perspective.

It is undeniable that the credibility of the University of Minnesota was damaged in the eyes of the Governor, the Legislature, the faculty, the students, and its varied constituencies--alumni, donors, friends everywhere. But in all that most matters in the daily life of this great University--teaching, research, public service--the work of the University has proceeded without interruption.

There has been damage--major damage--to the University's self-image. It matters how the university community feels about

their university; it matters greatly how alumni, donors, friends everywhere feel about their university; and it matters supremely how the people of Minnesota and their elected representatives feel about their flagship university. There has been chagrin, embarrassment, anger--all testifying to the depth of loyalty that Minnesotans feel for their university. But those whose support is essential to the continuing vitality of the University must realize that an episode is just that--an episode in the life of the University.

Any major university would profit from the kind of comprehensive, in-depth analysis of every aspect of the financial and management information system which Coopers and Lybrand has done. Plainly, there is work to be done in overhauling the accounting system, improving the budget process, and tightening audit provisions. Plainly, these tasks require that the Board and the President work closely together, in close touch with the legislature. We believe it equally plain that the University of Minnesota, in the public spotlight, will rally to the task, and indeed has begun to do so.

Interim President Sauer dealt promptly with the laxity that led to Eastcliff and the abuse of reserves. Upon his recommendation, the Board adopted new policies and procedures which deal explicitly with contracts, contract overruns, and the handling of the reserve account. In this connection, Board Chairman David Lebedoff is to be commended for his leadership in preparing a Board rule which clarifies in significant respects

how the Board will operate in the future. In short, the corrective process is well under way. It will be accelerated significantly as the University deals with the recommendations in the Coopers and Lybrand report.

We are greatly heartened by the continuing support given to "A Commitment to Focus" by the Regents and Interim President Sauer. In our view, this impressive effort to rethink academic priorities, involving a commitment to focus resources to preserve and enhance quality, can be the rallying point of a revitalized university. A major challenge for the new president will be to see that the momentum for significant change is not lost.

In appraising the governance of the University we conclude that the structure is basically sound and strongly advise against any effort to strip the University of constitutional autonomy. However, we also conclude that the coordinate campuses, and particularly the Duluth campus, must be full participants as a matter of right in the decision-making processes.

We have made specific recommendations where the problem can be addressed in a tangible way. Examples are the president's role with respect to the coordinate campuses and the selection of board members. But structural changes and new consultative processes do not go to the heart of the matter. As stated earlier, the fundamental principles and practices that make for a healthy and productive relationship between the President and

the Board of Regents had been lost sight of. There are no short cuts to a restored credibility, or to improved communication. It is no good to plead for trust in the abstract; trust grows out of the hard soil of experience. The heart of the matter lies in changing attitudes, in the rediscovery and reaffirmation of "what works" in major universities everywhere.

The Board, individually and collectively, is challenged to rethink its responsibilities. The University cannot afford a passive, rubber-stamp Board nor can it afford an adversarial Board. The University, and the public it serves, deserves an active, energetic, probing Board which exercises critical judgment on policy matters, strengthening and sustaining the President in the process.

The next President is challenged not simply to be the chief executive officer but, as we noted earlier, the inspired leader of the entire institution, instilling confidence, enthusiasm, and trust through a first class performance in the carrying out of the educational plan. The restoration of credibility is the great challenge and the great opportunity for the new President. The President must "take the University to the state"--openly, honestly, directly, remembering always that the University belongs to the people of the state.

The next President and the Board are challenged to work as a team, communicating freely, sharing ideas and concerns, each enhancing the contribution of the other. Attitudes matter profoundly.

The Legislature is challenged, perhaps as never before, to actively recruit outstanding men and women for service on the Board of Regents. Diversity, not representation, is the goal. Only the Legislature can make it pointedly clear that a board member represents all the people of the state, and no political party or ideology or profession or community.

The Interim President is challenged to continue to move ahead in developing consultative processes that provide the coordinate campuses participation, and the fair treatment that they deserve. We are heartened by the measures already taken and those planned.

The Legislature and the Governor, accountable to the people of the state, exercise a critically important oversight role. Regardless of constitutional autonomy, they have great power over the destiny of the University. Again, attitudes matter. There can be a downward spiral of less trust and deterioration in the relationship between the University and the Legislature and the governor or an upward spiral in which shared goals, honesty, and good faith moves the University forward.

Finally, governance matters; the performance of the Board and the President matter; the oversight of political leadership matters. Financial accountability matters, as do management processes that encourage orderly and systematic budgeting, accounting, and auditing. But all these together do not make, can not make, a great university. The wellsprings of strength in the University of Minnesota reside deep within its faculty, in

the loyalty of its many friends, in the excellent academic reputation which it continues to enjoy. Every act by every officer or official at every level on campus and at the state capitol has consequences for the vitality of the academic life of the University. It is against this touchstone that all actions are to be measured.

