WORKING SMARTER:

ADMINISTRATIVE EFFICIENCY AT THE UNIVERSITY OF CALIFORNIA

Progress Report
January 1, 2011

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Adversity has the effect of eliciting talents which, in prosperous circumstances, would have lain dormant.
–Horace

While the University of California has long enjoyed world-renown for its academic and research distinction, it has not consistently achieved a similar reputation in business administration. Perhaps as a result of strenuous circumstances, we have reached a turning point.

Ten distinct campuses using one efficient administrative framework

Beginning in July 2009, with Chairman Russell Gould and President Mark Yudof's Commission on the Future, the University community at large coalesced around administrative and operational effectiveness as a key tenet of long-term viability. The consensus evolved into *Working Smarter*, an ongoing administrative efficiency initiative that brings together systemwide, regional, and campus-level efforts under one umbrella with one strong commitment from the top: **The University is committed to achieving a level of administrative excellence equivalent to that of its teaching and research enterprises.** *Working Smarter* envisions ten distinct campuses using one efficient administrative framework:

- *Common, integrated* financial and payroll systems
- *Common, integrated* time & attendance systems
- *Common, integrated* extramural fund accounting
- *Common, integrated* data warehousing
- *Common, integrated* asset management
- *Common, integrated* e-procurement
- *Common, integrated* energy and climate solutions
- *Common, integrated* indirect cost recovery
- *Common, integrated* library-efficiency strategies
- *Common, integrated* risk management

To reach this objective, the University will: (1) redirect $500 million of positive fiscal impact in five years from administrative costs to the academic and research missions of the University; (2) streamline operations in order to address both state funding cuts and the need for commonality among campuses; (3) implement operational efficiencies that enhance the quality of services that support our students, faculty, and staff; and (4) build a sustainable financial model to carry the University forward.

$500 million of positive fiscal impact in five years

Comprehensive travel program with service extended to all CSU campuses and NNSA

Working Smarter has already manifested itself across myriad levels and functional areas of the University. For instance, the University system created Connexxus, an efficient, cost-effective, and comprehensive travel program utilized across all UC locations. By leveraging volume, the program realized $3 million in savings for fiscal year 2009-2010 and is expected to achieve up to $15 million in annual savings by fiscal year 2011-2012. Due to the success of the program in a relatively short period of time, the California State University System and the National Nuclear Security Administration have requested to participate in Connexxus, and plans are in place to extend utilization to these organizations.

Pooled health insurance for all graduate students

Implementation of a systemwide UC Graduate Student Health Insurance Plan (GSHIP) began in March, 2010. Five UC campuses as well as the UC Hastings College of the Law elected to implement the systemwide plan by Fall 2010, with the remaining five campuses expected to join in Fall 2011. Systemwide GSHIP will enable participating campuses to collectively purchase a special risk contract to provide comprehensive health insurance benefits to graduate students. GSHIP is expected to save the University $6 million in fiscal year 2010-2011 while simultaneously reducing student costs and increasing benefits. A subsequent effort to examine and implement a pooled undergraduate student health insurance program is also underway.

Low-cost internal loans to fund strategic investments

Lack of one-time investment funding has frequently been a barrier to administrative efficiency improvements at both the campus and system levels. We are addressing this problem through internal-loan financing programs that leverage the University's high credit rating to make low borrowing costs available to campuses for a broader range of purposes beyond capital construction. On July 14, 2010, the Regents authorized CapEquip, the University's first-ever capital equipment financing program, which is expected to save the University $1-2 million in fiscal year 2011-2012 by offering campuses an alternative to third-party equipment leasing. The University also established a similar program for strategic working-capital investments, particularly cross-campus collaborations that enhance programmatic and systems commonality.

Cross-campus collaborations, regional centers of excellence, and many individual campus streamlining

The campuses are also engaged full-throttle in individual streamlining efforts. Tiger Teams at UC San Diego have identified efficiency opportunities in areas like auxiliary operations and IT services, with key recommendations now being implemented. To improve service to their shared community, UC Davis and the City of Davis embarked upon a pilot for joint management of fire departments with full consolidation of departments under further analysis. In the area of purchasing, UCLA's strategic sourcing contracts are best-in-class, and the campus is extending its expertise to sister campuses in Merced and Santa Barbara. The Operational Excellence effort at UC Berkeley has advanced to the design phase, and execution teams have been formed from over 200 faculty and staff nominations received campus-wide. UC Riverside recently redesigned its administrative structure to increase effectiveness and generate much-needed budgetary savings. UC locations in Berkeley, Davis, Irvine, San Francisco, and Santa Cruz, as well as Lawrence Berkeley National Laboratory, have teamed up on a common human resources information system that introduces considerable functionality for management decision-making and workforce planning.

Operational excellence, a pillar of UC culture

There are countless other examples of efficiency efforts happening at each campus and throughout the system, and more will continue to develop. The two-part *Working Smarter* action plan calls for continually promoting existing efforts and constantly pushing to keep the pipeline full. We have already seen that success begets success. Through *Working Smarter*, operational excellence at the University of California can and will progress from a strategy for overcoming adversity to a lasting pillar of UC culture. ■

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Moving Fast:
Highest Priority Now

applyUC

BACKGROUND

The University of California received over 135,000 applications from prospective students for the Fall 2010 term – 100,000 freshmen applicants and 35,000 transfer applicants. On average, each freshman applies to 3.5 UC campuses, and each transfer applies to 2.9 UC campuses.

All nine undergraduate UC campuses follow common admissions policies, and in 1985 a centralized, common admissions application process was adopted. Student Affairs at the UC Office of the President is responsible for admissions policy and operations while the individual campus Undergraduate Admissions Offices evaluate applications and determine admission.

The current admissions system is operating in an antiquated systems environment which was designed in the early 1980s when students completed paper applications and mailed them to a central processor. Educational Testing Service (ETS) was awarded a contract to build and run a custom system for UC – the California Undergraduate Application Processing Service (UCAP) and today handles all functions associated with centralized admissions.

In 1996, an online application was introduced as an option. Today all students apply online, however the underlying systems and processes have never been updated. The current systems environment is fragmented, with some sub-systems operated by Information Resources and Communications (IR&C) at the UC Office of the President (UCOP) and others by ETS. It is inefficient, inadequate, and expensive to operate and maintain.

The applyUC project was initiated in late 2008 with the goal of modernizing, streamlining, and reducing the cost of an integrated centralized undergraduate admissions process.

GOAL

By building an integrated undergraduate admissions application processing system and automating many of the central processor functions, UC can:

- End the long-term contract with ETS that is out of compliance with current UC purchasing policies;
- Significantly reduce costs;
- Eliminate processing bottlenecks in campus admissions offices; and,
- Set the stage for adoption of new cross-campus processes.

The applyUC project is being managed jointly by Student Affairs and IR&C at the UC Office of the President. The project team is working in close collaboration with campus Admissions Office staff.

Over the last four years, due to the inflexibility of the legacy system environment, several automated tools were developed by individual campuses for the benefit of one or more other campuses. applyUC is designed to accommodate this distributed-systems model, and it has proved to be an effective approach.

SUCCESSES

In the first year (2009), the applyUC team set the technology foundation and began developing system components. In the second year (2010), the team installed a new hardware and software platform to ensure that the peak processing period runs smoothly. A completely redesigned, modern, and user-friendly admissions application was built, implemented, and deployed on October 1, 2010. The project team has met project milestones on time and within budget.

CHALLENGES

As anticipated, managing scope and user expectations has been the most significant challenge. Campus Admissions Officers had pent-up demand for new system features because the legacy systems had been difficult to modify. Keeping a complicated project on schedule has also been challenging.

INITIAL INVESTMENT

Initial system development began in December 2008 and is expected to run through October 2011. The project is expected to cost $3.4 million, far less than an outsourced systems project. Funding has been provided through application fee revenue, a litigation settlement, and anticipated contract reductions.

FISCAL RESULTS, CURRENT AND ANTICIPATED

It is estimated that UC Office of the President will save at least $1.7 million per year when the system is fully implemented. At that time the current contract with ETS will be decommissioned. Savings may be amplified if Student Affairs is able to successfully fold in other current vendor-supported work into a new admissions vendor contract for ancillary services.

CURRENT ACTIONS AND NEXT STEPS

The updated admissions system is expected to be fully operational in Fall 2011. Work is also underway on an RFP for core ancillary services, such as an applicant help desk, that will continue to be performed by an outside vendor.

CONCLUDING STATEMENT

In addition to realizing much needed cost savings in the near term, the implementation of a modern, robust system platform will allow Student Affairs and Campus Admissions Offices to collaborate on implementation of additional efficiencies and cost reductions in future years. ■

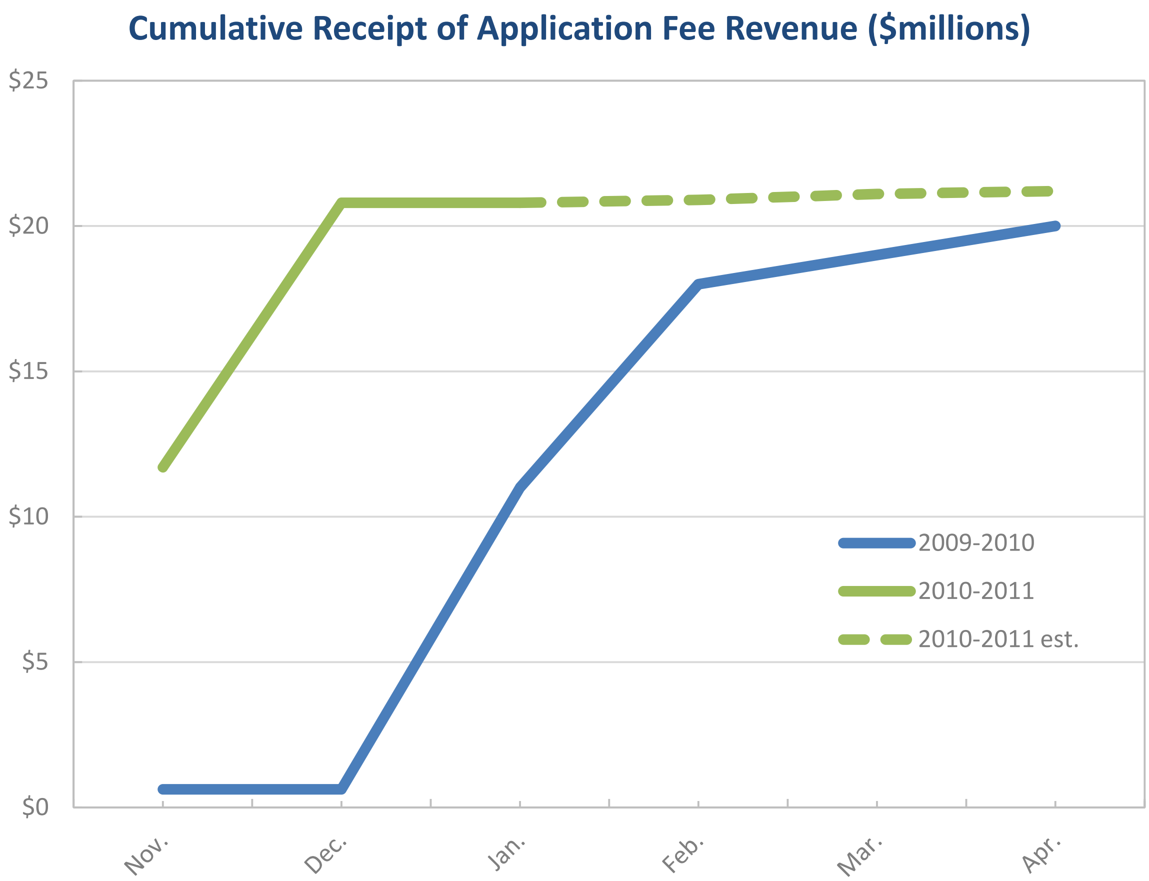

Figure 1:

A clear advantage of applyUC is earlier receipt of application fee revenue. In the current application cycle, UC received approximately $20 million in cumulative application fee revenue by December, four months sooner than the prior year. Received funds can then be invested for an incremental four months, potentially generating an additional $150,000 in investment income to augment campus budgets.

CLIMATE SOLUTIONS

BACKGROUND
Driven by the imperative of global warming, the University of California has committed to achieving carbon neutrality, or zero net emissions of greenhouse gasses (GHG), as soon as possible. To achieve carbon neutrality without resorting to purchasing offsets, UC must pursue aggressive energy efficiency and conservation efforts, procure massive quantities of carbon-neutral energy, and find a way to negate emissions from its natural gas-fueled central plants.

GOAL
In 2007, then-President Robert Dynes signed the American College and University Presidents Climate Commitment (ACUPCC) on behalf of all ten Chancellors. The ACUPCC commits UC to achieving carbon neutrality "as soon as possible." The carbon neutrality commitment is also enshrined in the Presidential Policy on Sustainable Practices.

SUCCESSES
In 2008, the Executive Vice President for Business Operations convened the Climate Solutions Steering Group, a team of campus and systemwide leaders that is charged with moving UC toward carbon neutrality. Recognizing that no clear path to carbon neutrality exists, the Climate Solutions Steering Group has focused on developing scalable concepts that can be refined as technologies, markets, and regulations develop. The group has identified three strategies to move UC toward carbon neutrality:

1. **Expand use of direct access to implement a cost-neutral wholesale power procurement strategy that eventually provides UC with electricity that is less carbon-intensive than utility-supplied power.** To meet its renewable power needs, UC must buy power from third-party generators and/or develop its own large-scale projects, either individually or in partnership with other agencies.
2. **Participate in emerging U.S. biogas market to secure large quantities of carbon-neutral gas for use in campus cogeneration plants and boilers.** Biogas is methane generated from controlled decomposition of organic matter; it is carbon-neutral, available from a variety of feedstock, and widely used in Europe and China at scale.
3. **Large-scale energy efficiency efforts.** Energy efficiency projects reduce GHG emissions and campus operating costs. This is particularly important since several campuses are operating with multi-million dollar purchased-utility deficits. Current efficiency projects will reduce annual costs by $8.5 million, net of debt service (see case study entitled "Statewide Energy Partnership" for further information), and expanded efficiency efforts will further close the gap between state OMP funding and operating costs.

CHALLENGES
Because it will not be technically or economically feasible to obtain 100% carbon-neutral power in the short- or medium-term, UC will purchase a mix of "green" power from carbon-neutral generators and "brown" power from high-efficiency natural gas generators and gradually transition to 100% carbon-neutral power. By procuring low-cost wholesale brown power from high-efficiency sources, UC will offset the premium of wholesale green power and will eventually assemble a wholesale power portfolio that is equal in cost, albeit more carbon efficient, than utility-supplied power.

INITIAL INVESTMENT
As described above, UC is evaluating several strategies for procuring large quantities of biogas and renewable energy.

FISCAL RESULTS, CURRENT AND ANTICIPATED
While it is too soon to precisely predict the long-term fiscal impacts of UC's climate neutrality efforts, avoided regulatory costs, coupled with reduced operating expenses from energy efficiency improvements, could yield significant savings in the long run. A state-wide GHG cap-and-trade program will begin in 2012 and federal regulations are likely to follow in the next several years. As a large emitter of GHG, UC will be regulated under California's cap-and-trade program. In addition, utility companies will be regulated under any GHG cap-and-trade scenario, and future rates will reflect these costs. At a $30-per-ton price of carbon (a price level seen in the EU cap-and-trade program), UC could face direct and indirect regulatory costs of $40 million per year. Without fundamentally changing its energy generation and procurement practices, UC's only means to achieve carbon neutrality will be by purchasing massive quantities of carbon offsets. This amounts to paying someone else to reduce emissions on the University's behalf, which can be quite expensive; at $15 per ton, offsetting UC's roughly 2 million ton annual GHG output would cost an additional $30 million per year. These costs could be additive to cap-and-trade costs since offsetting does not necessarily reduce regulatory liability.

CURRENT ACTION AND NEXT STEPS
Before taking further action, the Executive Vice President for Business Operations and the Chief Financial Officer have retained Navigant Consulting to review the Climate Solutions Steering Group's findings and proposed strategies.

CONCLUDING STATEMENT
UC's carbon neutrality goal aligns with the State's policy priorities and demonstrates the University's continued environmental leadership and dedication to its public service mission. The pursuit of carbon neutrality allows UC to proactively examine its business practices and analyze the risks of, and alternatives to current operations in a carbon constrained world. ■

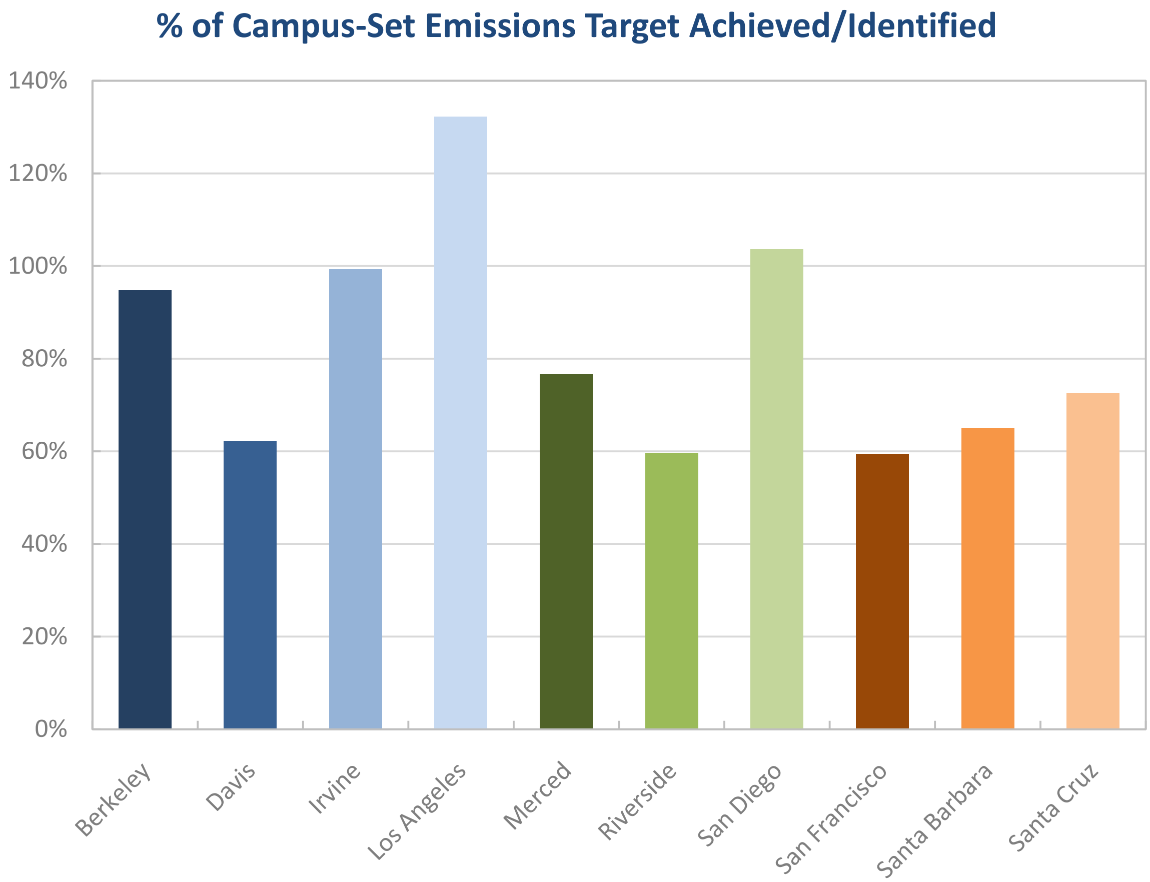

Figure 2:

Only those projects that are underway and/or have proven technology (but uncertain funding) are included; conceptual projects are excluded. The target for each campus varies in terms of magnitude as well as timing. As the Climate Solutions effort moves forward, financial savings metrics can be developed based on avoided regulatory costs and reduced operating expenses. See the UC Annual Report on Sustainability Practices for further detail: www.universityofcalifornia.edu/regents/regmeet/jan11/gb1.pdf.

e-SOURCING & CONTRACTS MANAGEMENT INITIATIVE

BACKGROUND

Historically, there has been little effort to organize and manage local campus contracts or to leverage local campus bids systemwide. Indeed, of the thousands of local campus contracts that exist across UC, only 261 are systemwide contracts.

The existing UC Strategic Sourcing program addresses through systemwide contracts the University's sourceable [1] spend, which is estimated at $1.4–$1.7 billion per year. However, in addition to sourceable spend, UC system spend through local contracts is significant and has not yet been effectively leveraged for savings. Unfortunately, common requirements and possibilities for collaboration across the UC are not easily apparent without better systems.

GOAL

In order to manage an efficient, cost-effective and *comprehensive* procurement program, UC Strategic Sourcing must leverage existing local campus bids and supplier contracts that contain industry-leading terms and conditions coupled with high utilization rates for the related commodities.

With this in mind, the goal of the e-Sourcing and Contract Management Initiative is a common contract and sourcing management system that could interface with an e-Commerce system, provide termination notifications electronically to users, flag users of available discounts, allow attachment of supporting documents, create consistent nomenclature for document retention, automate and standardize RFIs/RFPs/RFQs, and contain an audit history of the contract. Ultimately, any new system must minimize risks while maximizing customer satisfaction.

SUCCESSES

While UC has no systemwide e-Sourcing application, some campuses have run experimental or limited electronic sourcing events with varying success locally. These activities have shown the potential of contracts management systems to meet UC sourcing goals if properly implemented systemwide to address each campus's specific needs and requirements, including business/operational infrastructure and processes. Initial reviews of modern commercial contracts management systems have demonstrated great potential for reducing purchases outside of contractual agreements, thus eliminating opportunity-lost due to auto-renewal of evergreen contracts (in absence of re-negotiation). The systems show great potential for effectively managing contracts in general.

CHALLENGES

Understanding systems and operational requirements for effective electronic systems implementation has been the primary challenge. Sourcing at UC has historically been viewed as campus-specific with only the most obvious common commodities being sourced systemwide.

Understanding that the "best practices" of e-Sourcing and Contracts Management are applicable to UC has also been challenging. It will take time to implement system(s) that will be utilized such that volume is concentrated, discounts are leveraged, and savings are harvested in amounts sufficient to cover the cost of the ongoing program.

INITIAL INVESTMENT

An initial investment of $400,000 or more will be needed for first-year licensing and implementation. This investment will be made from UCOP financial management to seed the initial development, implementation, and support of e-Sourcing and Contracts Management infrastructure systemwide.

FISCAL RESULTS, CURRENT AND ANTICIPATED

It is estimated that each UC campus (as well as UCOP and LBNL) averages five contract awards monthly, resulting in a minimum of 720 new UC campus-specific contracts on an annual basis. The new UC systemwide Contract Management and e-Sourcing program, once fully implemented, could save at least $1.2 million (5%) via administrative efficiencies alone. Additional cost savings of up to 10% could be achieved through volume aggregation and leverage of local spend.