The University of Minnesota deserves the very best in its new President. We are confident that the choice will be an excellent one and that the University will be launched on a new era of excellence.

APPENDIX 2

Executive Summary of the Report of Coopers & Lybrand

I. EXECUTIVE SUMMARY

BACKGROUND, OBJECTIVES, AND APPROACH

THE OBJECTIVES OF THIS STUDY, CONDUCTED BY COOPERS & LYBRAND FOR THE GOVERNOR'S BLUE RIBBON COMMISSION, WAS TO REVIEW THE FINANCIAL MANAGEMENT SYSTEMS OF THE UNIVERSITY OF MINNESOTA.

OUR APPROACH TO THE PROJECT INVOLVED THE ASSESSMENT OF SPECIFIC FINANCIAL MANAGEMENT FUNCTIONS AND THE DEVELOPMENT OF RECOMMENDATIONS WHERE APPROPRIATE.

Based on the initial round of interviews, we focused upon six primary areas:

- . Decision-Making Framework
- . Financial Management Information Systems and Procedures
- . Planning and Budgeting Systems and Procedures
- . Administrative and Financial Controls
- . Management of Balance Sheet Items, Including Cash, Plant, Endowments, Debt, and Reserves
- . Audit Programs - Internal and External.

THE TERM "UNIVERSITY" IS WIDELY USED THROUGHOUT THIS REPORT AND HAS BEEN DEFINED BY COOPERS & LYBRAND TO ENCOMPASS THE BOARD OF REGENTS, SENIOR ADMINISTRATION, AND SUPPORTING PERSONNEL TO BE TAKEN AS A WHOLE.

- . Differentiation between the aforementioned groups has been made when possible.
- . The purpose of this report is not to assign blame, but to assess current conditions needing improvement.

SUMMARY CONCLUSIONS

BALANCE SHEET ASSET MANAGEMENT REVEALED WELL-CONCEIVED, REPORTED, AND MANAGED PROGRAMS IN CASH AND DEBT MANAGEMENT, ENDOWMENT AND INVESTMENT, AND CENTRAL RESERVES.

THE UNIVERSITY HAS NOT PROVIDED FOR THE NEEDED REINVESTMENT IN EXISTING PHYSICAL PLANT.

GAPS IN THE FINANCIAL MANAGEMENT INFRASTRUCTURE IMPEDE UNIVERSITY-WIDE CONTROL OF THE INSTITUTION.

THE UNIVERSITY HAS NOT PLACED A HIGH PRIORITY ON CORRECTING THE SHORTCOMINGS OF ITS FINANCIAL MANAGEMENT SYSTEM.

LEADERSHIP, ACCOUNTABILITY, TIME, AND RESOURCES ARE NECESSARY FOR THE UNIVERSITY TO REPAIR ITS FINANCIAL MANAGEMENT SYSTEM.

SUCCESSFUL IMPLEMENTATION OF AGREED-UPON SOLUTIONS WITH APPROPRIATE ACCOUNTABILITY MEASURES PRECLUDES THE NEED TO MAKE CHANGES TO THE EXISTING CONSTITUTIONAL AND REGULATORY FRAMEWORK.

ASSESSMENT - DECISION-MAKING FRAMEWORK

ACCOUNTABILITY AND REPORTING WEAKNESSES ARE SIGNIFICANT PROBLEMS FACING THE UNIVERSITY OF MINNESOTA; YET, THE CONSTITUTIONAL AND LEGISLATIVE UNDERPINNINGS OF THE FINANCIAL GOVERNANCE STRUCTURE OF THE UNIVERSITY OF MINNESOTA ARE FUNDAMENTALLY SOUND.

- . The academic strategy of the University is clearly articulated, but its financial goals and objectives are not.
- . Board and senior administration responsibilities and policies are unclear and inconsistently interpreted, resulting in misunderstanding and ineffective use of time.
- . Vague requirements for accountability, coupled with the ineffective presentation of quantitative information, could result in ineffective decision-making.
- . The constitutional, statutory, and regulatory framework is fundamentally sound.

RECOMMENDATIONS - DECISION-MAKING FRAMEWORK

THE BOARD OF REGENTS CAN GOVERN MORE EFFECTIVELY IF IT CLARIFIES BOARD/MANAGEMENT RESPONSIBILITIES AND STREAMLINES ROUTINE BOARD OPERATING PROCEDURES.

FINANCIAL INFORMATION TO SUPPORT BOARD DECISION-MAKING MUST BE BETTER FOCUSED ON CRITICAL INDICATORS.

THE MINNESOTA LEGISLATURE SHOULD DIRECT ITS ACTIONS TOWARD IMPROVING UNIVERSITY ACCOUNTABILITY.