CURRENT ACTION AND NEXT STEPS

In 2010, a team made up of representatives from all UC locations was created to seek input, advice, and approval for recommendations related to development, implementation, and ongoing management of the e-Sourcing and Contracts Management initiative. The project plan has been drafted, a "best practices" RFI was released, and an RFP is now being readied. A single- or dual-function system will be activated for all UC locations by the fourth quarter, fiscal year 2010-2011.

CONCLUDING STATEMENT

Working together as a system to leverage volume and manage spend has already proven successful. The Contracts Management and e-Sourcing team at UCOP and across the UC system is developing strategies and approaches through the RFI and RFP process to select and implement a system to help achieve administrative efficiencies and cost savings over time. The UC systemwide Contracts Management and e-Sourcing program may soon be a best of class implementation among universities. ■

[1] *Sourceable* means able to be bid or negotiated and purchased under systemwide contracts.

e-Sourcing Campus Profiles Completed

Berkeley	✓
Davis	✓
Irvine	✓
Los Angeles	✓
Merced	✓
Riverside	✓
San Diego	✓
San Francisco	✓
Santa Barbara	✓
Santa Cruz	✓

Figure 3:

The campus profiles are comprised of local contracts and sourcing events that are projected for inclusion in the e-Sourcing / contracts management system. Essentially, it is a matrix of usage that vendors can use in quoting pricing for a new e-Sourcing / contracts management system. As the e-Sourcing initiative moves forward, financial savings metrics can be developed based on increased contract utilization.

PPS Initiative

PAYROLL PERSONNEL SYSTEM REPLACEMENT PROJECT

BACKGROUND

The Payroll Personnel System (PPS) used to pay the 180,000 employees of the University of California has been in use for nearly 30 years, with different variants running at each campus. Although the different systems have the same origins, they have diverged due to campus and medical center customizations making them difficult to update, maintain and synchronize. The resulting patchwork is inefficient and does not provide the University with optimized workforce management or reporting, and, in some cases, is so complex that it inhibits business process improvement. In 2009, the Campus and Medical Center Controllers, Campus and Medical Center Human Resource Officers, and Academic Personnel Directors completed an initial assessment of the payroll system and recommended planning for a more modern replacement.

GOAL

Accordingly, the University began a project to identify a new approach to its payroll and human resources operations. The goal is to implement single instances of payroll and human resources system solutions for all employee data. These systems will enhance the quality of service provided to UC employees in payroll and human resources by streamlining and standardizing the processes that support them. Project stakeholders have agreed to work toward conforming business practices to achieve this objective.

SUCCESSES

In 2010 the project team developed an architectural model for how these new systems will support the delivery of more streamlined and standardized payroll and human resources operations. The team has also developed preliminary timelines and a range of estimates for the implementation cost. There remains a very high level of enthusiasm for this initiative and a strong desire across the University to standardize payroll and related HR processes and practices.

CHALLENGES

While the core payroll and human resources needs across the University are not significantly different, policies, systems and processes today vary greatly among and within campuses and medical centers. Agreeing to and implementing common practices to capitalize on new technology will be a major effort. As PPS is "disentangled" into more discrete payroll, HR Management System (HRMS), time and attendance, and other supporting modules, roles and responsibilities in these areas may change and will require clarification. Finally, fitting a replacement system to the needs and regulatory requirements of a complex organization like UC will require strong discipline to adopt uniform, aligned processes while minimizing system customizations.

INITIAL INVESTMENT

An initial investment of approximately $1.5 million (for 2010 and part of 2011) has been budgeted from UCOP financial management to fund consulting support and a small project management office for analyses of the current payroll and related human resource operations and functional requirements as well as relevant technology solutions. The projected cost to implement the new system(s) will depend on the solution selected in spring 2011.

FISCAL RESULTS, CURRENT AND ANTICIPATED

In two studies ten years apart, PwC estimated that approximately 20% of the University's payroll/HR staff time is spent on problem resolution or rework. By implementing UC-wide payroll and HR systems and transforming related business processes, PwC estimates that the University could achieve long-term cost and efficiency savings of $31-$123 million annually. In addition to measurable cost savings, full HRMS capability will enable workforce planning, analysis, and reporting that is not easy or even possible today.

CURRENT ACTION AND NEXT STEPS

With the completion of baseline cost data and a technology assessment, the project team will next begin the Request for Proposal (RFP) process with solution selection targeted for May 2011. The team will also refine implementation details such as resource requirements, service delivery design, implementation phasing and scheduling, and ongoing costs. In addition, decisions about business process and practice standardization are being made with a high level of intercampus collaboration. A final report and set of recommendations to senior UC leadership is scheduled for spring 2011.

CONCLUDING STATEMENT

As UC considers how it will administratively support its threefold mission of teaching, research and public service, it is clear that UC's business processes must be both more effective and more efficient than in the past. Importantly, UC must have both – business and support operations that are more efficient and also more effective, allowing UC to support its mission in innovative and timely ways. As UC acts on its vision for excellence in business operations, a logical place to begin is with the processes and systems that are utilized to pay and manage its dynamic workforce. ■

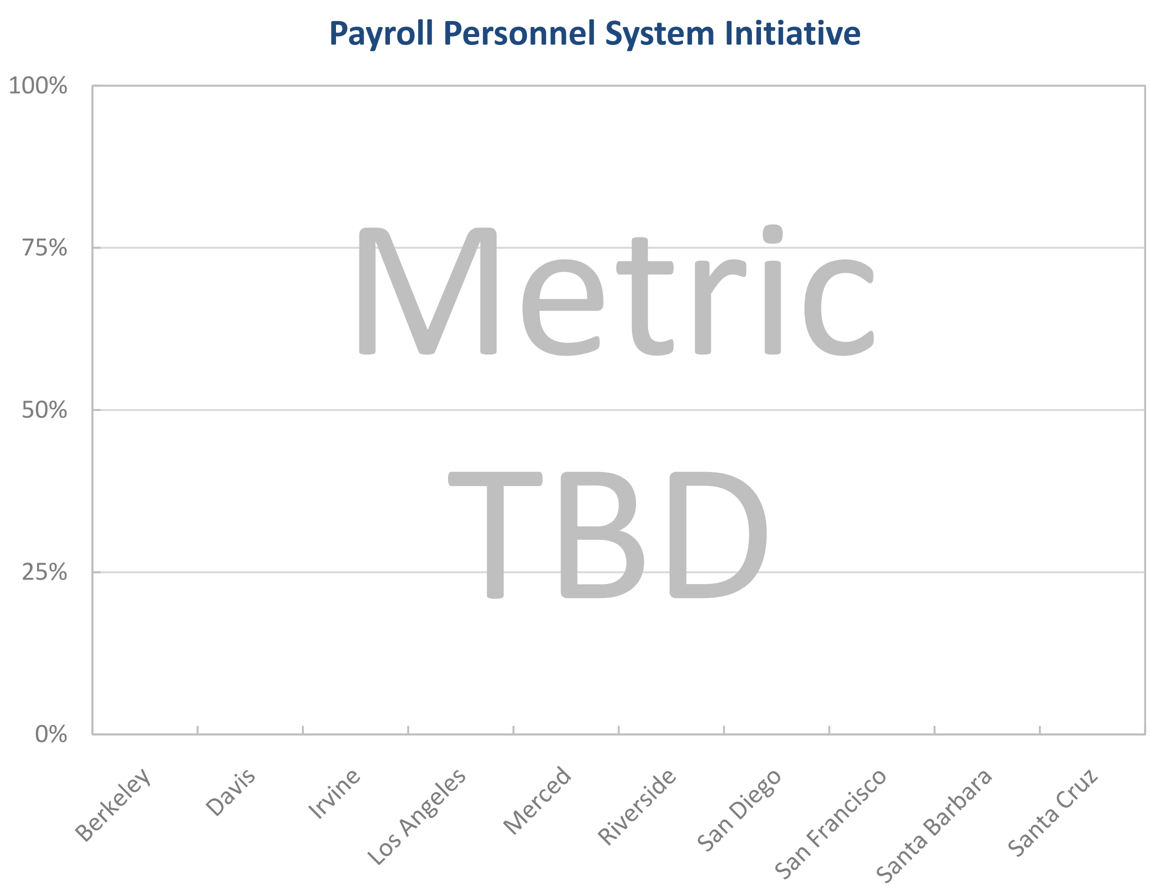

Figure 4:

The PPS Initiative is still in its beginning stages. Metrics measuring success and/or adoption can be developed once a single payroll system is implemented and related business processes can begin to change.

PROCESS REDESIGN FOR CAPITAL IMPROVEMENT PROJECTS PILOT

BACKGROUND

Investment in infrastructure and capital projects serves an integral role in enabling the University of California to carry out its mission. The Regents focus on capital projects at a strategic level, setting expectations for and accepting integrated campus plans, as well as approving projects over $60 million or those not conforming to accepted plans. UCOP assists campuses with planning, financial feasibility analysis, California Environmental Quality Act (CEQA) compliance, and policy-related risks. UCOP also compiles data on campus capital programs, including project audits.

In the spring of 2007, the University undertook a major effort to assess its operational framework. The capital projects approval process was identified as one area for improvement. In March 2008, the Regents approved a redesigned capital approval process with "increased clarity of roles, touch-points, accountability, and policies." The new process would give campuses greater autonomy and accountability for successful delivery of capital projects, with Chancellors delegated authority to approve capital projects up to $60 million.

GOAL

With this in mind, UCOP Budget & Capital Resources aimed to develop a pilot phase of this new process ("Pilot") to execute the redesigned process.

SUCCESSES

Implementation of the Pilot to-date includes the amendment of University policy to allow for increased campus authority. Corresponding, delegations of authority were issued to Chancellors for budget and design approval for projects up to $60 million and for appointment of executive architects. UCOP developed a process for 15-day review of delegated projects, including a checklist to codify the elements against which a project is evaluated for approval by the Chancellor. The checklist dually serves as an important accountability record. Budget & Capital Resources has drafted documentation and provided consultation/training sessions to campuses. Finally, guidelines have also been developed for the creation of ten-year Capital Financial Plans and Physical Design Frameworks. As of the January 2011 Regents' meeting, plan acceptance and project approvals will have included:

- Regents' review and acceptance of a ten-year Capital Financial Plan and Physical Design Framework (portfolio of campus plans) for all ten campuses, including one medical center campus; and
- 23 projects from seven campuses successfully reviewed within the streamlined 15-day delegated process.

CHALLENGES

Developing a process that balances the need for speed and efficiency with the need for appropriate consultation, due diligence, and accountability is not easy. Creating a standardized review process that promotes efficiency while recognizing unique campus and project attributes (e.g., unanticipated grant-funded projects, design-build delivery, etc.) takes time. The 15-day project review process has posed unique challenges in terms of managing internal UCOP coordination, sequencing, and workload, as well as determining appropriate levels of documentation to support the 15-day review. Finally, training and informing campuses about the new process and its refinements is an ongoing effort.

INITIAL INVESTMENT

Campuses and UCOP have invested significant staff time and resources to developing the Pilot and its various elements; however, no upfront funding was required to initiate the Pilot.

FISCAL RESULTS, CURRENT AND ANTICIPATED

The Pilot holds great promise for achieving the goal of a redesigned process with "increased clarity of roles, touch-points, accountability, and policies approval." However, given that only 23 projects from seven of the 11 eligible campus entities have been approved via the new process, and only one has been completed, it is premature to ascertain the effectiveness of the process or determine the benefits accruing to the University's capital program.

CURRENT ACTION AND NEXT STEPS

Budget & Capital Resources, in conjunction with a Working Group of the UCOP/Campus Capital Program Leadership Forum, is developing accountability measures for reporting adherence to plans and aggregated performance on specific metrics of Regental and Presidential interest. Additional campus consultation and training will also be required to address challenges/impediments. Evaluation of the Pilot and formulation of a Regental recommendation will be forthcoming. The Office of the President is recommending that the Regents extend the pilot period until March 2014 to enable time for an adequate number of projects to be completed and evaluated.

CONCLUDING STATEMENT

World-class capital projects are vital to enabling the University to achieve its mission of teaching, research, public service, and patient care. The Pilot supports effective and accountable delivery of capital projects and is a model for redesigning internal processes to maximize the efficient use of resources for the benefit of the entire UC community. ■

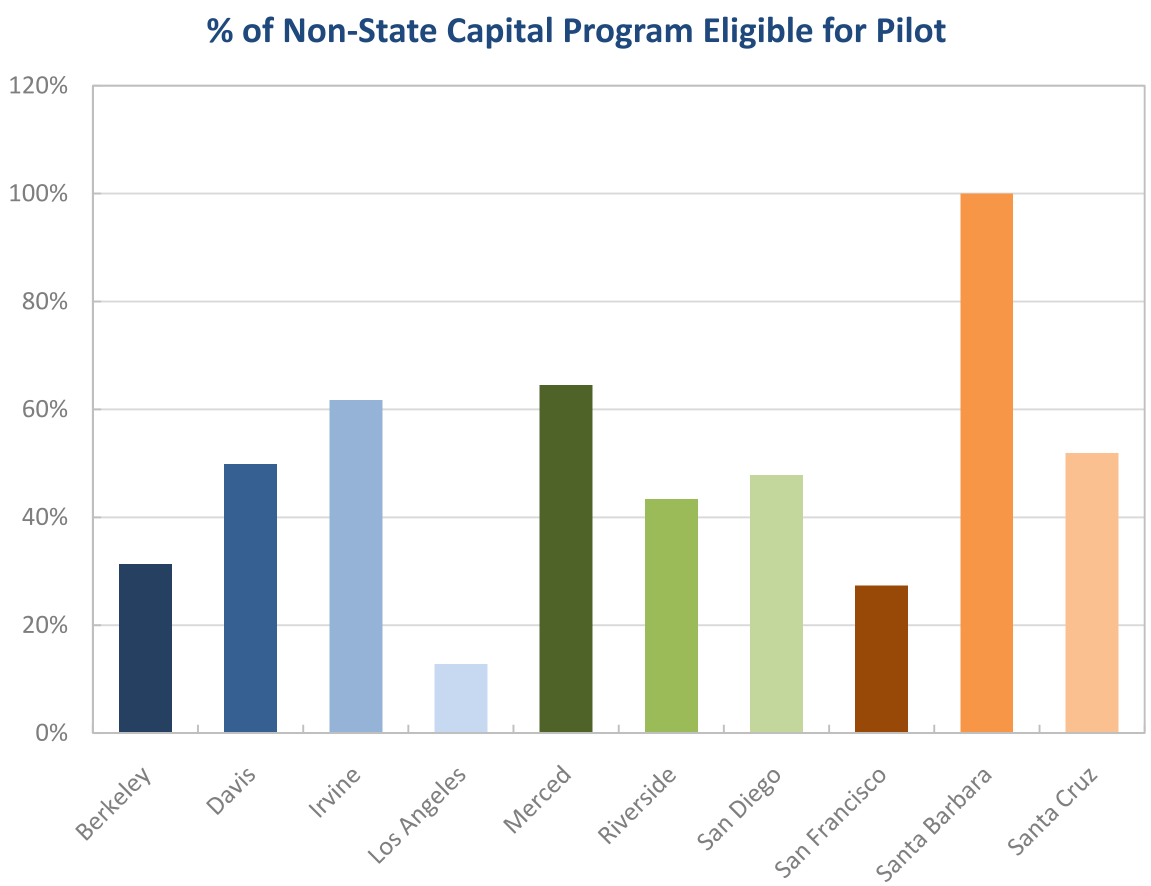

Figure 5:

Only non-state projects are included for ease of analysis. Medical center projects are included with home campus data. ANR is not reflected. See the 2010-20 Consolidated State and Non-State Capital Financial Plan for further detail: www.universityofcalifornia.edu/regents/regmeet/nov10/gb2attach.pdf. As the pilot matures, financial savings metrics can be developed based on a reduction in process touch-points.

REGIONAL DATA CENTERS

BACKGROUND

The processing power and storage capacity of computer systems are rising dramatically, and these capabilities are being provided in ever-smaller physical devices. These dense, high capacity devices result in exponentially greater server-room power and cooling requirements. For current systems, the power and cooling costs of a compute-cluster surpass the equipment costs during the lifetime of the equipment, normally within three years. As a result, during the next decade, the overall cost to the University of California associated with locating electronic systems within its existing high power costs / low power efficiency data centers will increase significantly given the aforementioned increase in higher density computing. Compounding the problem is the fact that many systems are located in substandard or inadequate spaces designated originally for instructional or light office use. To varying degrees, all University of California campuses and medical centers have a vested interest in ensuring that appropriate system-wide colocation facilities are available to cost-effectively support the growing cyberinfrastructure needs of the University of California collectively.

GOAL

The UC Information Technology Leadership Council (ITLC) has taken this opportunity to explore utilization of the San Diego Supercomputer Center (SDSC) data center as a regional colocation facility with the objective of meeting the needs of campuses and medical centers throughout the system.

SUCCESSES

Approximately 18 months ago, UCSD Chancellor Mary Anne Fox committed space for 225 racks at SDSC for use as a UC regional colocation facility. Currently, 115 have been used by campuses to date.

1. All UC campuses (and several medical centers) have created 18-month plans for placing computer systems / racks at the SDSC facility.
2. All UC campuses (and several medical centers) have created plans to place at least one rack (and in many cases several racks) at SDSC during the next six months.
3. The development of regional colocation "communications plans" is underway at all UC campuses; these communications plans will facilitate campus efforts to promote and more fully utilize regional colocation facilities (and SDSC in particular).

CHALLENGES

As ITLC has explored the use of SDSC, the issue of "hidden" power costs has slowed overall utilization of the facility for systemwide colocation needs. Campus power costs are in many cases unknown to administrators and principal investigators (PIs); in other cases, they may be known to some extent, but cannot be charged to individual grants or programs. Because of this, PIs and administrators locate computer equipment on campuses despite higher total costs both to the campus and the university as a whole versus placing the equipment in a regional data center.

This is the fundamental conundrum facing the system. The method of acquiring and paying for electricity within UC is both inefficient and costly, but there is no formal mechanism to utilize savings in (campus) expenditures on electrical costs in support of a more effective and efficient solution, namely, locating computers/systems in a regional data center.

INITIAL INVESTMENT

The University of California is actively reviewing options relating to the investments and incentives that will be necessary to locate additional systems, servers, and racks at the SDSC regional colocation facility. Additionally, in time, UC may consider investments associated with constructing and maintaining a new colocation facility that will address UC's collective needs once the SDSC space has been exhausted.

FISCAL RESULTS, CURRENT AND ANTICIPATED

UC is reviewing cost savings associated with the colocation initiative. However, a recent study indicates that, in general, campuses electricity rates exceed SDSC's by 35%-50%, and this electricity is less effectively utilized (again, by 35%-50%).

CURRENT ACTION AND NEXT STEPS

While continuing with migration of racks to SDSC, and development and dissemination of campus communication plans, ITLC will develop for review by the UC senior management a set of options for efficient, state-of-the-art facilities that meet campus and medical center research, clinical, and general business needs in ways that bring financial savings and efficiencies in the face of exponentially growing power and cooling demands.

CONCLUDING STATEMENT

Modern colocation facilities hold great promise as tools to contain costs and reduce UC's demand on scarce resources. UC should therefore create the policies, processes, and procedures that will enable campuses and medical centers to recognize the real costs of inefficient local facilities and allow campuses to re-allocate funds that would otherwise be spent on local power costs in support of more efficient (and green) solutions within regional colocation facilities. ■

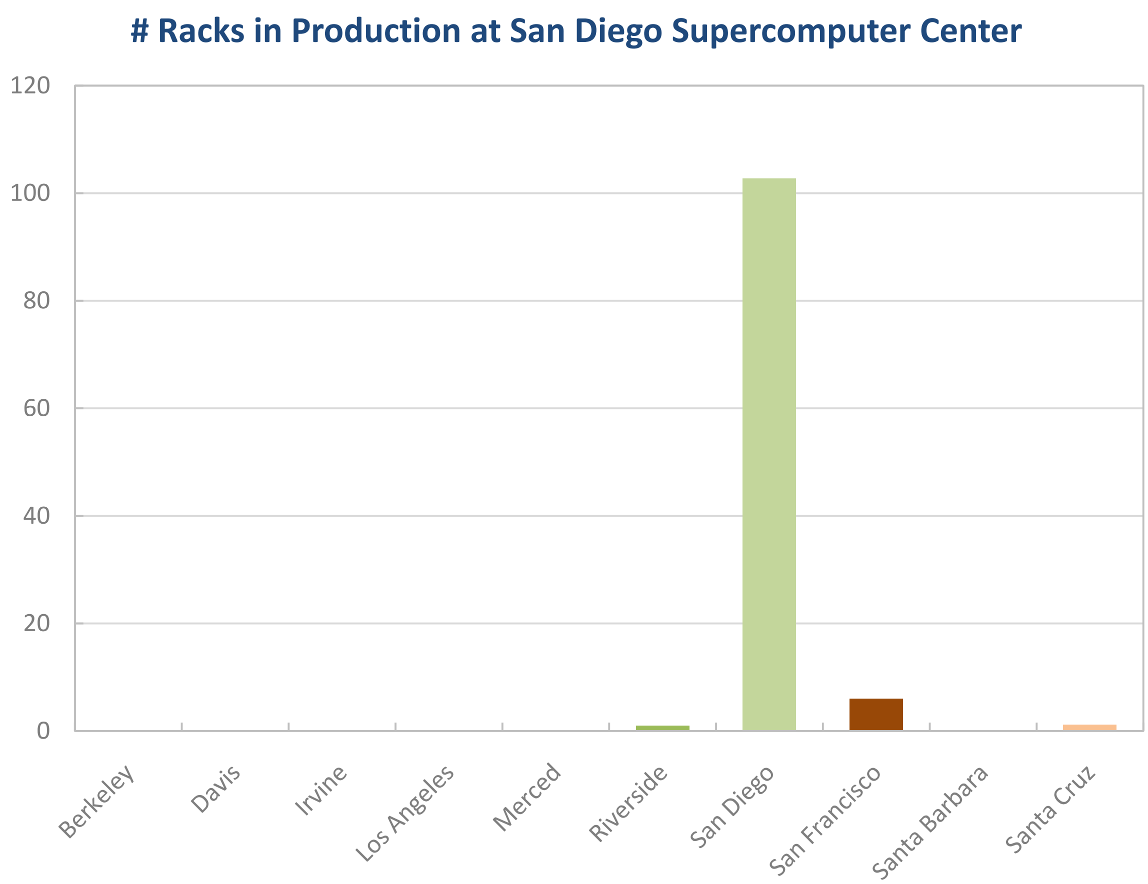

Figure 6:

Approximately 111 racks (of 225 available) are currently in production at the San Diego Supercomputer Center; these are predominantly UC San Diego racks. Until cost allocation methods are changed and/or a subsidy program is implemented, broad adoption of regional colocation will remain difficult. Once such changes are implemented and SDSC utilization improves, financial savings metrics can be developed based on reduced electricity expenses.