ASSESSMENT - PLANNING AND BUDGETING PROCESS

THE PLANNING AND BUDGETING PROCESS FAILS TO ADEQUATELY INCORPORATE NON-ACADEMIC WITH ACADEMIC NEEDS, AND THE BUDGET PROCESS FAILS TO BE WELL UNDERSTOOD AND INHIBITS REALLOCATION OF APPROPRIATED FUNDS ACCORDING TO PLANS.

- . While academic planning has been pursued aggressively in recent years, a fragmented approach to non-academic planning has undermined the ability of administrative operations to effectively support academic units.
- . The basis for fund allotments and commitments made by the University Management Committee is not fully disclosed, resulting in an "Accountability Gap" for meeting planning objectives.
- . The annual budget does not provide a clear or complete picture of University operations, nor does it support effective control over expenditures; consequently, those needing meaningful budget information have had to reconstruct it.
- . The incremental nature of budget preparation not only precludes effective linkages with the planning process, it reflects deeper rooted problems relating to the internal reallocation of base funds.

RECOMMENDATIONS - PLANNING AND BUDGETING PROCESS

THE UNIVERSITY SHOULD CONSOLIDATE ITS PLANNING AND BUDGETING OFFICES TO ADDRESS SPECIFIC WEAKNESSES IN THE PROCESS AND HOLD THAT OFFICE ACCOUNTABLE FOR IMPROVEMENTS.

Implement at least five enhancements to the process in order to resolve current weaknesses.

- . Formalize the allotment and commitment component of the budgeting process.
- . Improve non-academic planning.
- . Document and implement "flexible base" budgeting procedures.
- . Redesign budget reports.
- . Establish a set of financial performance measurements.

ASSESSMENT - FINANCIAL INFORMATION SYSTEMS

FINANCIAL INFORMATION SYSTEMS DO NOT SUPPORT INFORMED DECISION-MAKING, AND LONG OVERDUE IMPROVEMENTS ARE PROCEEDING IN AN UNPLANNED, SLOW, AND DISJOINTED FASHION.

- . Financial information systems do not provide the Board of Regents and Central Administration with timely and accurate information for informal decision-making.
- . Inadequate planning and prioritization has led to delays in improving known deficiencies of the financial information systems.
- . Information systems' funding techniques and chargeback policies and procedures also impede the development of University-wide administrative and financial information systems.

RECOMMENDATIONS - FINANCIAL INFORMATION SYSTEMS

TO ENSURE THAT RESOURCES ARE FOCUSED AND IMPROVEMENTS MADE TO THE FINANCIAL INFORMATION SYSTEMS, A COMPREHENSIVE PLAN MUST BE IMMEDIATELY DEVELOPED, APPROVED, FINANCED, AND ITS IMPLEMENTATION MONITORED BY THE PRESIDENT AND BOARD OF REGENTS.

SYSTEM IMPROVEMENTS WILL REQUIRE ADDITIONAL STAFF AND FUNDING AND ARE ESTIMATED TO COST BETWEEN \$12.5 AND \$18 MILLION OVER THE NEXT THREE TO FIVE YEARS.

REVISE THE FUNDING AND CHARGEBACK POLICIES FOR ADMINISTRATIVE INFORMATION SYSTEMS.

ASSESSMENT - FINANCIAL AND ADMINISTRATIVE CONTROLS

THE LACK OF COMPREHENSIVE POLICIES AND PROCEDURES, PROPER CONTINUING EDUCATION AND TRAINING, AND SYSTEMS CAPABLE OF DELIVERING ACCURATE AND RELIABLE FINANCIAL INFORMATION ALLOWS FOR LAPSES IN CONTROL.

- . The lack of widely-known and publicized policies concerning transaction authorization has weakened the control environment.
- . There is no centralized responsibility for the creation and maintenance of University-wide accounting controls, resulting in incomplete documentation and outdated procedures.
- . Financial and operational information required by key participants has not been sufficiently identified and may not be obtainable, resulting in an increased risk of ineffective decision-making.
- . Increased workload, lack of proper continuing education and training, and turnover have only compounded the control problems.
- . The lack of known and well-documented policies and procedures has reduced internal audit's role to that of internal consultant and educator with a focus on routine procedural activities rather than the overall control environment.

RECOMMENDATIONS - FINANCIAL AND ADMINISTRATIVE CONTROLS

THE UNIVERSITY SHOULD ESTABLISH A CENTRALIZED AUTHORITY FOR THE CREATION, DISTRIBUTION, MAINTENANCE, AND ENFORCEMENT OF UNIVERSITY-WIDE POLICY AND PROCEDURES.

EFFICIENT MANAGEMENT AND CONTROL OF FINANCIAL AFFAIRS REQUIRES THAT THE DEFICIENCIES OF CURRENT INFORMATION SYSTEMS BE RESOLVED.

THE UNIVERSITY SHOULD REVIEW WORKLOAD LEVELS AND RESPONSIBILITIES, DEVELOP A CONTINUING EDUCATION PROGRAM, AND EXAMINE JOB CLASSIFICATIONS FOR FINANCIAL PERSONNEL.

ASSESSMENT - BALANCE SHEET MANAGEMENT

OUR BALANCE SHEET MANAGEMENT STUDY REVEALED THOROUGH PLANNING, REPORTING, AND MANAGEMENT OF PROGRAMS IN PLACE FOR ALL AREAS EXCEPT PHYSICAL PLANT.

- . With \$2.7 billion in assets, the University would rank 132nd among Fortune 500 companies in fiscal 1987.

CASH MANAGEMENT PRACTICES, WITH FEW EXCEPTIONS, ARE SOUND.

AT THE END OF 1987, THE MARKET VALUE OF THE UNIVERSITY'S ENDOWMENT TOTALED \$241 MILLION, PLACING IT AS ONE OF THE HIGHEST IN THE BIG 10 (EXCLUDING THE FOUNDATION).

THE UNIVERSITY HAS SIGNIFICANTLY AFFECTED AND REDUCED DEBT INTEREST RATES THROUGH AN EFFECTIVE PROGRAM OF MANAGING UNIVERSITY DEBT.

RESERVES PLAY A FUNDAMENTALLY IMPORTANT ROLE FOR ALL COLLEGES AND UNIVERSITIES IN MAINTAINING FINANCIAL STABILITY.

- . As defined by Minnesota, "Central Reserves" represent a combination of various fund balances.
- . Until March 1988, the Regents did not receive a detailed listing of all reserve expenditures; however, the reporting of Central Reserve balances and spending has intensified due to public disclosure of the existence of these funds.

LESS EMPHASIS HAS BEEN PLACED ON MANAGING PLANT ASSETS RELATIVE TO OTHER SMALLER ASSETS AND HAS RESULTED IN DEFERRED MAINTENANCE BELIEVED TO BE IN EXCESS OF \$250 MILLION.

RECOMMENDATIONS - BALANCE SHEET MANAGEMENT

THE UNIVERSITY SHOULD UPGRADE ITS CASH FORECASTING CAPABILITY IN ORDER TO FORECAST AT LEAST ON A MONTHLY BASIS.

THE PLANNING FOR AND REINVESTMENT IN PHYSICAL PLANT ASSETS REQUIRES IMMEDIATE ATTENTION.

ASSESSMENT - AUDIT PROGRAMS-INTERNAL AND EXTERNAL

THE AUDIT RESULTS HAVE NOT BEEN USED TO ADDRESS KEY TRENDS AND ISSUES.

- . Various auditor's reports have contained evidence of several University-wide issues including:
 - Lack of comprehensive policies and procedures manuals
 - Lack of consistent encumbering of funds before expenditure
 - Need to utilize accrual accounting for interim financial reporting
 - Need to ensure accounting expertise in a decentralized environment.
- . The nature of audit reports and management comments has been compliance-oriented and directed towards the specific area being reviewed.
- . The internal audit group has distributed its reports to the audited departments and the Vice President for Finance and, since the re-reporting realignment in March 1988, a list of its reports to the Audit Committee.
- . The independent public accountants have reported their findings in written detail to the Vice President for Finance and in a summarized fashion to the Board of Regents.

THERE HAVE BEEN RECENT BENEFICIAL CHANGES TO THE PROCESS FOR CONDUCTING AUDIT ACTIVITIES.

- . Planning and reporting of audit activities has been strengthened.
- . The internal audit department now reports to the audit committee.

RECOMMENDATIONS - AUDIT PROGRAMS-INTERNAL AND EXTERNAL

ALL AUDIT FINDINGS SHOULD BE EVALUATED TO DETERMINE IF THE INDICATED PROBLEMS ARE ISOLATED, SPECIFIC TO A DEPARTMENT OR POLICY, OR ARE INDICATIVE OF A UNIVERSITY-WIDE PROBLEM.

THE AUDIT COMMITTEE SHOULD BROADEN THE SCOPE AND RESPONSIBILITIES OF THE INTERNAL AUDIT GROUP.

A COORDINATED AUDIT APPROACH SHOULD BE PLANNED FOR THE INTERNAL AUDIT GROUP AND THE EXTERNAL AUDITORS.

THE AUDIT COMMITTEE AND INTERNAL AUDIT GROUP SHOULD PLAN THE DESIRED SCOPE OF INTERNAL AUDIT ACTIVITIES AND DEVELOP A BUDGET BASED UPON ANTICIPATED ACTIVITIES, RATHER THAN DEVELOPING AUDIT ACTIVITIES BASED UPON AVAILABLE RESOURCES.

PRIORITIZE THE RESOLUTION OF UNIVERSITY-WIDE ISSUES IDENTIFIED AS A RESULT OF AUDITS AND DEVELOP AN ACTION PLAN FOR THEIR RESOLUTION.