STUDENT HEALTH INSURANCE PLAN (SHIP)

BACKGROUND

Historically, the ten University of California campuses, plus UC Hastings College of the Law, have managed 11 separate insurance plans for 40,000+ graduate and professional students. These plans provided coverage for services beyond the primary care available in campus Student Health Centers and Counseling Centers through an insurance network. In 2007, Vice Chancellors of Student Affairs and the Council of Graduate Deans expressed interest in exploring a systemwide graduate student health insurance plan (GSHIP).

GOAL

The GSHIP Workgroup's charge was to undertake a fresh examination of the structure of graduate student health insurance; a rigorous market-based analysis was conducted to determine challenges/opportunities of a systemwide plan.

SUCCESSES

Beginning with Fall 2010, UC created a systemwide health insurance plan including medical, dental, and vision coverage for graduate students and their dependents. Up to 14,000 graduate students at six UC campuses are participating in the plan in fiscal year 2010-2011. The plan achieves operational efficiency and savings across the system by consolidating administration at UCOP. The medical plan is self-funded, resulting in additional cost savings by removing carrier retention and broker fees from the premiums.

CHALLENGES

Student health insurance plans have historically been negotiated at the campus level, and Student Health Centers have developed plans specific to the needs of their distinct graduate student populations. Delayed participation of the five remaining campuses has caused a higher temporary cashflow gap and slowed the growth of the stabilization fund. Additionally, the UAW (representing approximately 22% of graduate students) is unsatisfied with the lack of participation from all campuses in the systemwide plan. Finally, variations in scope of services and operational practices have made it difficult to implement the standard benefit structure in a consistent manner across all Student Health Centers.

INITIAL INVESTMENT

The initial study undertaken by the GSHIP Workgroup was funded through the Executive Vice President–Business Operations (EVP—BO) budget at a cost of $205,000. Implementation and start-up costs of the GSHIP systemwide plan are expected to be $470,000 and will be reimbursed to the EVP—BO budget by the plan. Implementation and start-up costs for an integrated, systemwide SHIP plan are expected to be $830,000. Start-up costs will be shared across all campuses regardless of initial participation date; therefore, EVP—BO budget reimbursement will occur when all 11 UC campuses (including UC Hastings College of the Law) are participating in the plan, which is targeted for Fall 2011. With all 11 campuses participating, plan enrollment is estimated at 120,000 students (about 45% of undergraduates and 80% of graduate students). Thus, start-up funds can be recouped by adding $6.92 to the annual health plan premium for each enrolled student for one year. Additionally, the GSHIP program was granted a UCOP-funded C3 (Cross-Campus Collaborations) loan of $7.1 million to provide back-stop funding for initial claims costs that may be incurred prior to the transfer of sufficient premiums from the campuses. C3 loan funds will be accessed only to pay claims and only if claims expense exceeds premium collected. As of the end of the first term of coverage, the plan is performing according to projections, and the C3 funds have not been accessed.

FISCAL RESULTS, CURRENT AND ANTICIPATED

The average 2009-2010 rate change across all campuses was +8% (ranging from -6.5% to +20% over previous year). The average 2010-2011 rate change across the six participating campuses in the systemwide SHIP plan is -4.3%, (ranging from -11% to +4.5% over previous year). Total aggregate expenditures for GSHIP on all 11 campuses are estimated at $72.9 million for 2009-2010. Total premiums collected for GSHIP on the six participating campuses will be $28.4 million. The health plan is funded by premiums billed to students. Premiums for student enrollment may be paid by graduate division fellowship programs, by other campus departments, through fee remission for graduate student employees, by agencies providing student aid, or by students. Premium for dependent enrollment is paid by students.

CURRENT ACTION AND NEXT STEPS

A new workgroup is examining the structure of undergraduate SHIP, including cost analyses, market analysis, campus consolidation requirements, evaluation/selection of vendors, and claims experience of campus USHIP plans and the systemwide plan. The target launch of systemwide SHIP (all undergraduates plus graduate students on the remaining five campuses) is Fall 2011.

CONCLUDING STATEMENT

Cost containment, benefits enhancement, administrative efficiency are the overarching objectives of this initiative. A comprehensive health plan provided through robust services at Student Health Centers and Counseling Centers and augmented by an extensive insurance network enables students to access care throughout the United States. This is an important component of UC's broader effort to enhance student support, improve student-recruiting competitiveness, and increase retention/degree-completion rates of our talented student body. ■

Campus Participation in Student Health Insurance Program

	Began Participation in 2010-11	Committed to Participation in 2011-12	Considering Participation in 2011-12
Berkeley			✓
Davis	✓		
Irvine			✓
Los Angeles			✓
Merced	✓		
Riverside			✓
San Diego	✓		
San Francisco	✓		
Santa Barbara		✓	
Santa Cruz	✓		

Figure 7:

UC Hastings College of the Law (not shown) also began participation in 2010-11. The systemwide goal for 2011-12 is full participation in SHIP by every campus. Financial savings metrics based on cost containment analysis are under development.

UC EQUIPMENT MAINTENANCE INSURANCE PROGRAM (UCEMIP)

BACKGROUND

The University increasingly relies on equipment and technology for mission delivery. Thus, the University must be prepared to maintain operational continuity in part through the avoidance/minimization of service disruption caused by machinery failure or breakdown.

In the medical centers, the impact of a service interruption in critical medical equipment resulting from machinery failure can be catastrophic and potentially fatal. The resulting reputational, financial, compliance, patient confidence, and legal consequences would severely impact the University's fundamental mission of patient care. Across the UC research enterprise, equipment failure could result in loss of research data and withdrawal of research funding. Within the campus environment, if we cannot rely on our equipment to provide student learning opportunities, we will not be able to attract and retain top-flight students, and the institution will shrink. These are serious risks.

GOAL

Risk Services at UCOP aims to provide a systemwide management tool that allows all departments, regardless of size, to manage and plan for scheduled preventative equipment maintenance and resumption of critical functions as quickly as possible after a machinery breakdown. The tool will allow systemwide sharing of equipment reliability, repair costs, and vendor service metrics – key information to assist future equipment planning and annual running cost analysis.

SUCCESSES

UC San Francisco (UCSF) participated in an initial study of the UC Equipment Maintenance Insurance Program (UCEMIP) program. In a few short months UCSF realized $257,000 of potentially $3 million in annual cost reductions. UCSF has achieved enhanced efficiencies regarding maintenance tracking and assessment of equipment maintenance costs and frequency. Our collective experience has shown significant efficiency improvement and cost savings:

- Enhanced reliability of key mission-critical equipment from a mission continuity perspective, leading to improved strategic equipment planning;
- 25% discount on original manufacturer maintenance contract cost;
- Minimal transition time/operational impact owing to retention of preferred service vendors;
- Systemwide analysis of equipment reliability and operational maintenance costs to support strategic systemwide procurement process and Equipment Life Cycle Management;
- Quality Assurance/Control, maintained through enforcement of original contract performance specifications;
- Administrative efficiency through management of both scheduled preventive maintenance and emergency repairs; and
- Enhanced/consolidated equipment maintenance data via internet-based management reporting system.

CHALLENGES

Widely used in the corporate sector, equipment maintenance insurance has evolved over the past five years owing to the availability and flexibility of internet-based equipment maintenance/management reporting systems. Equipment supplier and end-user interests are not always aligned, which often resulted in less than optimal oversight of equipment maintenance. We anticipate initial resistance from both vendors and end-users; however, guaranteed 25% savings on the cost of equipment maintenance should ensure early adoption of this program.

INITIAL INVESTMENT

UCEMIP is part of a suite of Enterprise Risk Management solutions. There is no additional administration or data management cost; only applicable insurance premium per contract.

FISCAL RESULTS CURRENT AND ANTICIPATED

The UCSF pilot study generated $257,000 of potentially $3 million in annual cost reductions. The conservative systemwide estimate of potential savings is $30 million.

CURRENT ACTION AND NEXT STEPS

UCEMIP implementation is straightforward. Each campus:

1. Creates departmental lists of existing maintenance contracts and renewal dates;
2. Identifies key stakeholders including procurement, risk management, and strategic sourcing; and
3. Provides information to UCOP Risk Services teams.

Subsequently, the vendor creates a campus/medical center database plan. Experience shows that some action items identified by departments are broad in scope and can be grouped into a campus-level plan.

CONCLUDING STATEMENT

UCEMIP exhibits what the University can achieve when we export a solution launched at a single campus, enhance it for broader use, and implement it systemwide. UCEMIP achieves administrative efficiency by implementing a common solution to a common challenge. ■

Enrollment in UC Equipment Maintenance Insurance Program

Berkeley	
Davis	
Irvine	
Los Angeles	✓
Merced	
Riverside	
San Diego	
San Francisco	✓
Santa Barbara	
Santa Cruz	

Figure 8:

Because UC Equipment Maintenance Insurance Program is relatively new, only two campuses are currently enrolled; however, with significant interest from other campuses, enrollment is expected to expand rapidly. As of October 2010, UCSF has achieved savings of $257,000. Systemwide financial savings metrics based on cost reductions are under development.

UC READY

BACKGROUND

Wildfires, earthquakes, pandemic flu, and cyber-attacks – our mission can be disrupted by events of many shapes and sizes. As an institution, we must prepare the entire University to continue teaching, research, public service, and patient care through any disruptive event.

GOAL

The goal of UC Ready is to provide a systemwide tool that allows all departments, regardless of size, to prepare for resumption of critical functions as quickly as possible after any disruptive event, including all-encompassing events (earthquake, pandemic illness), localized events (building fire, basement flood), or personal events (failure of a hard drive). UC Ready aims to achieve event-readiness by engaging all department-level units in mission-continuity planning.

SUCCESSES

UC Ready has produced over 380 completed plans and 702 plans in-process systemwide in less than three years. Our systemwide UC Ready program also offers matching funds to support mission-continuity efforts at each campus and medical center. To date, 14 locations have taken advantage of matching funds to employ the services of a dedicated mission-continuity planner. Furthermore, this pioneering tool has attracted national attention; more than 30 universities have adopted it for use, and it received a National Association of College and University Business Officers (NACUBO) 2007 Innovation Award and the UC system's 2007 Sautter Award. By donating the tool to the Kuali Foundation for incorporation into its suite of open-source tools for the higher education community, UC has gained the benefit of insightful enhancements provided through collaboration with other Kuali-member universities and colleges. Kuali has offered a hosted version for worldwide use since Spring 2010.

CHALLENGES

Widely used in the corporate sector, continuity planning has evolved over the past 30 years into a clear set of practices. However, it has proved a difficult fit for the structure and culture of higher education. The lack of a commercially-available tool to suit the needs of a large higher education system was a challenge. To solve this problem, we built UC Ready. Starting with UC Berkeley's "Restarting Berkeley" software tool, through systemwide collaboration we created an online tool that can be used by all locations. Currently in its third edition, UC Ready remains the only continuity planning tool designed specifically for higher education.

INITIAL INVESTMENT

UC Ready is part of a suite of Enterprise Risk Management solutions, which are all funded by internal premium determined by independent actuaries. Furthermore, because there are no commercially-available products for higher education, our ability to not only build but maintain our own system has resulted in an initial investment and ongoing fees that are a fraction of the cost of modifying an "off the shelf" product and relying on a third party administrator.

FISCAL RESULTS CURRENT AND ANTICIPATED

Real savings come when a risk event occurs and we are able to minimize recovery time. Every day that one campus does not operate represents a potential revenue loss exposure of $5.4 million. While we would not anticipate 100% interruption, even a single-digit percentage of interruption can have a significant impact.

CURRENT ACTION AND NEXT STEPS

The UC Ready methodology is straightforward:

1. **Create departmental plans**. Each operational-level department can use the online tool to create a Departmental Continuity Plan, which includes a set of Action Items identified by departmental staff.
2. **Track action items**. Items are tracked for completion.
3. **Refresh each plan annually**.
4. **Create a campus plan**. Experience shows that some of the action items identified by departments are broad in scope and can be grouped into a campus-level plan.

CONCLUDING STATEMENT

UC Ready models what is possible when we harness our systemwide knowledge to create solutions for a common challenge. Taking a solution developed at a single campus and enhancing it to a level where it serves not only UC, but the worldwide higher education community, is proof of the "Power of Ten." ■

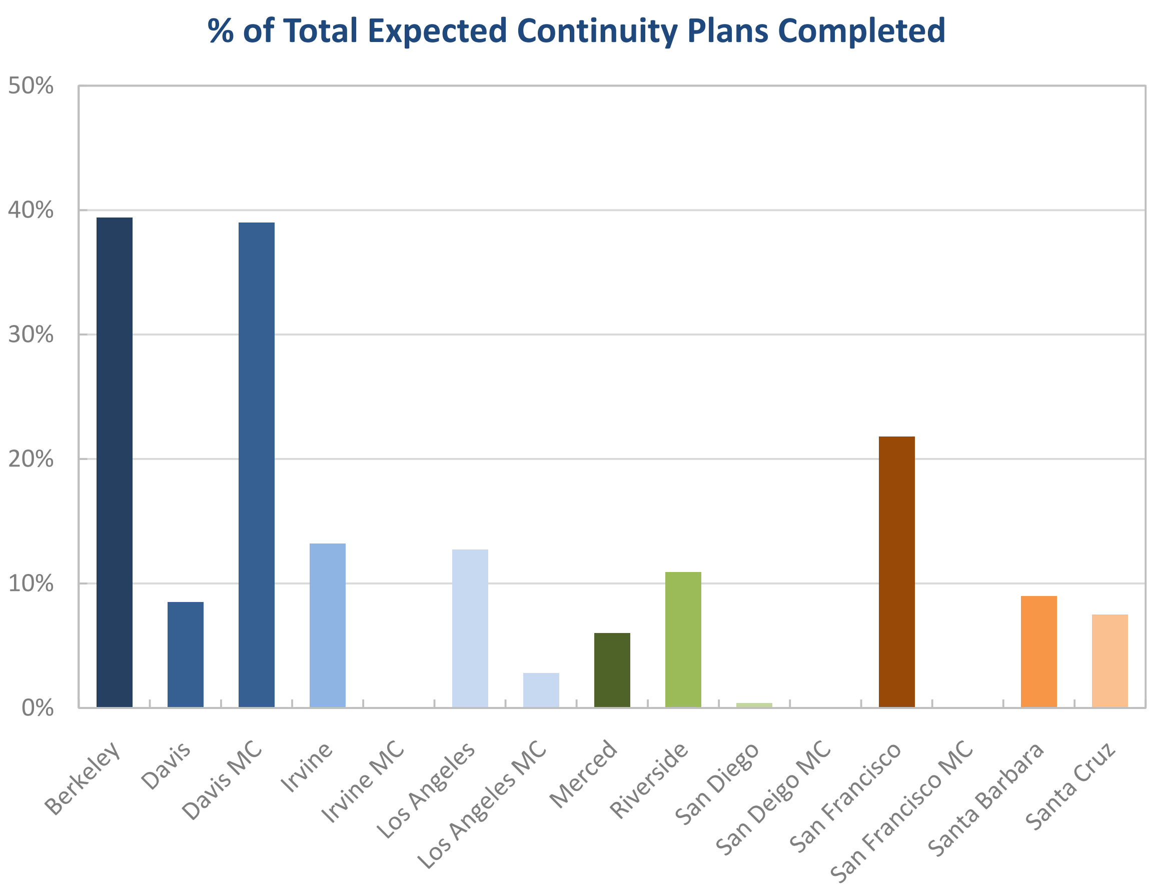

Figure 9:

The completion data shown above is current as of January 2011. Three locations have not yet opted to participate in UC Ready (the medical centers at UC Irvine, UC San Diego, and UC San Francisco). Financial savings metrics are under development based on estimated costs that can be avoided by maintaining the ability to conduct business during a disruptive event.

SYSTEMWIDE FINANCIAL CONTROL SOLUTION

BACKGROUND

Beginning in December 2006, SAS 112/115 [2] established standards and provided guidance on communicating matters related to an entity's internal control over financial reporting identified in an audit of financial statements. In particular, SAS 112/115:

- Defines the terms "significant deficiency" and "material weakness," incorporating the definitions already in use for public companies;
- Provides guidance on evaluating the severity of control deficiencies identified in an audit of financial statements; and
- Requires the auditor to communicate in writing, to management and those charged with governance significant deficiencies and material weaknesses identified in an audit.

The Controller's office at each campus has worked with campus external auditors to identify existing internal controls that support the financial reporting process. In simple terms, requirements for key controls under SAS 112/115 are that:

- A key control must exist;
- A key control must be functioning effectively; and
- A key control must be documented.

This process is critical to UC but requires a tremendous amount of documentation and allocation of resources.

GOAL

The University aims to streamline the process, taking it from manual to automated, but also to build a better process to ensure improved compliance, efficiencies, and transparency. The ultimate goal is to ensure that existing key controls are in place and that each campus can demonstrate through documentation that they are operating as intended.

SUCCESSES

A workgroup, consisting of UC San Diego representatives and an external software developer worked on a web-based tool to facilitate the review and documentation of key department controls required by SAS 112/115. The tool can be used by all UC campuses. The first phase of the prototype has been completed and shared with UC Control Directors and the Office of the President Chief Risk Officer.

The ultimate goal of UC Tracker is to provide a tool that allows the University to monitor financial controls and reduce the time required to complete the SAS 112/115 process. UC Tracker reduces current workload by eliminating redundancy in report preparation and by automating the manual documentation of the performance and certification of internal controls critical to the University's annual financial audit. UC Tracker enables the sharing of analyses and information easily and efficiently across multiple locations.

CHALLENGES

SAS 112/115 requires a lower threshold for reporting internal control deficiencies to the Chancellors and the Board of Regents. The size and many locations of the university make this a potentially daunting task. Advancements in technology assist greatly in overcoming these challenges.

INITIAL INVESTMENT

Prior to UC Tracker, a Request for Proposal was conducted to identify a commercially-available tool to meet UC's needs. None of the resulting tools sufficiently met UC's needs, and all were cost-prohibitive. Developing UC Tracker in-house resulted in a superior tool, saving 70% on development costs and 80% on ongoing maintenance costs as compared to commercially-available products.

FISCAL RESULTS CURRENT AND ANTICIPATED

UC Tracker is part of a suite of Enterprise Risk Management solutions, which are all funded by internal premium determined by independent actuaries. By shifting premium dollars to loss-prevention and loss-control activities totaling approximately $20 million per year, we have reduced the Cost of Risk[3] by over $380 million over the last five years through cost savings and cost avoidance.

CURRENT ACTION AND NEXT STEPS

The second phase of this project is delivery of a "set up" prototype which will allow each campus unit to identify pertinent information related to their department. Completion of this project is anticipated in late 2010.

CONCLUDING STATEMENT

UC Tracker has the ability to save the University millions of dollars and ensure the existence, functionality, and documentation of key controls in an efficient manner. ■

[2] Statement of Auditing Standards No. 112 (SAS 112), "Communicating Internal Control Related Matters Identified in an Audit" is superseded by Statement of Auditing Standards No. 115 (SAS 115) of the same name. To learn more about SAS 112/115 at a specific campus, please contact the local Controller's office.

[3] The funding required to cover the University's broad range of liabilities is referred to as the "Cost of Risk".

UC Tracker Pilot Participants

Berkeley	✓
Davis	✓
Irvine	
Los Angeles	✓
Merced	✓
Riverside	
San Diego	✓
San Francisco	
Santa Barbara	
Santa Cruz	

Figure 10:

UC Tracker is currently in its pilot phase with five campuses participating. Future financial savings metrics under development are expected to provide campus-by-campus data on financial control certification.

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Picking Up Speed:

Nascent Initiatives, Just Getting Off the Ground

BACKGROUND

In July 2008, a group of UC Vice Chancellors of Administration issued a report called "Building Administrative Efficiency for the University of California" (also commonly referred to as the "Morabito Report"). One area explored in the report was "Opportunities for Legislative Relief" which contained initiatives that sought administrative and/or fiscal relief for the University through legislative action.

After a thorough review of these initiatives by the UCOP Issues Management, Policy Analysis and Coordination unit (IMPAC), in consultation with the UC State Governmental Relations Office in Sacramento, it was determined that some of the initiatives could be achieved through either changes in state agency or UC policy or procedure, without changes in legislation, while many were outdated or infeasible in this rapidly shifting political and economic climate. As a result, a second phase of this effort was launched in June 2010 to solicit campuses for new initiatives aimed at improving administrative efficiency, through either legislative, regulatory, or UC policy change.

GOAL

The goal is to pursue all viable initiatives — through legislative, regulatory, or UC policy changes — to achieve real savings, financial and/or temporal, for the campuses and the system. A secondary goal is to provide UC campuses with a single, dedicated point of contact at UCOP in order to jointly explore and pursue ideas for legislative relief and administrative efficiency on an ongoing basis.

SUCCESSES

Three examples from the first phase of Legislative Relief initiatives are indicative of what success might look like with the second phase. Note that none required legislative action:

1. After initial contact by IMPAC, UCLA is now working directly with the State Controller's Office on a procedure for the University to submit post-expenditure reimbursements to the State electronically rather than through a completely manual process, creating substantial savings in time and effort. Pending the outcome, the solution could be expanded to the other campuses.

2. IMPAC is working with the Employment Development Department to automate the quarterly unemployment insurance benefits report, which could be achieved as early as January 2011 (EDD systems are currently down for revamping).

3. UCOP is working to identify ways to simplify vacation and sick leave reporting for the entire UC system.

CHALLENGES

Several of the initiatives require action by the State, either through legislation or a change in internal state agency policy, which may prevent or delay changes from occurring. Further, UC has previously pursued many of the initiatives that require legislative action but has only achieved minimal success in its efforts (e.g., revisions to the Stull Act concerning laws on procurement and capital projects). Thus, there is reason to expect resistance to change, within the Legislature, state agencies and, in some cases, the University itself. However, given the State's current budget situation, to the extent that it is possible to achieve and demonstrate outcomes that would increase savings for UC, the timing of this effort could be beneficial.

INITIAL INVESTMENT

None of the initiatives requires cost outputs (except for staff time) at this stage. Some initiatives may require staff time and administrative effort to implement the changes sought in the event that they are enacted.

FISCAL RESULTS, CURRENT AND ANTICIPATED

The fiscal impacts of some of the initiatives have been roughly estimated (e.g., a call to revise the sole-source justification language in the California Public Contract Code estimated savings at $50,000 to $200,000 per year), while others have not. However, each initiative calls for reductions in administrative burden and increases in efficiency.

CURRENT ACTION AND NEXT STEPS

In response to the recent call to campuses for new initiatives, UCOP received 40 initiative ideas. IMPAC is currently working with UCOP departments to assess the feasibility and determine the costs and benefits of each initiative. Some of the initiatives are being addressed through the annual sponsored legislation process, which is taking place right now.