SUMMARY RECOMMENDATIONS

FINANCIAL ACCOUNTABILITY MEASURES AND REPORTING REQUIREMENTS MUST BE ESTABLISHED BETWEEN THE UNIVERSITY AND THE LEGISLATURE AND BETWEEN THE UNIVERSITY MANAGEMENT AND THE BOARD OF REGENTS.

COMPREHENSIVE PLANS TO AGGRESSIVELY CORRECT THE UNIVERSITY'S FINANCIAL MANAGEMENT AND REPORTING SYSTEMS MUST BE DEVELOPED BY THE ADMINISTRATION AND REVIEWED, APPROVED, AND FUNDED BY THE BOARD OF REGENTS.

Key areas where corrective measures must be undertaken are:

- . Integration of planning, budgeting, and funding for academic and non-academic objectives
- . Enhancement of the budget development process and reporting system
- . Revision and enforcement of financial policies and procedures
- . Replacement of computerized financial information systems
- . Correction of the deterioration of the physical plant.

THE PLANS MUST ACT AS A CLEARLY UNDERSTANDABLE ROADMAP AGAINST WHICH THE UNIVERSITY'S PROGRESS CAN BE MEASURED.

IDENTIFY KEY STAFF AND ASSIGN RESPONSIBILITY TO IMPLEMENT THE PLANNED IMPROVEMENTS.

ADMINISTRATIVE AND FINANCIAL CONTROLS SHOULD BE ADHERED TO AND SUPPLEMENTED WITH A COMPREHENSIVE AUDIT AND ENFORCEMENT PROGRAM.

III.G SUMMARY CONCLUSIONS

1. GAPS IN THE FINANCIAL MANAGEMENT INFRASTRUCTURE IMPEDE UNIVERSITY-WIDE CONTROL OF THE INSTITUTION.

The financial management infrastructure should provide for: the translation of management and academic objectives into financial measurements; consistent policies, procedures, and systems to capture and report against measurements; and monitoring mechanisms that enable the timely initiation of corrective action.

(1) We identified the following areas of concern in which serious gaps were found leading to actual and potential lapses in control:

- . Accountability and reporting weaknesses are significant problems facing the University of Minnesota; yet, the constitutional and Legislative underpinnings of the financial governance structure are fundamentally sound.
- . The planning and budgeting process fails to adequately incorporate non-academic with academic needs, and the budget process fails to be well understood and inhibits reallocation of appropriated funds according to plans.

- . Financial information systems do not support informed decision-making, and long overdue improvements are proceeding in an unplanned, slow, and disjointed fashion.
- . The lack of comprehensive policies and procedures, proper continuing education and training, and systems capable of delivering accurate and reliable financial information allows for lapses in control.
- . The University's total audit program has not been used effectively to identify University-wide problem areas and issues, and it has not been supported by a process that assesses, ranks, and implements solutions to its findings.

(2) In addition, we reviewed the management of balance sheet assets and found a well conceived, reported, and managed program in the following areas:

- . A Cash Management Program that utilizes advanced techniques to expedite cash handling
- . A Debt Management Program that has reduced interest rate costs from 10.9 to 6 percent
- . A Central Reserve Program similar in size and nature to comparable universities
- . An Endowment and Investment Program that has achieved high returns for the University.

(3) We are concerned, however, with the University's lack of understanding of the needed reinvestment in existing physical assets.

- . The University has not developed a plan nor do they have an accurate cost estimate to address the defined maintenance of its aging buildings and facilities.
- . Proper funding to provide on-going maintenance has not been established.

2. THE UNIVERSITY HAS NOT PLACED A HIGH PRIORITY ON CORRECTING THE SHORTCOMINGS OF ITS FINANCIAL MANAGEMENT SYSTEM.

(1) Corrective action of problem areas identified by internal staff and/or external consultants has been either non-existent or slow in forthcoming.

- . Immediate implementation, as requested by the University President, of financial management recommendations formulated by a University task force in October 1986 has not taken place. These recommendations include:
 - Comprehensive and linked academic and non-academic planning
 - Centralized planning and budgeting unit reporting to the President
 - Automated budgeting
 - Complete-base budgeting
 - Establishment of priorities for financial information systems.
- . Proposals brought forward by internal staff to the senior management team to establish an office responsible for Policies and Procedures have not received action.

- . Comments and observations of weaknesses in the financial management system by the University's external auditors have appeared in successive management letters. Approximately 70% of the detailed recommendations are corrected within 18 months, and subsequent years' letters usually contain repeat comments on 50% of the previous year's observations. Some University-wide issues have been corrected quickly, some have been corrected over time, and some remain open.
- . The following are examples of University-wide issues and their current status:
 - Audit Committee - First recommended 1983; implemented 1984
 - Student Loan System - First recommended 1982; implemented 1986
 - Administrative Information Systems - First recommended 1983; open
 - Policies and Procedures - First recommended 1985; open.