CONCLUDING STATEMENT

This project will be an ongoing reflection of the new way of doing business, as a system, in this political and economic climate. Although it is unrealistic to expect that all of the initiatives will result in quick, simple changes, this effort represents the breadth of opportunities for the University to work with the State, proactively identifying and pursuing systemwide efficiencies, and for UCOP to serve and collaborate with the campuses. ■

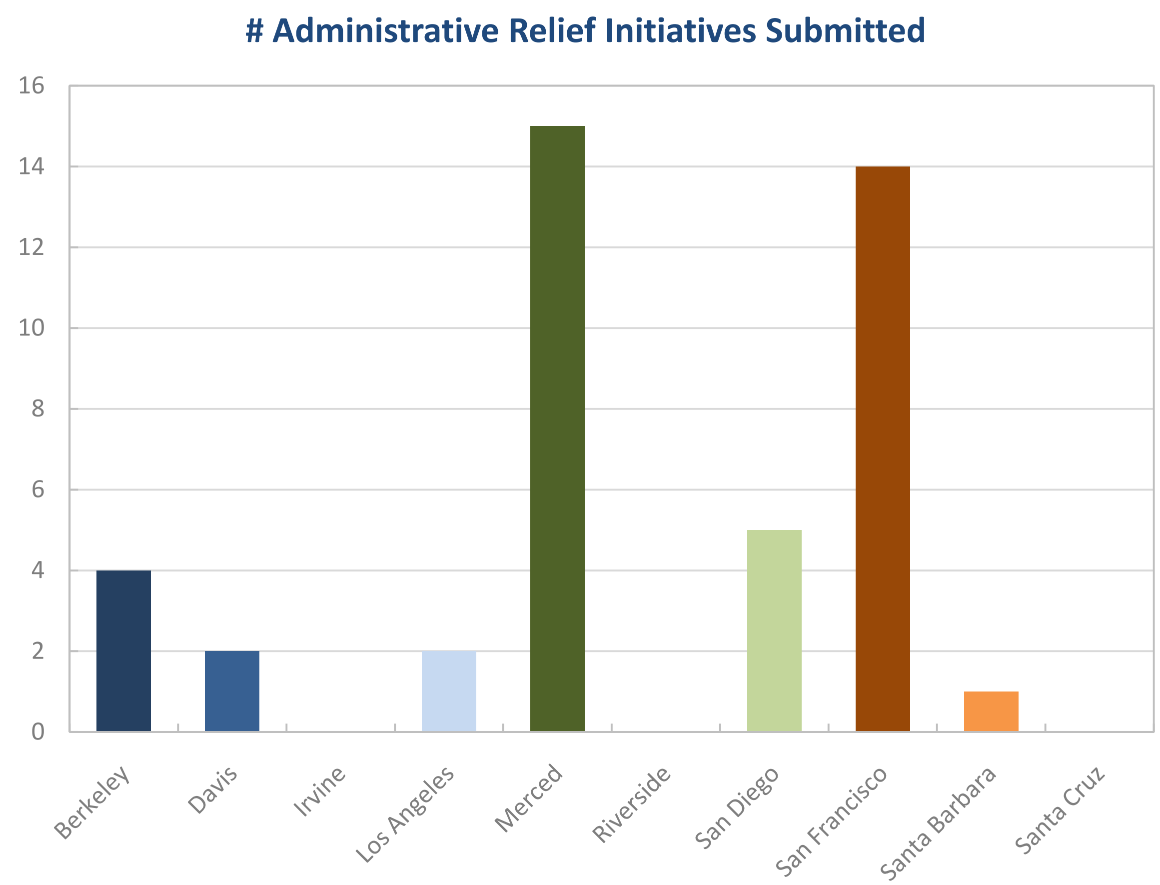


Figure 11:

Suggested initiatives were submitted directly to IMPAC at the Office of the President. The Santa Cruz campus did submit a response to IMPAC, but had no specific suggested new initiatives. In late November 2010, UC Irvine sent to the EVP–Business Operations a list of federal and state agencies that have high degrees of programmatic overlap resulting in increased administrative workload for UC staff. Potential reduction of such redundancy will also be explored as part of this effort. Financial savings metrics based on reduced regulatory and administrative costs are under development.

ANALYTICAL WRITING PLACEMENT EXAMINATION

BACKGROUND

All students who enter the University of California as freshmen must demonstrate the writing skills necessary to succeed in lower-division University courses by fulfilling the Entry Level Writing Requirement. Each April, newly admitted freshmen who have not satisfied the requirement via qualifying test scores or community college coursework are asked to take the University's Analytical Writing Placement Examination (AWPE). The AWPE is a two-hour examination in which students draft a written response to a single essay topic.

Since the 2003-2004 academic year, the costs associated with developing, administering, scoring, and managing the exam have exceeded related revenues. Although the University was successful in favorably renegotiating the vendor contract, factors that prevented the program from being self-sustaining in intervening years include:

- Scoring the exam in-person during a "Big Read" weekend in Berkeley, which involved travel costs for approximately 200 faculty from across all campuses;
- Reduced revenue from exam fees due to declining numbers of test-takers (the number of test-takers has declined from a high of 19,559 in 2002 to just over 17,000 students in 2010); and
- Increasing numbers of low-income test-takers who qualify for fee waivers.

For example, in 2010 the AWPE program costs were just under $1.2 million whereas fee revenue was just $781,221.

GOAL

In an attempt to re-establish the AWPE as a financially self-sustaining enterprise, the University implemented the following cost containment and revenue-enhancing strategies during 2010:

- Shifted the "Big Read" to an online reading system to eliminate costs associated with travel, accommodations, and food required to convene readers to evaluate exams in person
- Reduced mailing costs by notifying students via e-mail about their need to take the AWPE and to communicate exam results
- Reduced the number of test sites commensurate with estimated freshman enrollment reductions
- Renegotiated vendor contract to reduce administrative costs
- Raised exam fees by $25, from $65 to $90

In order to maintain equitable access to this test, the University continued to provide fee waivers for low-income students.

SUCCESSES

A realignment of costs and revenues for AWPE allowed the University to close fiscal year 2009-2010 with a modest surplus. In addition, with full implementation of the online scoring process, the University expects to reduce expenses by approximately $245,000, or 20%, between 2010 and 2011. An additional savings of $100,000 in expenses is estimated for 2012.

CHALLENGES

Despite the increased efficiency in the exam delivery, processing, and scoring, there are factors that have caused the University to plan for increases in the exam fees for subsequent years. These include:

- A continuing multi-year trend of decreasing numbers of freshmen students who need to take the test; and
- An increasing proportion of test-takers who come from low-income families, and therefore, qualify for a waiver of the AWPE fee.

INITIAL INVESTMENT

The development of the online scoring system required an up-front one-time investment of $350,000. Other changes were implemented without investment.

FISCAL RESULTS, CURRENT AND ANTICIPATED

With planned, gradual increases to the exam fees and process efficiencies, the University expects AWPE will again become financially self-sustaining.

CURRENT ACTIONS AND NEXT STEPS

To ensure that future exam costs do not exceed revenue, the University will increase the fee for the AWPE by $20 (from $90 to $110) for the 2010-11 test administration and, if needed, again by $10 (from $110 to $120) for the 2011-12 test administration. The University will maintain its long-standing practice of not charging low-income students educational testing fees. Ongoing monitoring of the number of fee-paying test-takers may allow UC to adjust these planned fee increases.

CONCLUDING STATEMENT

The University is achieving the goal of financial self-sustainability for AWPE by using technology to create a more efficient scoring process and by creatively restructuring the exam processing where possible. While faculty regret the loss of the "Big Read" experience as an opportunity to discuss the teaching of writing, first-year reports regarding their online scoring experiences were positive. ■

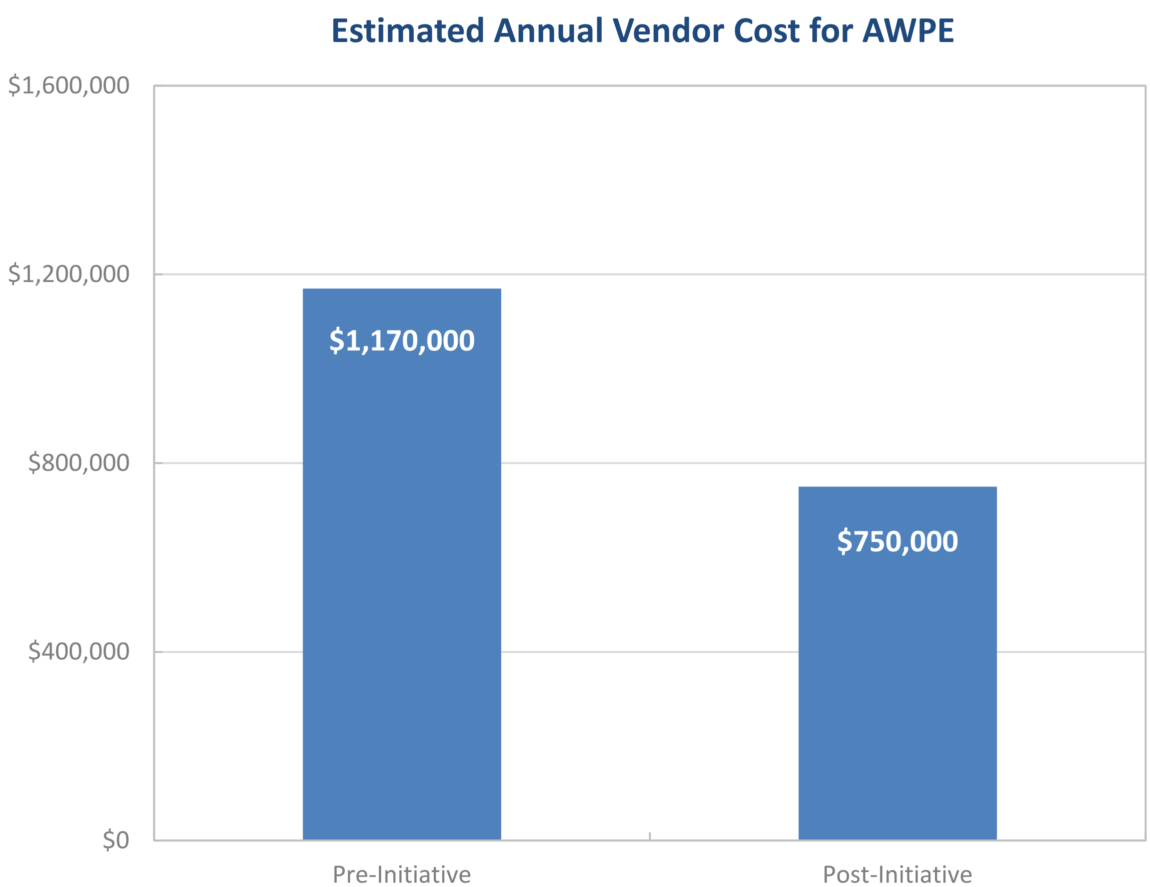


Figure 12:

As a result of the Analytical Writing Placement Examination (AWPE) initiative, the University expects the annual vendor cost for AWPE to drop from $1.17 million to approximately $750,000 in 2012 when systems enhancements are complete, about a 35% decrease overall.

BACKGROUND

The University of California's mission of teaching, research, public service, and healthcare is multi-faceted and encompasses many event-driven activities on our campuses. Previously, student organization events and activities held on-campus were not covered by the University of California's insurance programs. This posed a problem for both students and the University because:

- Students had to rely on personal or family financial resources to defend a claim or lawsuit arising from their activities.
- The University had no financial recourse when its property was damaged by student activities or when it received a claim or lawsuit arising from student and/or any other supporting organization's activities.

GOAL

In light of these problems, UCOP has set a goal to develop a web portal with access to insurance that enables University faculty, staff, students, and supporting third parties (e.g., foundations, alumni associations, etc.) to procure coverage that protects them against lawsuits and claims arising from events. By strategically managing risk, we can reduce the chances of loss, create greater financial stability, and protect our resources.

SUCCESSES

To remedy the problem, the University has purchased a commercial insurance policy to cover most on-campus student organization events and built a web portal – CampusConnexions – that provides access to insurance for students, foundations, alumni associations, and support groups. The web portal also provides access to insurance for third-party vendors and contractors who conduct activities on our campuses and previously had no insurance.

CHALLENGES

With over 200,000 students, the sheer size of the University and its myriad organizations created the biggest challenge. For instance, one campus alone has over 900 registered student organizations. Procuring insurance for events had been highly decentralized and, because of complexity, often didn't occur. For example, in addition to purchasing the insurance itself, most insurance carriers required that UC provide a summary of all activities taking place on a given campus. In our highly-decentralized environment, such a summary was not feasible. CampusConnexions was created to provide a centralized source of information including an accurate accounting of the number and types of events held on campuses. Initially this was met with much resistance, as campus representatives viewed it as "one more thing to do."

INITIAL INVESTMENT

The initial investment to build the CampusConnexions web portal, www.ucop.edu/riskmgt/connexions.html, was provided by the insurance broker at no additional charge.

FISCAL RESULTS, CURRENT AND ANTICIPATED

While the CampusConnexions program is focused on providing better protection and maintaining a centralized source for data, it also provides cost savings. Prior to this program, individual campus departments such as Student Affairs were purchasing this coverage individually for single events. Of greater concern were events that were being held without insurance. There were two significant claims, one involving a fatality where the student groups were left in the lawsuit, paying for their own defense and/or relying on their parents' insurance policies. By purchasing this insurance on a systemwide basis we achieve savings through volume purchasing, saving approximately 10% of the previous cost of procuring individual policies.

CURRENT ACTION AND NEXT STEPS

We encourage all UC locations to continue to promote CampusConnexions within their campus communities. A student activities workgroup has been formed so that student organizations can learn "best practices" from their sister campuses. We will continue to monitor and enhance this program to meet the University's needs.

CONCLUDING STATEMENT

CampusConnexions has filled a great need for the University. It provides easy access to coverage where there was none before. Recently, there was a very well known speaker that appeared at a registered student event. As she was exiting the stage, she fell, breaking her hip. She submitted a claim to the insurance carrier and they responded on behalf of the student organization and the University. University officials can rest easy knowing that a product has been put in place to protect against these types of losses. ■

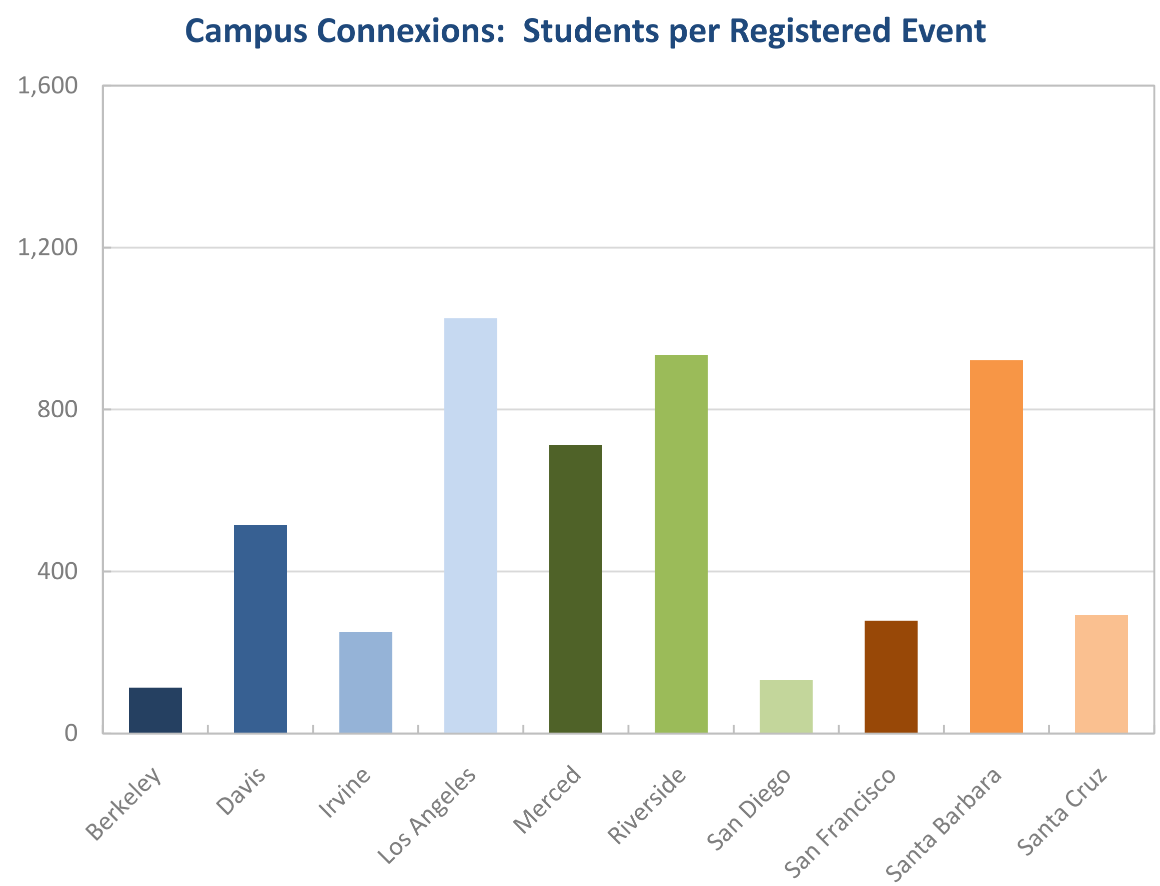


Figure 13:

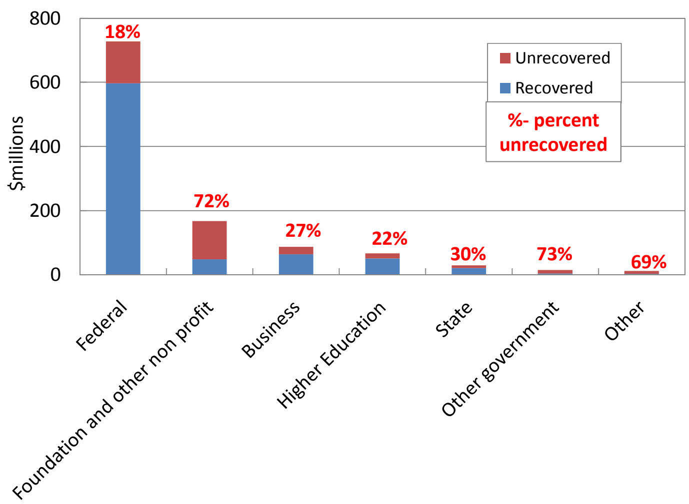
Based on 15 months of data ending November 2010, an average number of events registered with Campus Connexions per year was derived for each campus. These figures were then compared to the relatively stable student population of each campus to produce students per registered event, as shown above. A lower number of students per registered event generally indicates healthier risk management vis-à-vis enterprise size. On average, roughly 55% of events registered with Campus Connexions are held on-campus by registered student organizations. The remaining 42% and 4% are held on-campus by third parties and off-campus by registered student organizations, respectively. Financial savings metrics based on cost avoidance are under development.

COORDINATED APPROACH TO INDIRECT COST RECOVERY (ICR)

BACKGROUND

The University of California recovers approximately $800 million each year of the indirect costs of research (costs associated with administration, support of facilities, utilities, oversight, compliance, etc.) Owing to UC's low rate structure, there are approximately $300 million in annual costs that are not recovered and must therefore be supplied from the University's general fund. Additionally, UC grants cost waivers amounting to approximately $300 million annually to various funding sources, thus actual losses to the University are approximately $600 million per year. A substantial fraction of this sum might be recovered if the University could change its rates and decrease the number of waivers granted.

FY09 Under-Recovery of Indirect Costs through Waivers



GOAL

The primary goals of coordinated indirect cost recovery are: (a) to negotiate indirect rates that properly reflect the University's costs of research; and (b) to reform University practices to decrease cost waivers or to recover the waived indirect costs by other means, e.g., by direct charges to the grants for the unrecovered facilities and administrative costs.

SUCCESSES

This is a long-term project, with a time horizon of three to four years. We have yet to negotiate better rates and change our practices regarding ICR waivers.

CHALLENGES

The major impediment to the rate changes is the established practice of the government offices with whom the University negotiates, namely the office of Health and Human Services in San Francisco. Changing HHS practices will likely require a directive from the federal Office of Management and Budget. Cost waivers largely result from demands from non-profit foundations that sponsor research (Gates Foundation, American Heart Association, etc.) and to some extent program officers in government agencies such as NIH and NSF. The foundations have not yet indicated any willingness to change their policies, although they have not yet been approached seriously by the University of California or an equivalent entity. Government reform efforts are already underway to eliminate the practice of program officers asking for cost-sharing or indirect cost waivers, and that problem may solve itself within the year. Furthermore, this project requires the cooperation of faculty members who do not always see a connection between the indirect costs the University recovers and the research infrastructure they depend on for their work. The University will need to increase outreach efforts to broaden understanding among the faculty and campus administrators of the need for indirect cost recovery to support research.

INITIAL INVESTMENT

Initial investment to-date total approximately $20,000 and is related to staff time and travel.

FISCAL RESULTS, CURRENT AND ANTICIPATED

If fully reformed, the University of California could recover as much as $600 million annually in additional reimbursement for the costs of its research. Realistically, the University is likely to recover only a fraction of this amount, since the University cannot control the actions of the federal government or external foundations. However, even a fraction of the potential still represents a significant opportunity for UC.

CURRENT ACTION AND NEXT STEPS

The Vice President for Research and Graduate Studies at the Office of the President will continue to work with UC's government relations officers and the heads of cognizant national associations including the Association of American Universities (AAU), the Association of Public and Land-grant Universities (APLU), and the Council on Governmental Relations (COGR). The University is also working with its representatives in Congress to address the rate problems, as well as the faculty senate to bring about reforms in the way UC recovers the costs of its research.