(2) A comprehensive and prioritized plan to address the areas of concern and a request for the needed funding to support the plan have not been advanced to the Board of Regents by senior administration.

- . Senior administration has not developed a comprehensive plan with a request for the total funds required for repair.
- . Absent a plan or request from senior administration, the Board has not taken action to address University-wide shortcomings identified in audit findings that were communicated to both senior administration and the Board.

3. LEADERSHIP, ACCOUNTABILITY, TIME, AND RESOURCES ARE NECESSARY FOR THE UNIVERSITY TO REPAIR ITS FINANCIAL MANAGEMENT SYSTEM.

(1) Top management at the University has not displayed the skill level or experience required to lead the repairs of the financial management system.

- . Direction, guidance, and the establishment of priorities for the repair of the financial management system should be derived from three key positions/entities that include:
 - President of the University
 - Chief Financial Officer of the University
 - Financial/Audit Committee Members of the Board of Regents.
- . The University and Board Selection Committee must critique the background and skills of any individuals currently under consideration for the aforementioned positions in light of the present University needs.

(2) Unclear, undefined, and unaccepted measures of accountability for the required repairs have interfered with the University's attempts to move forward.

- . The roles and responsibilities of the key financial management positions/entities have not been clearly defined, particularly when contrasted with each other.

- . Communication and formal acceptance of responsibilities related to the development and maintenance of a sound financial management system has not taken place.
 - . The University has struggled when defining measureable yardsticks for performance of these responsibilities.
- (3) The current financial management system has developed and evolved over the last 20 years; repairs to the system will not take place overnight.
- . Financial management of the University occurs through a combination of centrally and decentrally-developed methods and techniques. Manual data-gathering techniques, hand-me down procedures, and shadow systems supplement the process of the centrally-managed infrastructure.
 - . Development, replacement, and refinement of a central system conducive to system-wide financial management will require several years (see Summary Recommendations [Section IV] for time estimates).

(4) Insufficient funds have been allocated in the past to support the development and maintenance of the required financial system.

- . High priorities and associated funds have been assigned in the past to support the academic mission of the University to the detriment of the financial management system.
- . Funds must be reallocated and/or new funds requested and received to meet the University's needs (see Summary Recommendations [Section IV] for cost estimates).

4. SUCCESSFUL IMPLEMENTATION OF AGREED-UPON SOLUTIONS WITH APPROPRIATE ACCOUNTABILITY MEASURES PRECLUDES THE NEED TO MAKE CHANGES TO THE EXISTING CONSTITUTIONAL AND REGULATORY FRAMEWORK.

(1) Effective and efficient solutions are best derived from within the University itself.

- . The University is best able to differentiate between cause and effect of problems existing today.
- . The University can obtain the required expertise internally and externally to direct the successful implementation of the solutions.

(2) Autonomy enables the University to develop its highly-regarded academic programs.

- . The Minnesota State constitution established the University as an independent unit for furthering the higher education goals of the State and populace.
- . The University is recognized as a leader in the academic community.

(3) Successful implementation monitored through performance measures eliminates the need for external intervention.

- . Corrective solutions are dependent upon the acquisition and allocation of appropriate resources and the assignment of accountability for implementation.
- . The University must develop the feedback mechanisms necessary to assure all interested parties of the progress being made.
- . Outside intervention, that may be ineffective, inefficient, or prove to create artificial barriers, is not necessary with successful implementation of solutions.

IV. SUMMARY RECOMMENDATIONS

1. FINANCIAL ACCOUNTABILITY MEASURES AND REPORTING REQUIREMENTS MUST BE ESTABLISHED BETWEEN THE UNIVERSITY AND THE LEGISLATURE AND BETWEEN THE UNIVERSITY MANAGEMENT AND THE BOARD OF REGENTS.

Restoration of confidence and credibility at the University is imperative. Management of financial affairs is a duty shared by both the University Management and the Board of Regents. Concise reports and accountability measures that portray sound financial management must be developed by the University, approved by the Board, and reviewed by the Legislature. Prior agreement as to content and format of these reports and the duties of personnel responsible for results will restore the confidence and credibility from within and without the University.

(1) The University must take the initiative to work with the Legislature in developing, communicating, and mutually agreeing upon the Legislature's expectations of financial management performance at the University.

- . An "accountability framework" should be developed with the objective of providing the Legislature and other public officials with assurances that the University is accomplishing its mission, that public assets are being safeguarded, and that financial transactions are being appropriately executed and properly recorded.

- . Critical financial data and performance measurements should be made part of a limited set of information to be reported from the University to the Legislature annually.

(2) The Board of Regents and the University Management must mutually agree upon a set of critical financial performance indicators that are acceptable to both.