CONCLUDING STATEMENT

ICR goals such as these have already been realized by many of the best private universities in the country. For example, MIT has an ICR rate about 15% higher than UC's average, and it has policies in place that make ICR waivers rare. There is a national mood among many of our public peers to redress the imbalance between their costs and their reimbursements, and the three national associations mentioned above have made ICR reform a top priority for the coming year. This is a propitious time to address a problem that is costing the University of California dearly. ■

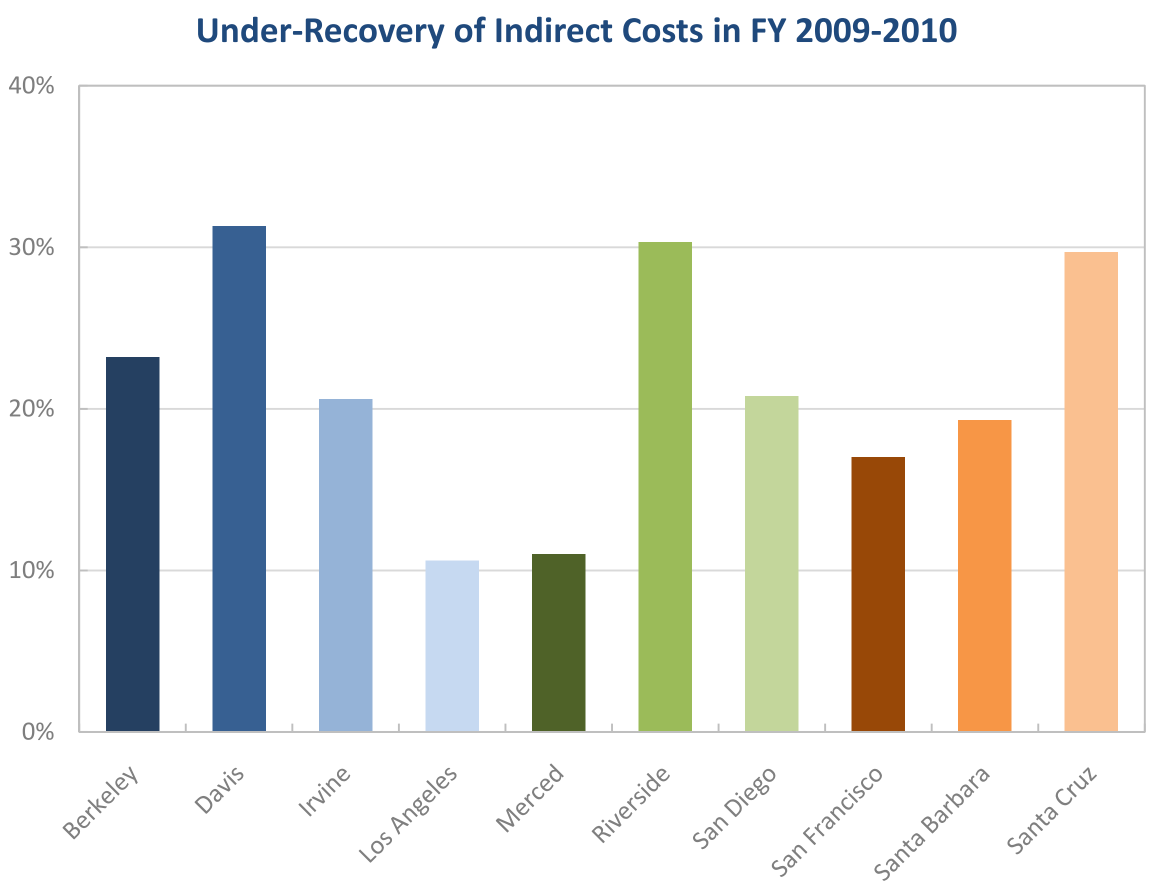


Figure 14:

The percentages above reflect estimated under-recovery of indirect costs on research grants and contracts in FY 2009-2010. Campuses that receive significant research funding from the State and foundations tend to have higher rates of under-recovery than campuses that are less dependent on these sources of funding. Financial savings metrics based on increased recovery are under development.

LIBRARY EFFICIENCIES

BACKGROUND

With a combined fiscal year 2009-2010 budget of $244 million, the University's ten campus libraries and systemwide California Digital Library (CDL) are at a watershed. Campus library funding cuts have averaged around 20% since fiscal year 2008-2009, and the cost of library materials continues to outpace inflation, further increasing budgetary pressures. Expansion in academic and research programs continues to increase demand for library collection growth in all formats, and students continue to demand long hours and extended access to library facilities that provide technologically well-equipped and flexible learning environments. Constrained capital budgets put space allocation pressure on libraries, some of which occupy buildings in prime campus locations. Finally, the shift to digital materials requires new strategies for ensuring access to the information required to support UC's mission.

GOAL

Building on a long history of resource-sharing and consolidated or coordinated service development, the UC libraries began a new phase of strategic planning in 2008-2009 to identify additional innovative, systemwide strategies to mitigate cuts, while reframing library services that support institutional missions and goals. In support, the Provost-appointed Systemwide Library and Scholarly Information Advisory Committee (SLASIAC) convened a task force in Fall 2010 to help set context, direction, priorities, and goals.

SUCCESSES

For more than a decade, library resource-sharing has been facilitated by a number of services managed on a systemwide basis. Particular success has been achieved in licensing electronic journals, databases, and books on a systemwide basis using rigorous cost/benefit analyses; provision by CDL of shared technologies that support management and use of print and digital resources; efficient delivery of print materials among campuses; provision of shared digital reference services; shared high-density storage facilities; and digital conversion of (and online access to) 3 million+ monographs.

CHALLENGES

Budgets must be rebalanced to support new format and service expectations. Business and administrative policies and systems are not optimized for systemwide collaboration; sustainable funding models do not yet exist for processing and managing shared resources and services, and existing behaviors and expectations do not foster innovation or encourage well-founded risk-taking. Trusting relationships must be established and sustained among all parties to permit reliance on external partners to provide essential services. Furthermore, intellectual property issues for digital resources remain unsettled.

INITIAL INVESTMENT

Start-up loan funding may be required for systems that will achieve additional efficiencies and for transition costs to support the reduction of the physical footprint for collections.

FISCAL RESULTS, CURRENT AND ANTICIPATED

Through historic systemwide actions, the libraries avoid up to $100 million per year in costs that they would incur if they were to attempt to achieve the same level of service acting independently. Further efficiencies in capital and operating costs are expected from this most recent round of strategic planning, but it is premature to estimate scale.

CURRENT ACTION AND NEXT STEPS

The SLASIAC task force will present initial findings in December 2010 recommending systemwide strategies and investments that the University needs to pursue to achieve efficiencies in library operations. The libraries and the task force are currently examining further efficiencies in capital and operating costs through:

1. Leveraging digital access and fostering external collaborations to reduce the costs of acquiring and managing redundant print collections. To this end, the libraries have endorsed the goal of developing the University of California Library Collection that comprises all print and digital formats, and are leading a grant-funded initiative, the Western Regional Storage Trust (WEST), involving dozens of regional libraries to establish trusted shared print journal archives;
2. Greater consolidation of library services. The libraries have launched the Next Generation Technical Services initiative that seeks to consolidate, streamline, or outsource common processing functions in order to develop a single systemwide enterprise for acquiring and processing collections;
3. Greater coordination in collection development; and
4. Greater reliance on open-access materials to reduce expenditure on high-priced serial publications.

CONCLUDING STATEMENT

The UC libraries have been national and international leaders in developing new licensing approaches, supporting scholarly communication initiatives, and pioneering practical solutions for digital preservation. Building on their collective 30-year history of successful collaboration, the UC libraries are well-positioned to achieve the next level of collaborative service while continuing to ensure that the UC community has access to the most relevant array of world-class information sources in support of the research, teaching, and public service mission of UC. ■

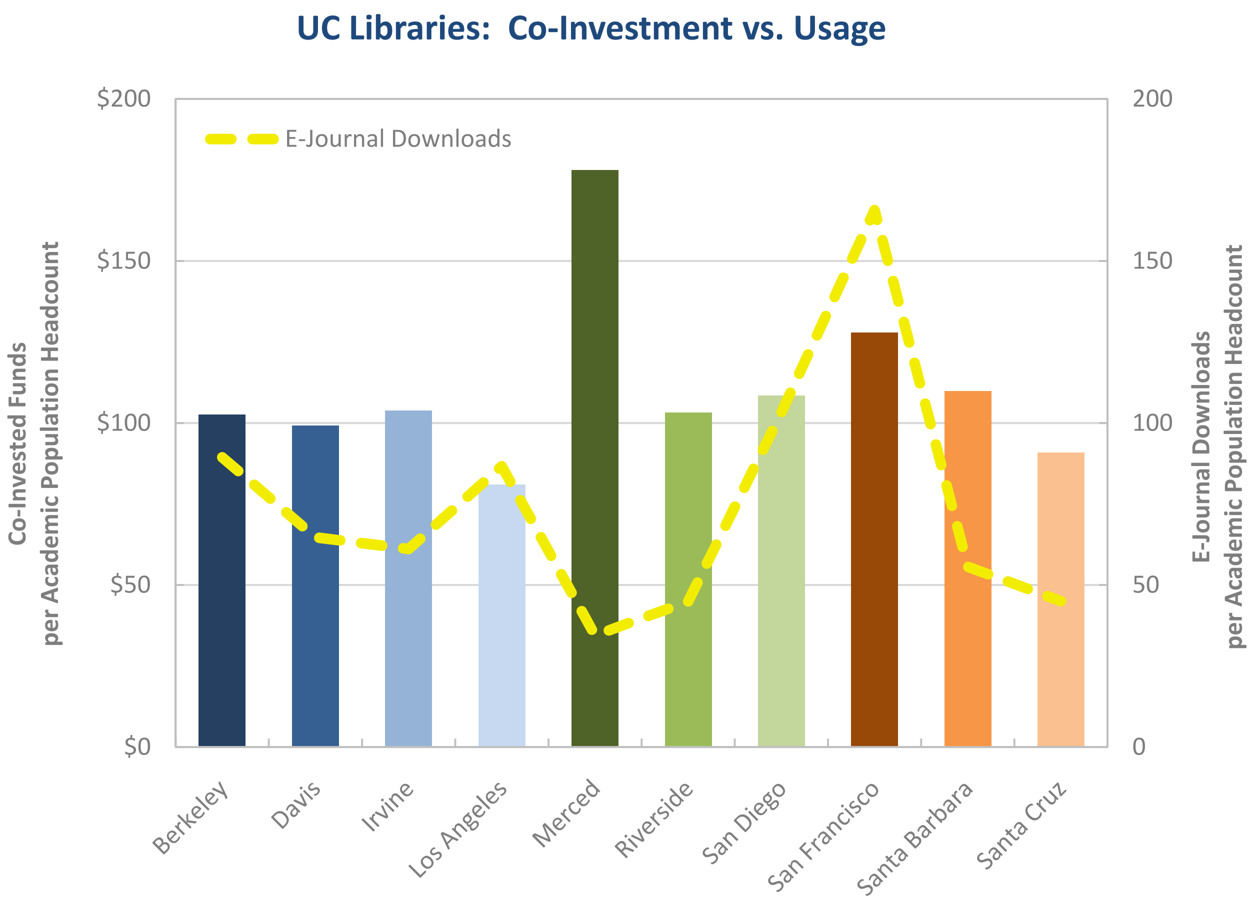


Figure 15:

Academic population headcount is defined as total campus enrollment plus total academic staff headcount. Campuses co-invested over $29.1 million collectively in FY 2009-2010 for shared digital journals (over 46% of the funds budgeted by campuses for library collections are voluntarily co-invested by the libraries in systemwide shared digital collections). Systemwide licensing saves the University $55 million annually compared with independent campus acquisition. The co-investment in shared collections is validated by heavy and growing usage; students and academic staff across UC download an average of 76 journal articles per person per year from the shared digital journal collection.

LIQUIDITY MANAGEMENT

BACKGROUND

Since 1976, the University's Short-Term Investment Pool (STIP) has served as the primary vehicle for campuses to maximize current income on working capital. Campuses routinely depend on STIP income to supplement budgets. By participating in this large, centralized investment pool, campuses receive higher returns combined with safety and liquidity. In 2008, UCOP and Office of the Treasurer came together to explore an investment alternative that would maximize *expected return* rather than current income, potentially generating additional discretionary revenue without generating unacceptable risk. The team found that higher expected returns could be achieved if a pool like STIP was managed more like an endowment (longer-term). However, such returns were only possible with a "total return" mandate, i.e., the acceptance of additional risk.

Out of this exploration, the Total Return Investment Pool (TRIP) was established in 2008 as a fund alternative appropriate for longer-term working capital. Incremental income generated by TRIP would be available to fund mission-critical needs, albeit with some increased investment and cashflow risk. At their option, the campuses collectively transferred $1.49 billion out of STIP into TRIP in August 2008, resulting in an 83% / 17% allocation between STIP and TRIP, respectively, on a combined market value of $8.9 billion.

As of November 30, 2010, the STIP versus TRIP allocation was 84% / 16% on a combined market value of $11.7 billion. Systemwide, this represents operating liquidity far in excess of current aggregate needs, which are estimated at $2.0 - $2.5 billion. STIP market value has remained above $6 billion since TRIP inception in August 2008, and it is currently above $9.8 billion.

GOAL

A renewed systemwide focus on operational efficiency in fiscal year 2009-2010 gave rise to a renewed interest in optimal utilization of TRIP. In June 2010, UCOP initiated a fresh examination of systemwide liquidity needs – namely, the optimal allocation of campus working capital between STIP and TRIP – and the possibility of a *systemwide*, coordinated approach to liquidity management.

SUCCESSES

Despite the initial financial challenges of 2008, TRIP has been quite successful, returning 10.95% for the 12 months ended September 30, 2010. However, this success came on the heels of inaugural 11-month returns (period ending June 30, 2009) of -1.55%, although TRIP outperformed its -3.20% benchmark. Annualized returns and corresponding benchmarks for STIP and TRIP for the period August 1, 2008 through September 30, 2010 appear below:

Period Aug. 1, 2008 through Sept. 30, 2010	STIP	TRIP
Annualized Return	3.13%	8.18%
Portfolio Benchmark	1.12%	7.71%

Thanks largely to TRIP's initial success, campus leadership has been receptive to preliminary discussions regarding a *systemwide*, coordinated allocation between STIP and TRIP.

CHALLENGES

TRIP is inherently riskier than STIP. Additionally, investments in TRIP are committed for a three-year "lock-up."[4] These investment/cashflow risks deter greater campus participation in TRIP. Active marketing and communication with campuses regarding risks and mitigating factors is an area for improvement. Furthermore, coordinated, systemwide action is not an historical tenet of UC culture; devising a plan or policy to optimize *systemwide* liquidity will be a challenge.

INITIAL INVESTMENT

Aside from staff time and effort, the physical establishment of TRIP did not require initial investment; however, TRIP's success is attributable in part to the initial transfer of $1.49 billion from STIP to TRIP, and subsequent investments since.

FISCAL RESULTS, CURRENT AND ANTICIPATED

The annualized TRIP returns shown above imply that each incremental $1 billion investment in TRIP upon its inception in August 2008 could have generated an incremental $62 million in investment income for the University today.

CURRENT ACTION AND NEXT STEPS

Discussions with Chancellors as well as Vice Chancellors of Administration are underway. UCOP is currently studying the daily liquidity needs of individual campuses and the possibility of UCOP-supported, penalty-free overdraft under various assumed STIP / TRIP allocations such as 70% / 30%, with minimum campus balances of 80% / 20% and maximum campus balances of 60% / 40%.

CONCLUDING STATEMENT

UC is entering a new era of operational excellence combined with long-held academic and research preeminence. Optimization of systemwide liquidity undertaken in a concerted, coordinated manner is integral to UC's next phase of growth and success. ■

[4] The three-year lock-up is discrete for each investment made into TRIP. For instance, those campuses that made initial TRIP investments in August 2008 are poised to see those assets "unlock" in August 2011.

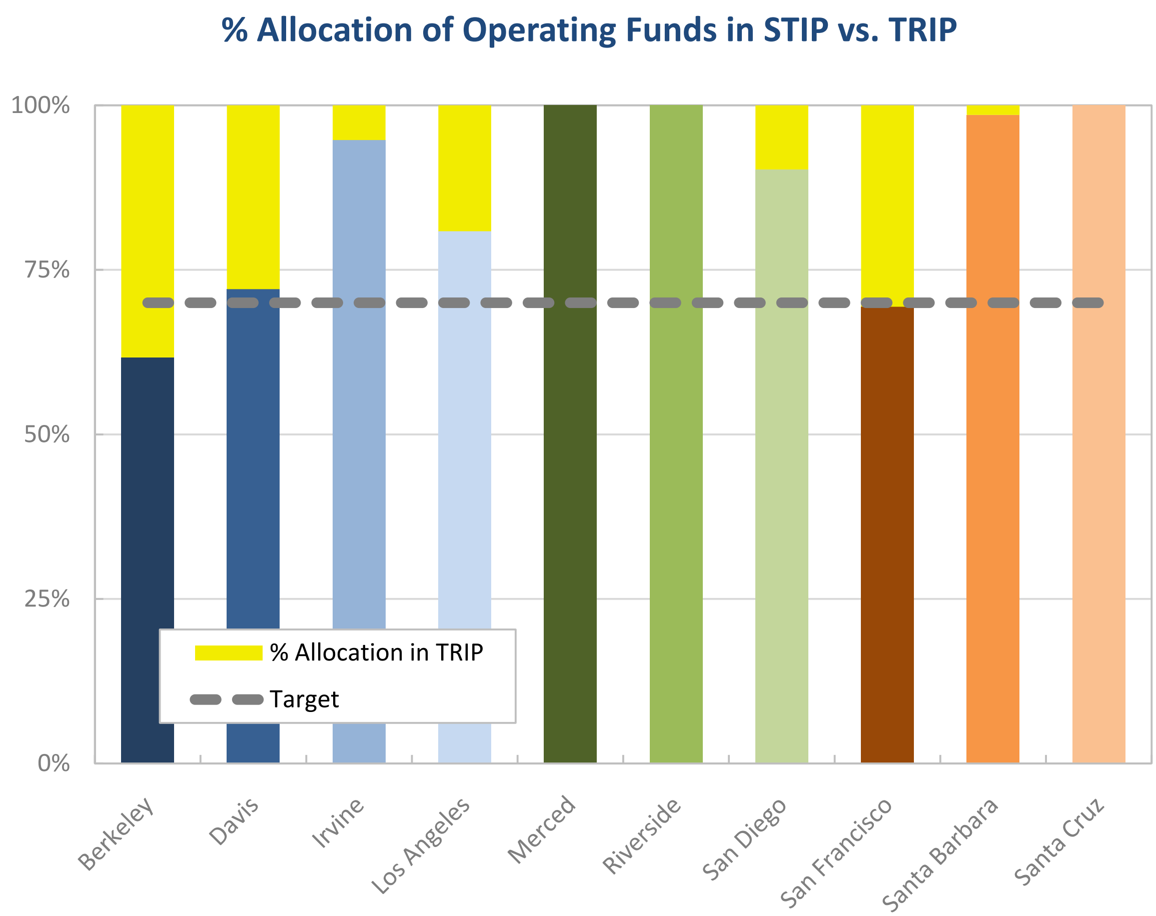


Figure 16:

Percent allocations above are reflective of investments at book value as of November 30, 2010. Campuses may elect to change allocations at any time by contacting the Office of the Treasurer. Metrics based on new-revenue generation resulting from higher TRIP allocations are under development.

MANDATORY EDUCATION

BACKGROUND

The University of California has a diverse environment with different business operations that require training periodically due to a regulatory or legal requirement, UC Policy, and/or Regental Policy. Across the system, training that is "mandatory" for all employees or a segment of the employee population could be determined by the campus, Presidential, or Regental level of authority. There is no one point of contact at the campus or system level for education tracking, trending, or determining criteria for making a particular training mandatory. Faculty and staff have expressed concerns that these trainings are requiring more and more of their time which detracts from their primary mission of research and teaching. Logistically, it is difficult from either a campus or system perspective to follow or keep track of requirements or completion on an individual basis. Appropriately tracking and reporting on completion of training that is required by specific job functions and/or job categories is a significant undertaking.

Lack of a centralized or consistent process for development, approval, and evaluation of mandatory training increases the potential for inadequate quality of content, ineffective dissemination methodology, and misuse of the mandatory label. Without communication between campuses and/or between professional schools, there may be increased potential for lost time/productivity or increased expense. It is clear that UC system can leverage training solutions in a more organized manner.

UC's online learning management system (LMS) has been implemented at most campuses and will be completed in 2011. While this will be a helpful system for providing online training and tracking, it will not address other issues such as the definition of mandatory training, faculty/staff concerns, and whether there is a legal, regulatory, or policy requirement to conduct and complete these trainings.

GOAL

The project has two distinct phases:

1. **Phase I:** Inventory and confirm "mandated" (as defined by local terminology) training for each UC location and combine for a system wide review.

2. **Phase II:** In collaboration with the Faculty Welfare Committee, the Office of Ethics, Compliance & Audit Services (ECAS) will co-lead a multidisciplinary committee composed of training staff, LMS staff, faculty, ECAS and select campus representatives to determine the most efficient method to address: (1) the adoption of a consistent and accepted definition of mandatory education; (2) identify areas where courses could be consolidated with subject overlap; (3) confirm rationale and criteria for continued applicability, and (4) submit recommendations for academic and administrative leadership review and approval to apply systemwide.

SUCCESSES

Phase I of the initiative has begun the process of identifying and cataloguing any mandatory training provided by each campus or the system. This is an ongoing process as additional courses may be identified when this project becomes more visible on each campus. The LMS has afforded UC the initial solution for a consolidated approach to providing on line web access for employees and providing the campus and system the ability to track such training as applicable. However, opportunities to improve this process exist especially as the new payroll system is implemented and employee tracking and records improve.

CHALLENGES

The greatest challenge comes from the fragmentation of training efforts across the system. There is no central point of contact or systems at either the campus and/or the system that conveys all this information is one place. In addition there are no dedicated resources to harness this effort. Inefficiencies in training methods, tracking, access, etc. are dealt with by incident vs. as a concentrated effort to improve processes.

INITIAL INVESTMENT

Labor hours related to collection of information. There may need to be modifications to the learning management system to accommodate any recommendations from this initiative.

FISCAL RESULTS, CURRENT AND ANTICIPATED

Savings will result by reducing duplicative development of training modules, enhancing training access, influencing behaviors towards compliance, and decreasing employee time spent on duplicative or unnecessary training and/or related training logistics. At this time, it is difficult to quantify actual numbers due to a lack of available data.

CURRENT ACTION AND NEXT STEPS

Phase I of this project entails data collection on "mandatory" training at the campus and system level. Phase II will entail the formation of a multidisciplinary committee that will identify ways to achieve an efficient, systemwide approach to training management.

CONCLUDING STATEMENT

The mandatory training initiative will be an asset to UC management as they look to find hidden resources, decrease duplication, increase access and availability of training that is meaningful to the participant, improve workplace safety, define criteria for training, define mandatory, and improve faculty and staff satisfaction related to these activities. ■

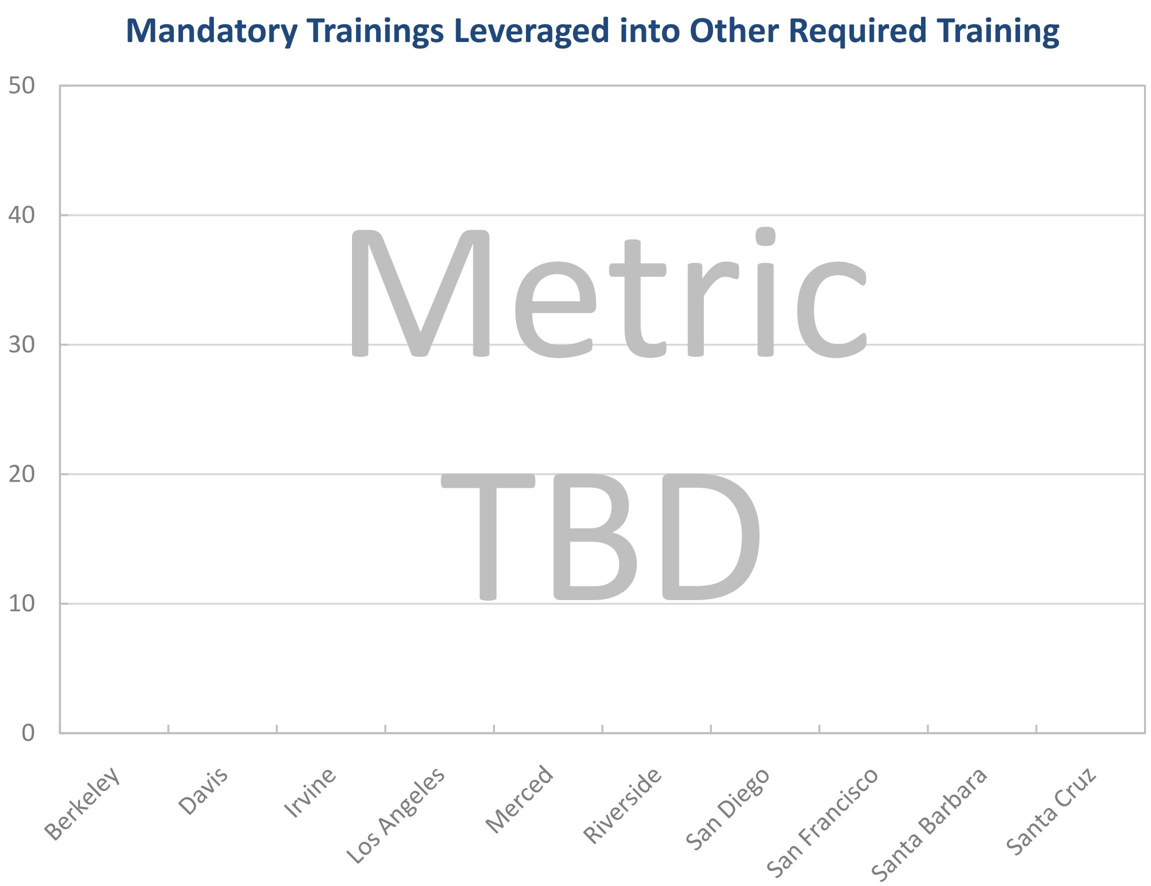


Figure 17:

As the committee identifies opportunities to leverage course content to satisfy multiple mandated requirements, other separate courses can be eliminated. As these eliminations occur, the metric above will begin to reflect the number of training sessions that have been deleted as each course's requirements have been merged into another requirement. It is anticipated that data for the metric above will start to become available by mid- to late-2011.

POLICY PROJECT

BACKGROUND

Institutional policies and procedures are the day-to-day "operating instructions" for faculty, staff, and students. Organizations are re-discovering that organizational policies – clearly articulated, regularly reviewed, and consistently communicated – are central to governance, risk, and compliance efforts. While pockets of the University of California community have over the decades embraced this philosophy, until recently there has been no concerted effort to streamline and reinvigorate policy-making processes and policy management.

The development, review, and management process for UC's administrative policies and procedures must be revitalized. There must be a clear distinction between high-level, long-term statements of institutional goals and aspirations (policies) versus procedural operating instructions. Both must be more clearly articulated, regularly reviewed, and consistently communicated. Better organized and more user-friendly policies reduce time spent researching questions and finding answers, and they discourage workarounds. Well-written policies and procedures reduce risk, improve compliance, and increase reputational capital.

GOAL

The primary goal of the Policy Project is to produce plain language policies that may be easily understood and navigated. Ultimately, each policy will be integrated within one University framework.

Administrative policies will conform to a standard template, and will use a common glossary of terms. Each policy will have an assigned owner responsible for aligning the policy with other administrative policies as well as updating the policy in response to new regulatory requirements, risk assessments, or strategic positioning decisions. This assigned owner will review policies for changes annually, and all policies will be formally reviewed at least every three years.

Finally, all administrative policies and supporting procedures, guidelines, forms, and requirements will be accessible from a single administrative policy website, and will be organized in a logical, task-based hierarchy. Each of these goals aligns with best practices across the higher education community.

SUCCESSES

Over the past year, the Universitywide Policy Office within the Office of Ethics, Compliance & Audit Services (ECAS) developed an inventory of all existing University of California administrative policies and Presidential Delegations of Authority as the basis for a thorough administrative policy review. During Q4, the President established a Standing Policy Steering Committee to guide the policy review process; the Steering Committee is supported by a Policy Advisory Committee representing a range of UC subject matter expertise.

CHALLENGES

UC must take advantage of existing subject matter expertise in a time of increased staff attrition. As other universities have done, UC must accelerate adoption of information technologies to support publishing, locating and retrieving vital information. Increased attention to policy and procedure management will reduce legal risk from contradictory, outdated, or fragmented policies.

INITIAL INVESTMENT

ECAS has contributed one FTE to this project, and other Divisions within UCOP are also contributing staff time. As the project goes forward, campuses will be asked to contribute resources in the form of representation on the Policy Advisory Committee. During the next calendar year, we anticipate additional costs related to supporting information technology. Realizing that we have to do more with less during this period, we also are exploring campus-to-campus-to-UCOP collaborative technologies that may assist policy management for the System as a whole.

FISCAL RESULTS, CURRENT AND ANTICIPATED

The immediate payoffs for better organized and more user-friendly policies will be fewer FTE hours spent researching questions and finding answers. A more robust policy management process and website presence will also demonstrate University operational transparency and accountability.

CURRENT ACTION AND NEXT STEPS

UCOP divisions are working from a comprehensive inventory of more than 600 records to review, update, consolidate, reformat or rescind identified policies, procedures and related instructions. The Policy Project will develop a website presence to keep members of the community informed about progress on this initiative.

CONCLUDING STATEMENT

Within the next 12 months, the Policy Project will create highly visible and sustainable improvements in the administrative policy-making process. Once infrastructure is in place, we will be able to measure "owner" accountability, better respond to user and stakeholder feedback, and conserve human resources by providing a "one-stop" source for policy questions. We also hope to reduce time-to-deployment of regulatory-based policies by quickly assigning policy development tasks to the appropriate officer and by establishing an accelerated review process for such issues. ■

Institutional Policy Development: Effective Practices and Solutions

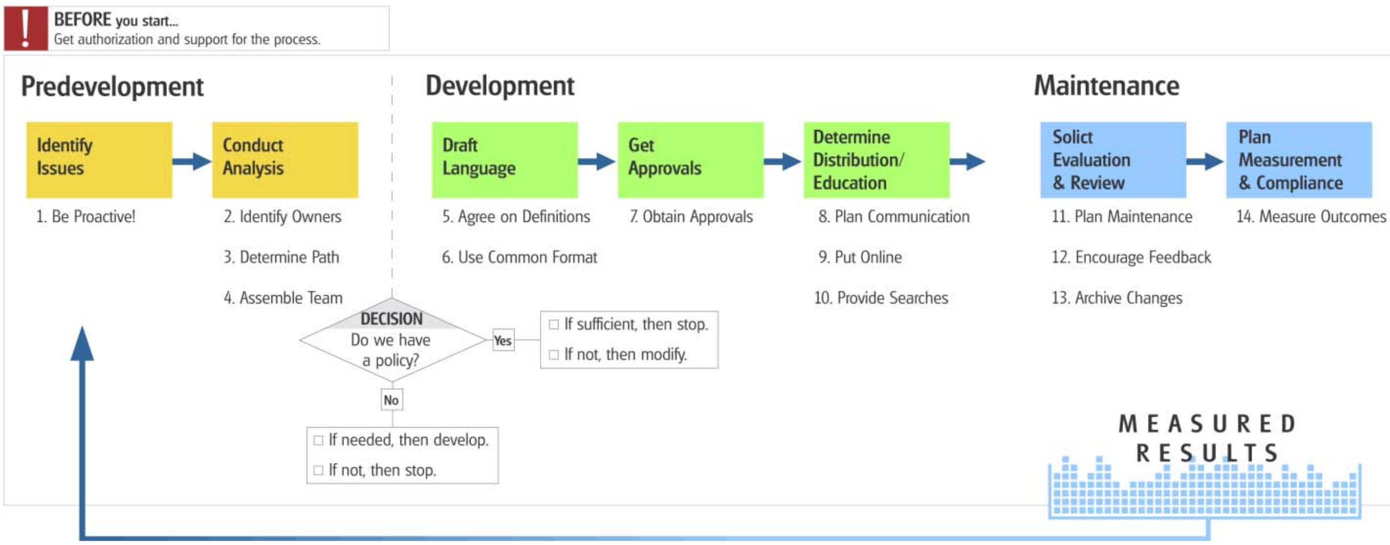


Figure 18:

The UC Policy Project aims to undertake a holistic approach like the strategy outlined in the graphic above (graphic courtesy of the Association of College & University Policy Administrators). Much of the initial groundwork has been laid, especially with respect to the predevelopment stage shown above. Financial savings metrics based on estimated reduced administrative costs can be developed in the future.

UC STRATEGIC INITIATIVE PROGRAM (CAPEQUIP, C3, AND STARS)

BACKGROUND

The economic turmoil of fiscal year 2009-2010 was an awakening for the University. Beginning with Chairman Russell Gould and President Mark Yudof's Commission on the Future, UC constituents united behind administrative efficiency as a means to ensure long-term viability. However, the University community realized that lack of one-time investment funding was often a barrier to efficiency improvements systemwide. If efficiency was to become a tenet of UC operations, then a solution to address investment barriers would be required.

GOAL

The Office of the President devised a suite of internal-loan programs that leveraged UC's high credit rating to make low borrowing costs available for purposes beyond construction.

SUCCESSES

In May 2010, the Executive Vice President—Chief Financial Officer presented to a small group of Commission members a three-pronged funding program to address capital equipment acquisition, administrative efficiency projects, and faculty recruitment/retention – the UC Strategic Initiative Program:

CapEquip (Capital Equipment Financing)	
Size:	$200 million overall per year
Purpose:	Equipment acquisitions in lieu of third-party leasing (incl. refinancing)
Strategic Goal:	Cut costs through economies of scale inherent in UC debt program
Structure:	Amortizing loans funded via CP on a reimbursement basis
Loan Terms:	4% (subject to annual review) with 7-year max amortization term
Debt Service:	Campus funds that formerly paid third-party lease payments
Distribution:	Campuses submit needs annually in March for Regental authorization

C3 (Cross-Campus Collaborations)	
Size:	$20-$50 million overall per year
Purpose:	Regional centers of excellence, systemwide efficiency initiatives
Strategic Goal:	Cut duplication and increase systems commonality
Structure:	Amortizing loans funded via CP on a reimbursement basis
Loan Terms:	0% with 7-year max amortization term
Debt Service:	Principal possibly paid by savings (interest covered by program)
Distribution:	Campuses competitively apply throughout the year

STARs (Strategic Teaching Acquisition & Retention)	
Size:	$20-$50 million overall per year
Purpose:	Lab renovations/equipment specific to a single faculty recruit
Strategic Goal:	Maintain competitive research and academic excellence
Structure:	Amortizing loans funded via CP on a reimbursement basis
Loan Terms:	0% with 11-year max average term (15-yr. renovation; 7-yr. equipment)
Debt Service:	Principal possibly paid by ICR (interest covered by program)
Distribution:	Campuses competitively apply throughout the year

On July 14, 2010, the Regents authorized $204.22 million in debt financing to fund CapEquip, the University's first-ever capital equipment financing program, which is expected to save campuses $1-2 million in interest costs annually. UC Davis and UCLA have borrowed under CapEquip, and more campus utilization of the program is anticipated. In late 2010, the EVP–Chief Financial Officer authorized two critical C3 loans to fund key cross-campus collaborations: one $16.5 million loan to UC Santa Barbara for migration to UCLA financial systems, and one $3 million loan to UC San Francisco for the establishment of joint procurement services with UC Berkeley.

CHALLENGES

Although 4% is quite low, utilization of CapEquip is yet to be seen. While some campus leases are as high as 9.75%, others are as low as 2.97%. It is hard to predict what amount of the $204.22 million authorization will be utilized during this inaugural year. CapEquip utilization has a direct impact on 0% loan funding availability, as its 4% rate is designed to enable the Office of the President to capture a small spread that can finance other campus strategic initiatives cost-free.

INITIAL INVESTMENT

Other than staff time, UCSIP required no upfront investment.

FISCAL RESULTS, CURRENT AND ANTICIPATED

Although CapEquip is expected to provide modest cost savings directly, the overall crux of UCSIP is that it breaks down barriers to efficiency investments at the campuses. The cost savings and cost avoidance that will result over time is expected to be significant.

CURRENT ACTION AND NEXT STEPS

Once CapEquip and C3 are fully operational, implementation of the STARs segment of UCSIP will be revisited.

CONCLUDING STATEMENT

UCSIP is a great indication of the University's ingenuity and ability to collaborate when faced with tough challenges. ■

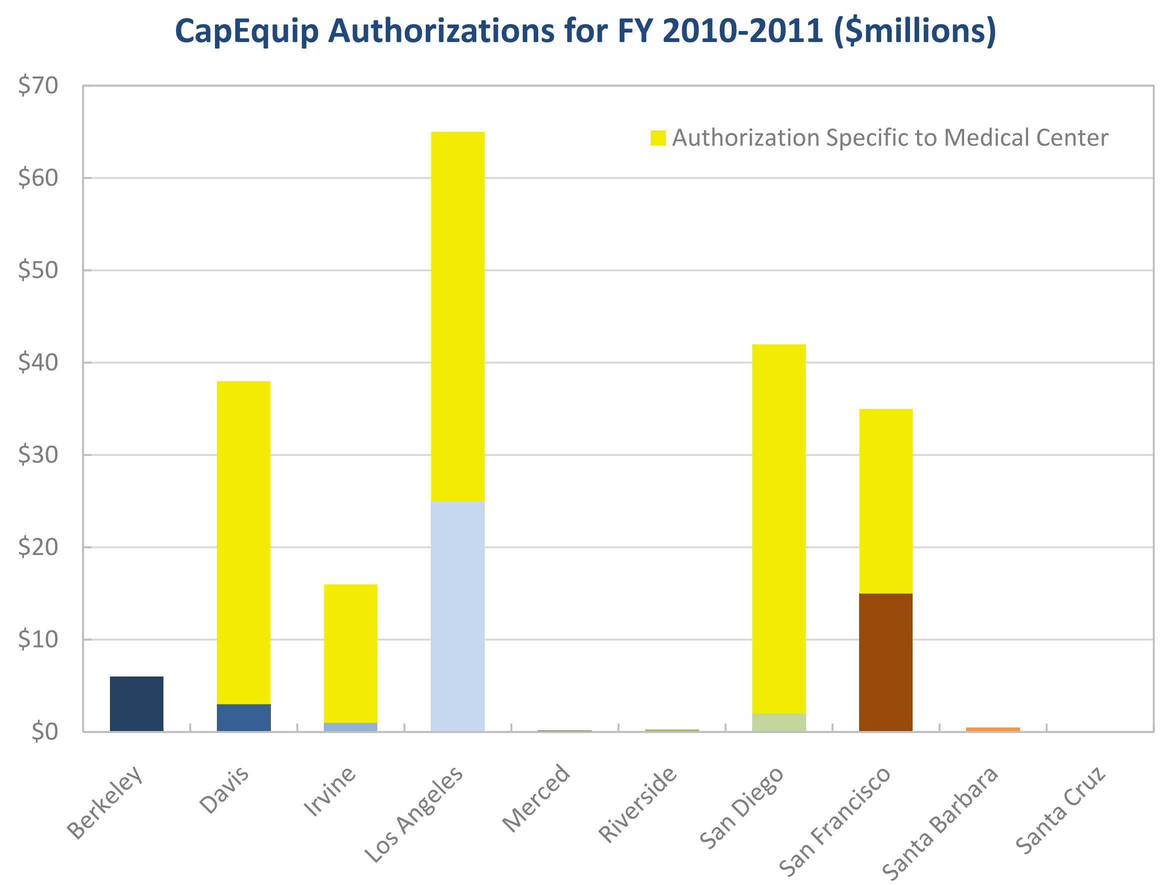


Figure 19:

Amounts above reflect authorizations requested by each individual campus for Regental approval in July 2010. As of January 2011, only two campuses had utilized any FY 2010-2011 authorization: UCLA for $382,000 and UC Davis for $669,000. The interest rate for the CapEquip program for FY 2010-2011 is set at 4.0%. Financial savings metrics based on actual program utilization are under development.

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Maintaining Momentum:

More Mature, but Still Needs Focus and Drive

CONNEXXUS

The University of California Travel Program

BACKGROUND

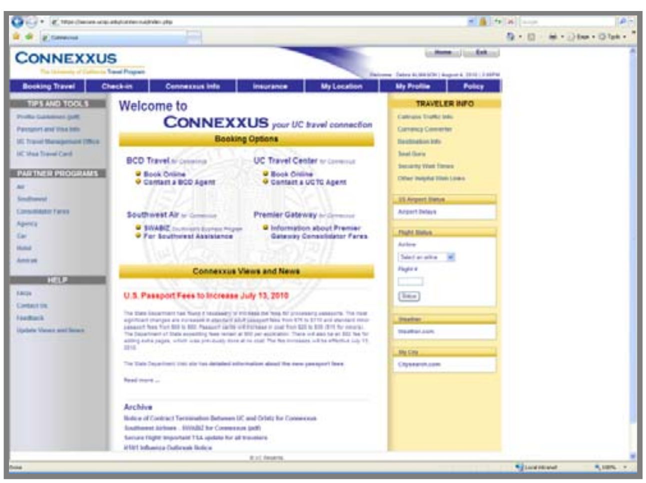
The University of California spends approximately $200 million each year on travel and travel-related expenses. Historically, there had been little effort to organize a managed travel program to leverage the University's volume, enter into system contracts with travel suppliers, and recognize savings across the UC system. However, in 2006, at the request of the Regents, UCOP initiated a study of travel spend. Internal analysis showed that approximately $130 million of the University's annual spend could be procured under negotiated contracts.

GOAL

UCOP aims to identify, procure, and manage an efficient, cost-effective, and comprehensive travel program across all UC locations. The program will feature supplier contracts that contain industry-leading terms and conditions coupled with high utilization rates for sourceable commodities such as agencies, rental cars, hotels, and airfare. In addition, the program will focus on ease-of-use for the traveler, including a single travel portal and online booking tools.

SUCCESSES

In 2007, a Travel Management Council made up of representatives from all UC locations was created to seek input, advice, and approval for all recommendations related to the development, implementation, and ongoing management of the Connexxus program. Contracts have been negotiated with agencies, airlines, rental car companies, and national hotel chains. A single portal has been developed and activated for all UC locations.[5]



Training programs focusing on education and promotion have been developed and implemented. A Central Travel Management office has been implemented to coordinate the activities of the Travel Management Council and to assist locations with implementation. A central data-management system was implemented to monitor travel volume for use in negotiating deeper discounts with providers in the future.

CHALLENGES

Resistance to change has been the primary challenge. Travel at UC has historically been viewed as extremely personal with individual needs or preferences. Changing this perspective will take time in order to drive up utilization, which is currently at 20%. Developing a single travel management program with enough variety to satisfy a broad spectrum of traveler needs, while concentrating volume to achieve discounts, has been challenging.

INITIAL INVESTMENT

An investment of approximately $1 million over three years (2007-2010) was made from UCOP financial management to seed the development and implementation of Connexxus.

FISCAL RESULTS, CURRENT AND ANTICIPATED

After implementation, an analysis over a recent 12-month period of time with only 20% utilization has shown annual savings to UC of approximately $3 million. We anticipate that after three years and 80% utilization at all locations, UC could save up to $15 million annually.

CURRENT ACTION AND NEXT STEPS

Managing rogue spend and increasing utilization of the negotiated contracts is necessary to retain current discounts and negotiate more favorable pricing in the future. Plans are in place to aggressively promote the program and increase utilization. In addition, due to the success of the program in a relatively short period of time, the California State University System has requested to participate in Connexxus. A program to implement all CSU locations, along with the Chancellor's Office, is underway. Also, the National Nuclear Security Administration, as well as the participating Department of Energy Laboratories, will be further extending their utilization of the Connexxus program.

CONCLUDING STATEMENT

Working together as a UC system to leverage volume and manage a commodity such as travel has proven successful. Although change is difficult, the Connexxus team at UCOP and across the UC system has developed strategies and approaches to help travelers achieve cost savings and improvements in convenience and efficiency over time. The Connexxus program is viewed by many in the travel industry as a leader in providing a quality travel program across a very decentralized and complex organization. ■

[5] Additionally, three Department of Energy Laboratories currently participate in certain contracts within the Connexxus program.