- . Identification of the University's specific information requirements should involve: (1) the identification of critical decision areas and (2) the selection of key indicators that portray the condition of critical decision areas.
 - "Critical decision areas" are the relatively small number of truly important strategic areas on which the Board and senior University executives should focus their attention.
 - "Key indicators" for such critical decision areas should be identified that reflect the overall condition and movement of the system and individual institutions in this strategic context.
- . The respective functions and responsibilities of the University President and the Board of Regents should be clarified, set down in writing, and adopted formally as a policy of the Board.

2. COMPREHENSIVE PLANS TO AGGRESSIVELY CORRECT THE UNIVERSITY'S FINANCIAL MANAGEMENT AND REPORTING SYSTEMS MUST BE DEVELOPED BY THE ADMINISTRATION AND BE APPROVED BY THE BOARD OF REGENTS.

The development of comprehensive plans will enable the University to deal with the magnitude of the corrective actions, while establishing accountability for the delivery of requirements, resources, and personnel required to implement the plans.

(1) The six areas where corrective measures must be undertaken are:

- . Integration of planning, budgeting, and funding for academic and non-academic objectives
- . Enhancement of the budget development process and reporting system
- . Revision and enforcement of financial policies and procedures
- . Replacement of computerized financial information systems
- . Correction of the deterioration of the physical plant
- . Development of a comprehensive audit program.

(2) Develop plans that will act as clearly understandable roadmaps against which the University's progress can be measured and should include:

- . Major deliverables or accomplishments
- . Priority and sequence of activities
- . Resources and time period requirements
- . Personnel requirements and responsibilities.

(3) Corrective measures will require an investment of time and money estimated at three to five years and \$12.5 - \$18 million.

- . The replacement/upgrading of financial information systems will require the largest percentage of the investment in time and money. The costs to revise policies and procedures and work flows that coincide with changes in the information systems are included in the aforementioned estimates.
- The development of the plan for the financial information systems is estimated to require six to nine months of effort and cost \$680,000 to \$1,020,000 (see Detailed Recommendations - Financial Information System IV.C-2 for specifics).

- . Excluded from this estimate of costs are on-going operational costs, staff training costs, cost for committee and review time, costs associated with any changes to the accounting code structure and revision costs for policies and procedures not directly linked with financial information systems.
- . Further discussion may be found in the Detailed Recommendations - Financial Information System IV.C-2.

3. RECRUIT AND TRAIN KEY STAFF AND ASSIGN RESPONSIBILITY TO IMPLEMENT THE PLANNED IMPROVEMENTS.

Skilled professionals are required to drive and administer the implementation of needed improvements. People are the single most "critical" component required to effect the changes and improvements necessary at the University. Without the right individuals placed in the right jobs, improvements will not take place.

(1) Emphasis must be placed on the selection of knowledgeable and experienced individuals.

- . Two positions critical to the implementation of improved financial management at the University are the President and the Chief Financial Officer. A first priority of the new President should be to fill the CFO position.
- . We concur with the recent realignment of Physical Plant and Physical Planning under the same officer. In view of the attention that will be required by the CFO in improving the financial management systems, consideration should be given to place Physical Plant and Physical Planning under a new officer level position reporting to the President.
- . It is equally as important that the composition and experience level of the Board members on the Financial and Audit sub-committees should be consistent with University needs. These members must be able to interpret financial results, direct activities, and analyze recommendations of both the internal and external auditors. Issues that merit the attention of the entire Board must be brought forward by these committees.

(2) A continuing education and training program should be established at all levels of financial management.

- . The formal education and experience background of all individuals involved in the University's financial management should be supplemented through sound orientation programs, seminars, and classroom training.
- . The University should take advantage of and continue peer group meetings and discussions with comparable universities to further educational opportunities.

(3) Successful implementation of needed improvements depends upon personnel who are responsible and accountable for effecting change.

- . The University must identify and assign personnel responsible for developing action plans that coincide with each area of improvement.
- . The progress of implementation should be tracked through reviews, performance measurements, and major milestones as work continues.

4. COMPLIANCE WITH UNIVERSITY FINANCIAL CONTROLS SHOULD BE THE RESPONSIBILITY OF ALL UNIVERSITY PERSONNEL AND SHOULD BE SUPPLEMENTED WITH A COMPREHENSIVE AUDIT AND ENFORCEMENT PROGRAM.

The existence of and compliance with financial controls ensures that University assets are safeguarded and financial records are accurate. University assets should be treated as precious resources that are preserved and utilized only in an effective and efficient manner to accomplish the University's mission. Personnel charged with the responsibility of financial management must be able to rely on the records and financial information received in order to accomplish their duties.

(1) Well-documented policies and procedures must be developed to provide guidelines for all financial transactions.

- . A comprehensive policies and procedures manual should include the following:
 - Board of Regents policies
 - Central administration policies and procedures
 - Topical subject procedures such as purchasing, payroll, gifts, contributions, etc.
 - College and departmental procedures.

(2) Responsibility for compliance with University policy and procedures rests at the department, college, and administrative unit level.