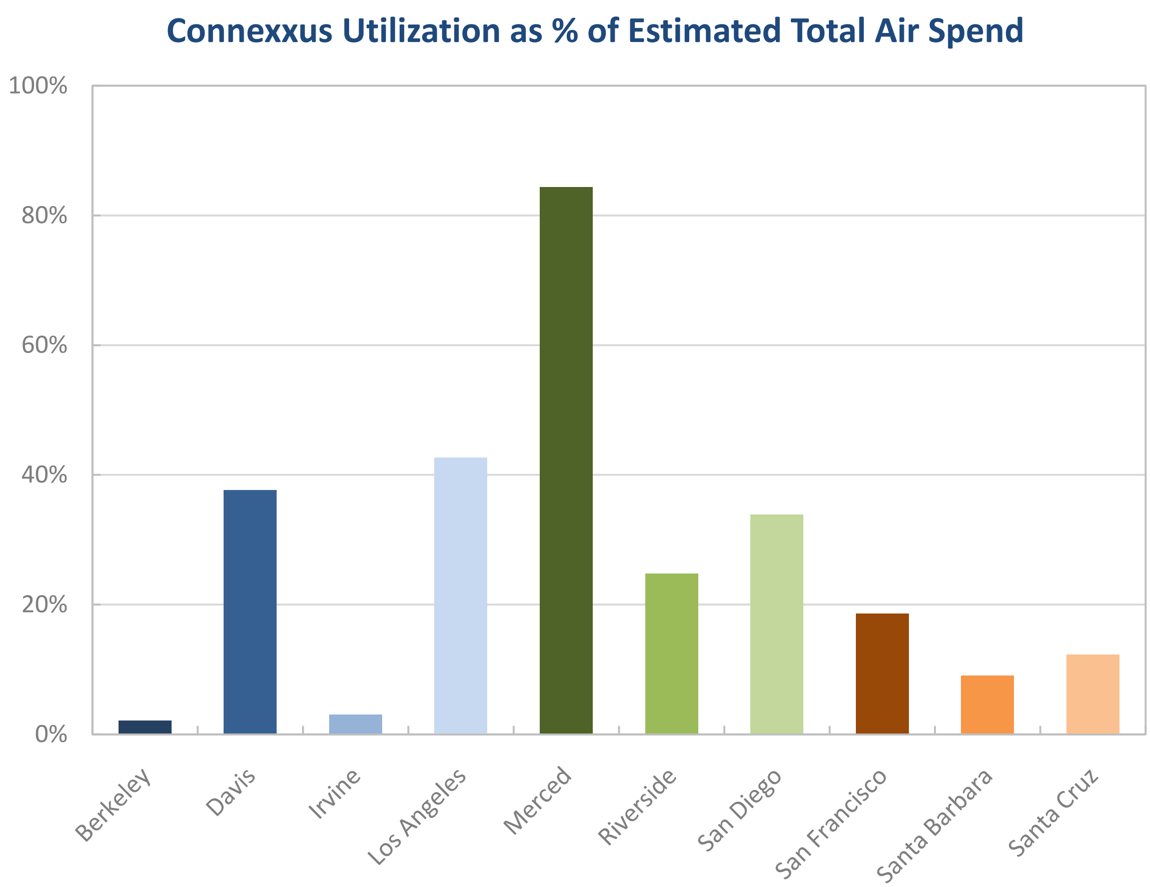


Figure 20:

Actual Connexxus air spend data for January through August 2010 was annualized then compared to estimated total campus air spend to derive the percentages shown above. Four campuses had not yet fully implemented Connexxus in calendar year 2010 (UC Berkeley, UCLA, UC Merced, and UC Santa Barbara). Financial savings metrics based on reduced costs achieved via Connexxus are under development.

ENTERPRISE RISK MANAGEMENT

BACKGROUND

The University of California system operates in an inherently risky environment, giving rise to many types of liability. The funding required to cover these liabilities is referred to as the "Cost of Risk." The annual direct Cost of Risk associated with UC's hazard risks (workers' compensation, general liability, employment practices liability, professional liability, auto liability, and property) is alone over $250 million. However, hazard risk is just one risk category; the University also faces strategic, operational, financial, and reputational risks

GOAL

As a strategic approach to managing enterprise-wide risk, the University has migrated from a traditional risk program to an Enterprise Risk Management (ERM) program, which aims to protect people, prevent loss, and reduce the Cost of Risk.

SUCCESSES

The ERM program has grown exponentially since the University's Chief Risk Officer joined UCOP in December 2004. The UCOP Risk Services website (www.ucop.edu/riskmgt) is continuously enhanced with new tools to help managers at all levels identify, assess, and manage risk, thus reducing Cost of Risk.

- **Enterprise Risk Management Information System (ERMIS)** provides users a single portal through which they can access and analyze data related to their area.
- **UC Action** enhances the efficiency of monitoring controls established in response to specific incidences through continuous monitoring and automated follow-up.
- **UC Tracker** facilitates the review and documentation of key financial controls related to preparation of the University's financial statements.
- **UC Ready** is an award-winning Mission Continuity Tool that allows all UC departments systemwide to develop plans to ensure continuation of operations.
- **ERM Maturity Level Model** provides a framework for campuses and medical centers to plan ERM programs and measure and monitor their progress.
- **Risk Assessment Workbooks** support risk assessments at each UC location.
- **UC Risk Services website, webinars,** and **Risk Summit** provide educational materials and training systemwide.
- **Be Smart About Safety**, **6% Prescription**, **Employment Practices Improvement Committee (EPIC)**, **Integrated Safety & Environmental Management (ISEM),** and **Emergency Management** are innovative loss-prevention and loss-control programs.
- **Risk Management Leadership Council (RMLC)**, **Occupational Health Physicians (OEHAC)**, and others are systemwide groups supported by UCOP Risk Services.
- **UCIP**, the University's Construction Insurance Program; **UC TRIPS**, providing travel insurance and travel services; **CampusConnexions**, providing insurance to student and support groups; and **Cyber Coverage**, focused on implementation of best practices are risk financing strategies and new insurance products that facilitate UC's mission.

CHALLENGES

The greatest challenges come from the size and many locations of the University. Advancements in technology assist greatly in overcoming these challenges.

INITIAL INVESTMENT

All programs and costs associated with ERM are funded by internal premium determined by independent actuaries. By shifting premium dollars to loss-prevention and loss-control activities totaling approximately $20 million per year, we have reduced the Cost of Risk by over $380 million over the last five years through cost savings and cost avoidance.

FISCAL RESULTS, CURRENT AND ANTICIPATED

Since fiscal year 2003-2004, ERM has reduced total Cost of Risk to $13.31 per $1,000 of operating revenue, a 28% reduction.[6] We expect to see a steady pattern of reduced Cost of Risk over the coming years. Rating agencies now explicitly examine organizations' approach to managing enterprise-wide or holistic risk. UC's proactive approach to ERM will contribute to the maintenance of the University's excellent credit rating. ERMIS is reducing current workload by eliminating redundancy in the preparation of numerous reports and automating the manual documentation of the performance and certification of internal controls critical to the University's annual financial audit. ERMIS enables easy, efficient sharing of analyses and information across multiple locations.

CURRENT ACTION AND NEXT STEPS

UC campuses continue to enhance the maturity of their ERM programs through a collaborative effort systemwide. UCOP Risk Services continues to support the campuses through development of new systems and tools to facilitate the effective and efficient management of risk.

CONCLUDING STATEMENT

Through the ERM program, UCOP Risk Services has helped the University save or avoid millions of dollars in costs. ERM has the potential to save or avoid millions more by reducing the Cost of Risk and protecting the lives of patients, students, faculty, and staff. ■

[6] Valuation as of June 2009.

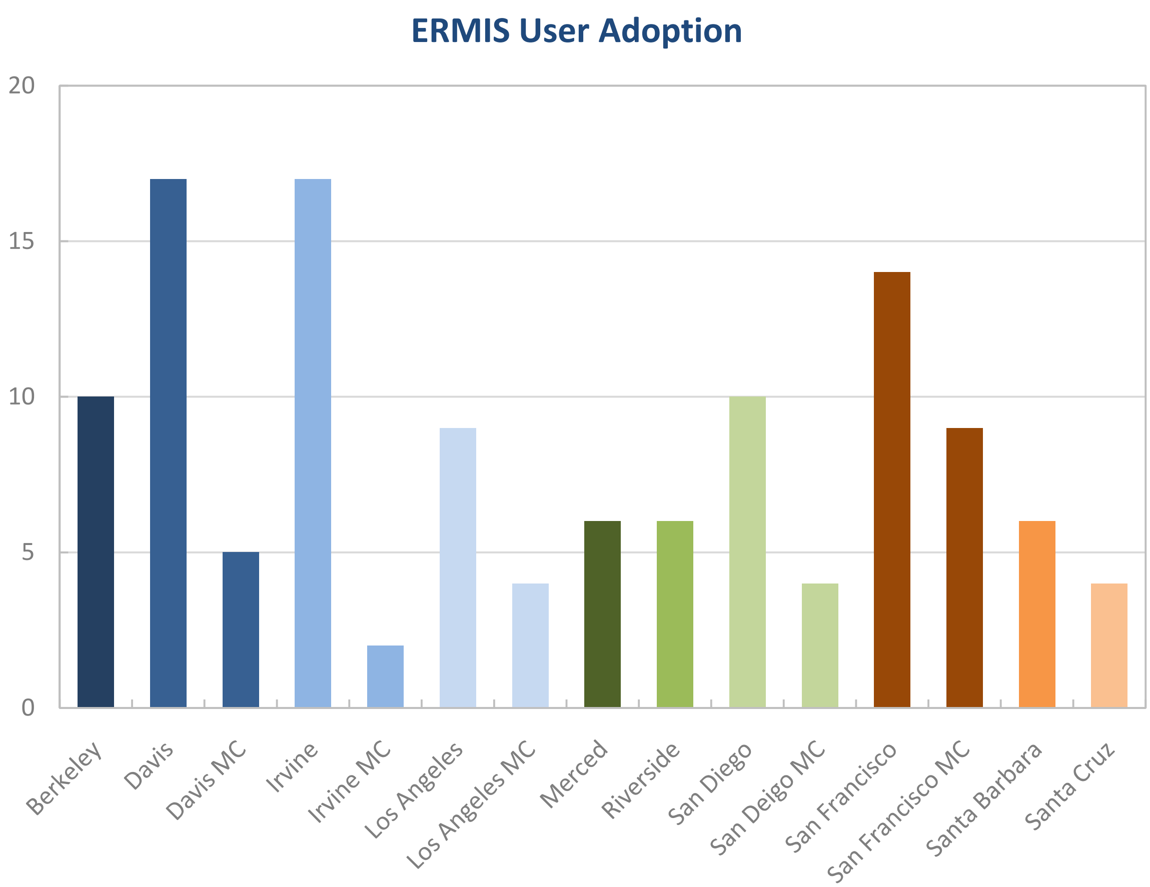


Figure 21:

Enterprise Risk Management Information System (ERMIS) user counts shown above include both Professional and Consumer users as of January 2011. Professional users can conduct basic report authoring and exploration (i.e., ad hoc analysis), whereas Consumer users can view, filter, schedule, notify, and drill into pre-authored reports. Consumer users represent 79% of total users. Financial savings metrics based on reduced Cost of Risk are under development.

PARENT GIVING

BACKGROUND

UC's peer private institutions have a long history of attracting significant private support, especially from alumni and parents of students. UC's challenge is to educate alumni, friends, and the general public of the growing need for private support. An ongoing concern is that many believe the State continues to provide a constant base level of support as was provided in an earlier era when gifts were described as providing the "margin of excellence." State support has dropped dramatically over the last two decades, making gift support more important than ever to the University. It no longer provides simply the margin of excellence; it is essential to ongoing operations of this world-class institution.

GOAL

The goal is to expand the base of UC supporters to include parents. Because they have a unique perspective of the value of a UC education, parents are often eager to support the University financially and through advocacy efforts. UCOP and the campuses have worked together on a number of programs aimed at increasing philanthropic support. Several years ago, the area of parent giving was identified as high-potential, though an infrastructure would need to be put in place in order to be effective. In fiscal year 2007-2008, the Alumni and Parent Incentive program was initiated, recognizing that the cultivation of parents as donors may play a role in developing current students to become the donors of the future.

SUCCESSES

There was a dramatic jump in the first year of the program – as systemwide parent giving rose to $10.7 million from $3.6 million the previous year. This increase was occurring across all of our campuses: Berkeley reported $2.3 million in 2008 and $3.4 million in 2010; Davis had parent giving increase from $698,000 to $915,000 over this period; Santa Barbara grew parent support from $198,000 to $2.8 million, etc. A number of our campuses have established Parent Volunteer Boards. For example, at Berkeley there is an 80-person volunteer board; the co-chairs of the Parent Board interact with the UC Berkeley Foundation. Gifts from parents also tend to be more unrestricted or flexible than gifts from other donor groups. When gifts are targeted, donors may more directly influence the student experience, as was the case with parents who made a gift to Berkeley to keep the library open extended hours during finals.[7] Perhaps even more important than dollars raised, parent programs have engaged a large number of parents and families. For example: at Berkeley, over 5,000 families contributed to the Cal Parents Fund during the most recent fiscal year; at UCLA, over 3,000 attended the most recent Parents Weekend.

CHALLENGES

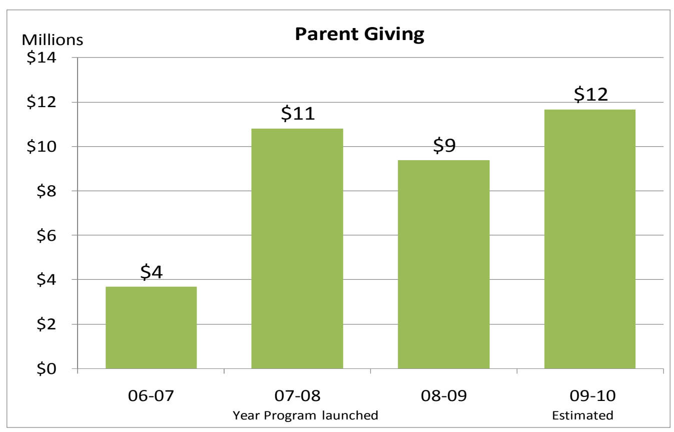
Encouraging parent giving requires adopting a culture of philanthropy. This takes time, especially when an institution has only recently emphasized engagement with parents and alumni as a legitimate educational interest of the institution. More recently, the largest impediment has been economic instability. Families facing economic uncertainties/challenges may not be as receptive to providing philanthropic support. In addition, campuses are challenged to continue to provide (let alone increase) the level of resources and interaction that are provided to parents and families, including everything from monthly newsletters to Parents Weekends. To the extent possible, information that engages parents is provided via specific campus websites and other cost-efficient means.

INITIAL INVESTMENT

UCOP is working to support campus efforts, including a program whereby each year, $300,000 from UCOP is matched at the campus level by $600,000 for alumni/parent programs.

FISCAL RESULTS, CURRENT AND ANTICIPATED

Parent giving has grown by several million dollars since the Alumni and Parent Incentive program was launched in 2007.



CURRENT ACTION AND NEXT STEPS

UCOP and the campuses are seeking to sustain support of campus development programs in order to build campus capabilities. In addition, efforts will be made to enhance communication among the campuses about the most effective programs and approaches in development and alumni and parent giving.

CONCLUDING STATEMENT

UC has raised in excess of $1 billion each year for a decade. The campuses are poised to take this to a higher level as the economy recovers to support donor confidence. ■

[7] An individual who is both a parent and an alumnus will have the gift amount counted in the "alumni" category.

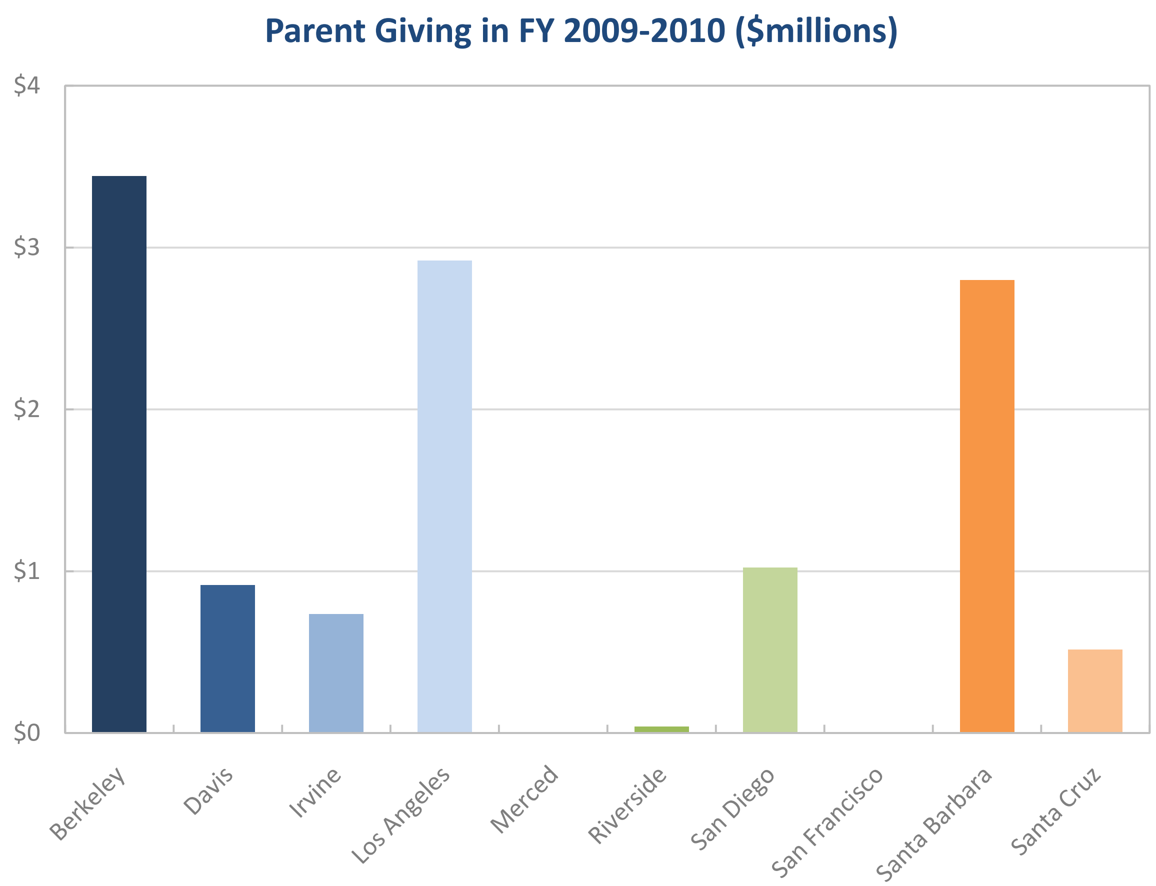


Figure 22:

UC Merced is a young campus established in 2005, and UC San Francisco is a graduate-only campus, thus low parent giving is somewhat expected at these campuses. Future parent-giving metrics might include factors such as parent donors, number of parent volunteers, and number of parent events held at each campus.

PURCHASE CARD PROGRAM

BACKGROUND

The University of California has had a Purchase Card Program in place for over ten years. However, the early program was not designed to take advantage of potential efficiency gains and revenue streams that are available from more sophisticated financial institutions. In 2005, the University entered into a new contract with US Bank in order to access the contemporary advantages associated with a Purchase Card Program. Now the University is challenged to continue growing the program by exploring new opportunities to reap financial and operational advantages embedded in the Purchase Card Program.

GOAL

The goal is to implement and take full advantage of the financial and operational advantages of the new purchase card contract. Working through the system wide network of Purchase Card Administrators, we plan to identify opportunities to use the electronic payment methods to reduce administrative costs and increase incentive income.

SUCCESSES

The Purchase Card Program has been a success across the UC system. Policy has been strengthened to ensure the highest levels of internal control, while allowing campuses flexibility to implement the program to meet their needs. A network of Purchase Card Administrators has been established at each campus, medical center, and DOE laboratory to provide input on the program and to exploit financial and operational advantages. Annual purchase card spend has grown from $250 million to over $400 million in under five years, resulting in a 66% average combined increase in spend and incentive revenue over the same period.

CHALLENGES

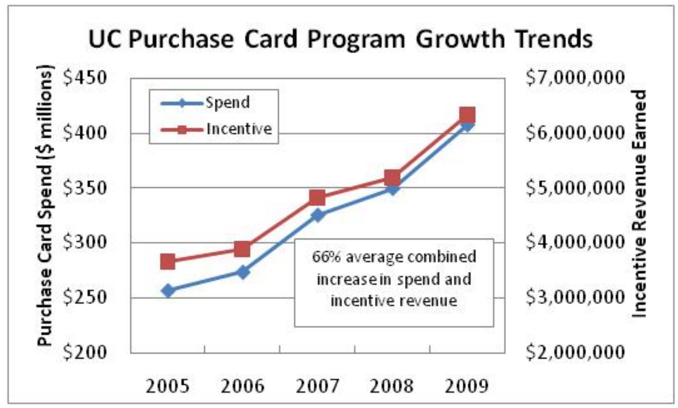
Some locations have been hesitant to fully implement the Purchase Card Program because of the inherent risk involved in allowing employees to purchase goods on University credit outside of the traditional purchase order process. In addition, some location procurement and payment systems do not allow for advanced technology to acquire and pay for items using the card. Staffing levels have been reduced in administrative areas, particularly accounts payable functions, thus limiting available time to investigate, plan, and implement strategies to move more traditional payments into the electronic space.

INITIAL INVESTMENT

Aside from time and effort of staff, no initial investment was required to enter into the Purchase Card Program contract.

FISCAL RESULTS, CURRENT AND ANTICIPATED

The Purchase Card Program produces both soft- and hard-dollar savings. Government studies estimate that purchase cards save between $50 and $75 per transaction by reducing the procurement cycle and the issuance of paper checks. The University conservatively estimates its per-transaction savings figure at approximately $65. In 2010, the University placed 628,000 transactions on the purchase card, thus indicating soft-dollar savings of $40.8 million (assuming the $65 per-transaction savings figure noted above). In 2010, the University received $6.7 million in hard-dollar incentive income from US Bank, $3 million of which was generated specifically by campus purchase cards.[8] All incentive income is returned to the UC locations based on volume spend.



The University's Purchase Card Program has experienced significant growth over the past five years with the new contract. We anticipate further growth in the program, with additional efforts investigating new ways to incorporate the card into University operations. By increasing spend on the card, we estimate that annual incentive revenue could reach $10 million within the next three to five years.

CURRENT ACTION AND NEXT STEPS

The Banking and Treasury Services Group is working with US Bank and the locations to implement new proprietary technology to identify ways to increase usage of the Purchase Card Program. This technology, a service provided by US Bank as part of the UC contract, will seek to convert existing vendor payments from paper to electronic. Also, we are working to incorporate other non-UC entities (DOE Laboratories) to increase overall volumes and incentive revenue yields.

CONCLUDING STATEMENT

The Purchase Card Program has reduced administrative costs and increased income in a well-controlled environment. The program has introduced new tools and technologies to help UC locations improve operations, and the program will continue to introduce operational streamlining opportunities over the coming years. ■

[8] The remaining $3.7 million is primarily attributable to UC national labs.