- . All personnel must have access to current policies and procedures.
 - Distribution and maintenance of up-to-date policies and procedures should be the responsibility of a centralized authority.
 - Each department, collegiate, and administrative unit must be the recipient of these updates.
- . Methods of operation should be reviewed at each unit level in light of newly developed policies and procedures.
- . Comments and recommendations provided by internal and external auditors concerning controls should be incorporated into each unit's operations.

(3) A comprehensive audit approach must be developed in order to coordinate the efforts of the internal and external audit teams and to address the need for periodic operational audits.

- . Internal and external auditors should plan and work together in order to avoid duplicative coverage by the internal audit group in financial audits.

- . The Audit Committee of the Board must actively participate in the analysis and follow-up of all audit findings and recommendations and establish a process that holds management responsible for correcting any noted situations.
 - . Operational or management audits should become a budgeted activity of the internal audit group. Some of the audit activities would include special projects designated to identify the magnitude, alternatives, and validity of solutions for recommended changes.
- (4) The Chief Financial Officer (CFO) and his/her designee should be ultimately responsible for the enforcement and consistent application of all University financial policies and procedures.
- . Appropriate policies and procedures must be developed that have University-wide jurisdiction and that are enforced on a consistent basis.

APPENDIX 3

Additional Consultants and Staff

CONSULTANTS TO THE COMMISSION

Coopers & Lybrand:

Mark Chronister, Partner	Minneapolis, MN
Hank Duffy, Partner	Austin, MN
Steve Engelkes, Manager	Minneapolis, MN
Greg Gibson, Supervising Consultant	Minneapolis, MN
Mike Liesman, Partner	St. Louis, MO
Garry Lowenthal, Supervising Consultant	Minneapolis, MN
Mike Outcalt, Partner	Minneapolis, MN
Jim Peterson, Partner	Chicago, IL
Joanne Pisani, Manager	Minneapolis, MN
Sean Rush, Director	Boston, MA
Alden Schiller, Manager	Minneapolis, MN
Lyle Shaw, Manager	Minneapolis, MN
Bruce Vatne, Director	Minneapolis, MN

COMMISSION CHAIRMAN'S STAFF

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University Liaison:

Dr. Edward Foster
Associate Vice President
Academic Affairs
University of Minnesota

Report Preparation:

William Swanson
Freelance Writer

Recording Secretary:

Connie Kelly
State Department of Administration

APPENDIX 4

People Who Testified before the Commission

**Persons Who Testified before the
Governor's Blue Ribbon Commission on the
Financial Management of the
University of Minnesota**

Representative Glen Anderson

Russ Bennett
President,
University Foundation

Terry Bock
Management Analysis Division,
Minnesota Department of Administration

Senator John Brandl

Carol Campbell
Acting Vice President for Finance & Operations
University of Minnesota

Arne Carlson
State Auditor

Representative Lyndon Carlson

Dr. Shirley Clark
Chair, Department of Educational Policy and Administration,
College of Education;
Chair, Senate Finance Committee; and
Chair-elect Senate Consultative Committee

Hank Duffy
Consultant,
Coopers & Lybrand

Dr. Virginia Gray
Chair, Department of Political Science,
College of Liberal Arts

Wally Hilke
At-Large Member
Board of Regents

Dr. Ettore Infante
Dean of the Institute of Technology

David Lebedoff
Chairman of the Board of Regents

David Lilly
Vice President Emeritus for Finance and Physical Planning,
University of Minnesota

Jim Nobles
Legislative Auditor

Dale Olseth
Chairman of the Foundation,
University Foundation

Mike Outcalt
Consultant,
Coopers & Lybrand

Jim Peterson
Consultant
Coopers & Lybrand

Joanne Pisani
Consultant
Coopers & Lybrand

Steve Roszell
Vice President and Executive Director,
University Foundation

Sean Rush
Consultant
Coopers & Lybrand

Dr. Richard Sauer
Interim President
University of Minnesota

Alden Schiller
Consultant
Coopers & Lybrand

Senator Glen Taylor

Tom Triplett
State Commissioner of Finance

Senator Gene Waldorf

Harold Enarson
President Emeritus
Ohio State University

William Friday
Chancellor Emeritus
University of North Carolina

Arthur Hansen
President Emeritus
Purdue University; Texas A & M

Lawrence Ianni
Campus Chancellor
University of Minnesota, Duluth

John Imholte
Campus Chancellor
University of Minnesota, Morris

Edward Frederick
Campus Chancellor
University of Minnesota, Waseca

Donald Sargeant
Campus Chancellor
University of Minnesota, Crookston

Robert Heller
Former Campus Chancellor
University of Minnesota, Duluth

Additional general materials were furnished to the Commission for background study. These materials included: historical audit and financial analysis reports; written testimony submitted after hearings; general reports on governance; report on Commitment to Focus (Feb. 1985); press releases, newspaper clippings and articles about the University.

For additional copies of this report contact:

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