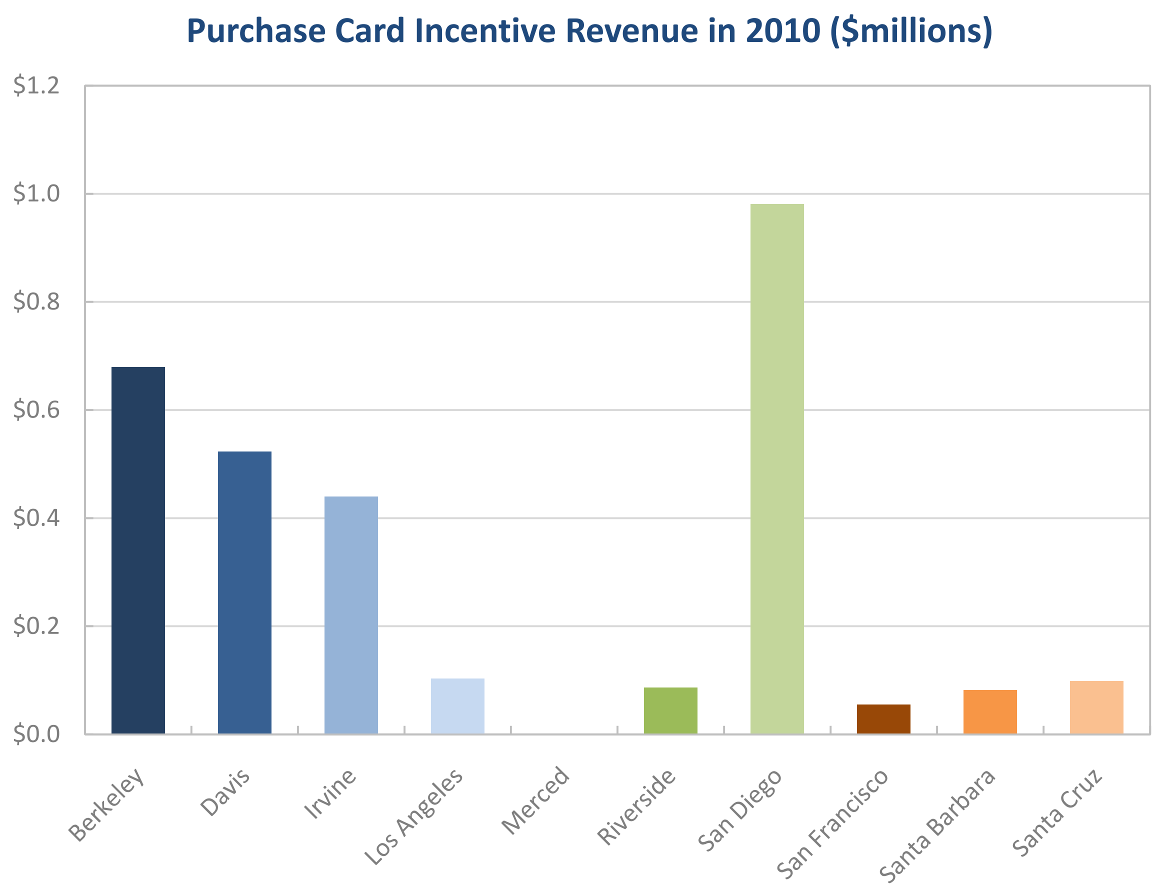


Figure 23:

Data shown above reflect a total of $3 million in incentive revenue generated by campus purchase cards in calendar year 2010. An additional $3.7 million in incentive revenue was generated in 2010, primarily by UC national laboratories and other smaller card programs.

RESEARCH ADMINISTRATION

BACKGROUND

In 2002, the federal government introduced Grants.gov,[9] a central storehouse for information on over 1,000 federal grant programs and access to $500+ billion in annual awards. Many federal agencies now require proposal submission via Grants.gov. To facilitate compliance, several UC campuses are participating in the development of a community-source research administration application, Kuali Coeus (KC). KC is developed by universities for universities and is available free of charge to any institution wishing to use it. In particular, the KC Proposal Development module will support proposal preparation, approval workflows, and online submission to sponsored projects offices. In 2006, UC Davis Safety Services engaged with the Kuali Foundation. UC Berkeley Research Administration and Compliance (RAC) followed in 2008. Each campus has tendered functional and technical resources to contribute to the development of the KC application.

GOAL

Most research administration business processes drive the purchasing, storage, and physical handling of large quantities of paper, directly impacting faculty and staff productivity. The goal of this project is to deliver comprehensive, integrated, web-enabled tools that reduce wasted/duplicated effort and simplify business processes for faculty and staff engaged in the submission of research proposals, conduct of research projects, and compliance with research regulations.

SUCCESSES

Many of the successes arising from this effort can be directly attributed to cross-campus collaboration. UC Berkeley and UC Davis are active in KC as Sustaining Partners, and successfully advocated for extending member benefits and responsibilities to all interested campuses. The UC system is in discussions about approaching the Kuali Foundation as a single ten-campus Sustaining Partner, with resource contributions across all campuses and KC modules. Within the UC system, UC Berkeley is pursuing common ground with UCOP and other campuses participating in KC development. In early 2009, the Berkeley, Davis, Irvine, Merced, and San Diego campuses joined together as the University of California Kuali Coeus Partners (UC-KC) to leverage Davis's KC Board vote and Berkeley's KC Functional Council vote. The group includes participants in all KC functional subcommittees and maintains KC Board and Functional Council representation. A weekly web conference meeting, open to any campus wishing to attend, facilitates distributing information and obtaining campus feedback for functional needs, priority setting, and decision making to influence the direction of KC development. The group makes extensive use of collaboration tools hosted at UCLA to document issues and solutions, and is developing a shared source code repository to be hosted at Davis for UC customizations to KC as campuses implement the system.

CHALLENGES

RAC's partnership with the Kuali Foundation requires contribution of key staff time to work as directed by the KC Functional Council. As such, resources working on the project are always operating at capacity. Also, as the KC application is rolled out, the need for outreach and training will be significant. Furthermore, the scope of the project is itself a challenge; when completed, the KC application will support pre-award, post-award, and compliance functions. Efforts to-date have focused on pre-award and post-award; compliance will ultimately require more resources. In particular, the KC modules supporting Conflict of Interest and Protocol Management for research involving human or animal subjects are critical needs and remain on the project roadmap. These priorities will be constantly competing for resources.

INITIAL INVESTMENT

For fiscal years 2008–2011, RAC has received $751,000 in competitive funding from the Berkeley Information Technology Bank, and it will request an additional $190,000 for fiscal year 2011-2012. Berkeley project staff are also tendered at specific levels (30-40%) to the Kuali Foundation on an ongoing basis.

FISCAL RESULTS, CURRENT AND ANTICIPATED

For the Berkeley campus alone, the KC Proposal Development module will directly impact 3,000-4,000 proposals submitted each year by nearly 1,500 faculty in 175 campus departments requesting $1-2 billion in funding. The efficiencies introduced are expected to free up valuable time so that faculty and senior professionals can pursue more productive activities, such as submitting higher-quality research proposals.

CURRENT ACTION AND NEXT STEPS

In May 2010, Kuali released proposal development, proposal budget, and award management modules. Future versions will be released through 2013 and will include Conflict of Interest, Protocol Management, and other critical modules.

CONCLUDING STATEMENT

Each UC campus is unique; however, each campus must work within the same legal and regulatory compliance framework in the conduct of research. Working together to achieve research efficiencies will be key to maintaining UC research leadership. The UC-KC partners are developing strategies to help researchers and research administrators achieve this goal. ■

[9] Grants.gov has its origins in the Federal Financial Assistance Management Improvement Act of 1999 and the United States President's 2002 Fiscal Management Agenda to improve government services to the public.

University of California Kuali Coeus Partners

Berkeley	✓
Davis	✓
Irvine	✓
Los Angeles	
Merced	✓
Riverside	
San Diego	✓
San Francisco	
Santa Barbara	
Santa Cruz	

Figure 24:

Five campuses joined together in 2009 to form the UC Kuali Coeus Partners (UC-KC). The group includes participants in all KC functional subcommittees and maintains KC Board and Functional Council representation. The goal is to expand UC-KC membership to as many campuses as possible. Financial savings metrics based on reduced administrative costs are under development.

STATEWIDE ENERGY PARTNERSHIP

BACKGROUND

The University's carbon footprint results primarily from facilities energy consumption, faculty and staff travel, and student commuting. With AB32[10] regulations on greenhouse gas (GHG) emission looming and the University's annual purchased energy costs approaching $300 million, the Regents adopted a Policy on Sustainable Practices in 2004 that seeks to place UC among the leaders in higher education in attaining carbon neutrality while reducing operating expenses. Under AB32 and the policy, UC must reduce its carbon footprint to 1990 levels by 2020 regardless of systemwide enrollment growth and occupied space.

GOAL

UCOP aims to identify, qualify, and implement energy efficiency projects systemwide to meet the policy goal of reducing energy use to 2000 levels by 2014, adjusted for growth, in a financially viable manner that results in long-term economic and environmental benefits.

SUCCESSES

UCOP completed a systemwide Strategic Energy Plan (SEP) in 2008. The SEP scope included gathering of shelved energy efficiency and related deferred maintenance projects, identification and qualification of new projects, and assessment of renewable energy generation potential on each campus. The SEP identified 2,700 potential projects, of which 900 were found most financially viable. The total cost of these projects was estimated at $250 million, yielding an expected $40 million in avoided energy costs each year. The University negotiated an agreement with the utilities that will provide up to $60 million in incentive grants if the University delivers 187 million kWh and 10.8 million therms in energy savings by December 31, 2011. The Regents authorized the program's financial and energy-saving parameters in March, 2009.

CHALLENGES

The SEP presented unique challenges, particularly during a strained economic climate. The utilities were reluctant to pay the University higher incentives for energy savings than they paid to other customers, despite the fact that the University delivers these savings at a significantly lower cost. UCOP also had to secure state approval to use operating budget savings to cover debt service for this program. Several campuses have underestimated the resource requirements associated with implementing the large number of projects, creating a bottleneck in project development. The University also faces the ongoing challenge of reducing energy consumption while bringing new energy-intensive buildings on line.

[10] Global Warming Solutions Act of 2006, signed into law by Governor Schwarzenegger on September 27, 2006. It establishes a timetable to bring California into near compliance with the provisions of the Kyoto Protocol.

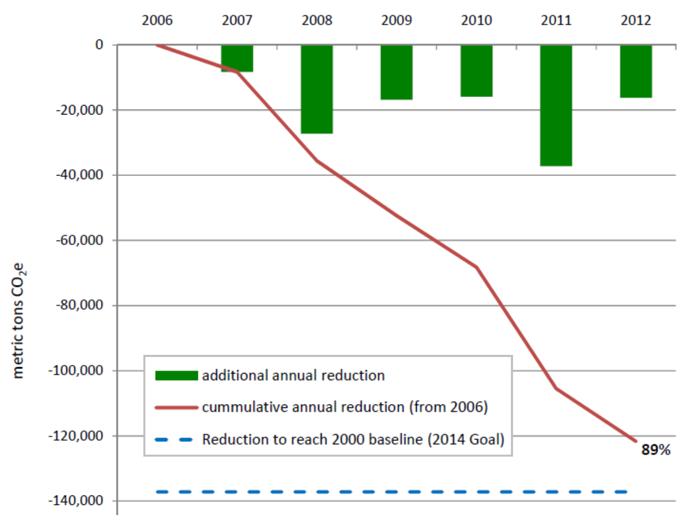
INITIAL INVESTMENT

The SEP was funded with a $2 million portion of the University's 2005 Enron securities fraud settlement. Cross-departmental collaboration was substantial, with significant time and effort contributions from Budget & Capital Resources, Finance, and campus administrative leadership.

FISCAL RESULTS, CURRENT AND ANTICIPATED

As of December 31, 2010, the program has delivered (or will deliver based on projects under construction) 154.6 million kWh and 7.8 million therms – equivalent to 68% and 71% of program goals, respectively. These energy savings result in 92,835 metric tons of annual GHG reduction or 69.5% of goal. As illustrated below, 89% of goal is expected by 2012.

UC Forecast Annual GHG Emissions Reduction



This translates to $21.2 million in gross cost avoidance. After debt service, net campus cost avoidance equates to $13.5 million. Thus far, campuses have applied for $80.3 million of the $193.7 million Regentally-authorized bond funding.

CURRENT ACTION AND NEXT STEPS

The systemwide program is managed by UCOP, with implementation delegated to campuses. Installations include technologically advanced lighting, ventilation, and space conditioning systems. To integrate UC technology research into operational environments, technical support is provided by the UC Davis-based California Lighting Technology Center and Energy Efficiency Center, the UC Information Technology Leadership Council, and the California Energy Institute.

CONCLUDING STATEMENT

The self-funded program has shown that despite budget constraints, UC can and will invest in efficiency. In September 2010, the Regents authorized a moderate funding increase and an extension of the program to the end of 2012. The University's energy efficiency program is indeed on track to meet the interim 2014 policy goals. ■

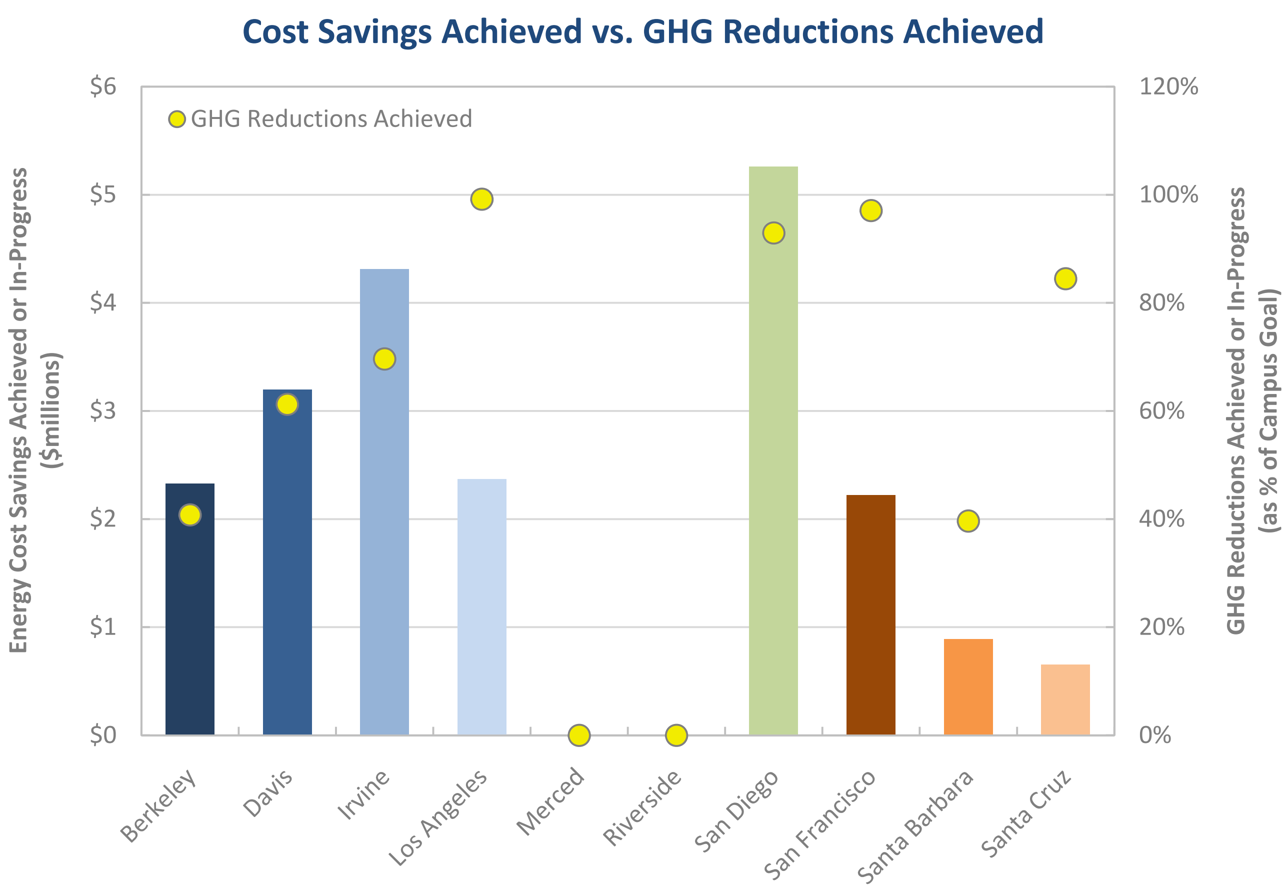


Figure 25:

The cost savings achieved and the GHG reductions achieved reflect activity from SEP program inception through December 31, 2010. UCLA achievements are self-reported (not third-party verified). Medical centers are included with their respective campus.

STRATEGIC SOURCING INITIATIVE

BACKGROUND

UC continually strives to maximize its resources, operate as efficiently as possible, and reduce its costs of doing business, especially during economically challenging times. To this end, the University established a systemwide Strategic Sourcing Initiative in 2004 as one of many approaches to doing more with less. Strategic Sourcing is a disciplined process aimed at reducing total cost and improving product quality and service levels from suppliers by fully leveraging the University's enormous buying power in the marketplace.

THE GOAL

The initiative was designed as a comprehensive program to achieve significant cost savings and build an internal infrastructure that can sustain and continuously improve the purchasing process. The goals of the initiative include:

- Leverage UC buying power through strategic alliances to benefit both the UC system and each individual location;
- Demonstrate significant on-going cost savings;
- Maintain or increase product and service quality;
- Create more efficient/consistent procurement processes;
- Educate UC community about benefits of improved processes and serve as agents of change;
- Meet service and community standards (sustainability, small and local businesses, etc.);
- Determine appropriate business models, including product distribution.

SUCCESSES

To achieve maximum results, the focus of strategic sourcing has been transformation of traditional purchasing practices towards more strategic and value-add practices. This has involved significant organizational changes in three key areas: (1) Best-in-class procurement environment was developed to enable end users to buy from strategic suppliers; (2) Experienced strategic sourcing professionals have been hired to upgrade internal capabilities of campus purchasing departments to become more analytical and value-adding organizations; and (3) Strategic Sourcing organization at UCOP was established to lead the Universitywide Strategic Sourcing Initiative.

Development of best-in-class procurement processes for sourcing new suppliers, negotiating and implementing contracts, and providing on-going contract management focused on data-driven analysis; tighter supplier relationships through alliances; standardized products and services; and improved teamwork.

Development of e-Procurement technologies at UCOP (Consortium Program) and campuses (SciQuest, Perfect Commerce, etc.) provide easy and cost-effective access to an electronic marketplace that includes a wide range of online catalogs from systemwide and campus local suppliers.

The UC Strategic Sourcing Plan is currently being implemented to address a significant amount of the University's sourceable spend, which is estimated at $1.4 - $1.7 billion per year. The plan aims to achieve 10% annual cost savings.

CHALLENGES

Achieving a UC systemwide goal of 80% contract utilization through strategically sourced agreements has been a challenge. Contract compliance is currently estimated at 64%. Some UC locations have been more successful than others in driving up contract utilization at their campuses. Other challenges include resistance at some UC campuses to make required investments, namely the hiring of additional strategic sourcing resources.

INITIAL INVESTMENT

A significant investment in Strategic Sourcing infrastructure was made at UCOP (staff of 12) and campuses (staff of 1 to 5 each) to lead the Strategic Sourcing Initiative.

FISCAL RESULTS, CURRENT AND ANTICIPATED

From program inception through Fiscal Year 2009-2010, the UC Strategic Sourcing Initiative generated over $260 million in cumulative cost savings. This does not include an additional $4.2 million in signing bonuses negotiated with US Bank. The initiative is on track to generate an additional $60 million in systemwide cost savings in Fiscal Year 2010-2011.

CURRENT ACTION AND NEXT STEPS

Immediate next steps include:

- Developing UC systemwide contracts-management and e-Sourcing systems (see separate case study);
- Developing strategic sourcing infrastructure and processes to support acquisition and management of construction-related materials for UC capital projects;
- Maximizing the number of electronic catalogs available through UCOP Consortium Program with SciQuest; and
- Completing the development and implementation of new strategic sourcing contracts for the following commodity groups: PCs and low-end servers; telephony; records management; customs brokerage; lab equipment; food products; specialty scientific supplies; and emergency notification systems.

CONCLUDING STATEMENT

The UCOP Procurement Services Department, working jointly with campus and medical center procurement management, has made significant progress in achieving goals established for the Strategic Sourcing Initiative. This program is viewed by many in higher education as a model program for managing goods-and-services spend in a very decentralized and complex organization. ■

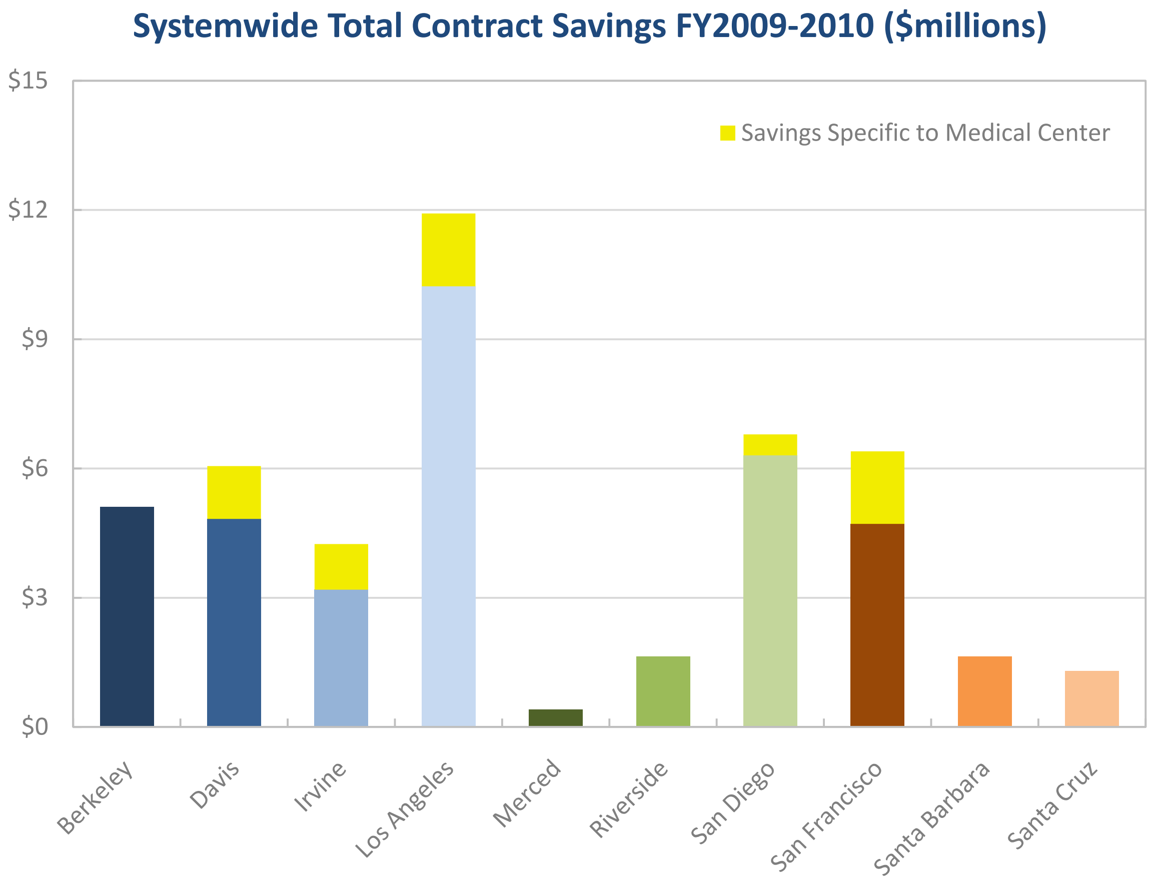


Figure 26:

The figures above reflect $45.5 million in total contract savings for campuses and medical centers in FY 2009-2010. UC Office of the President and national laboratories achieved an additional $3.5 million in total contract savings in FY 2009-2020 for a total of $49 million systemwide. These figures include both cost savings as well as contract incentives (bank settlement card incentives are also generated via strategic sourcing, but those amounts are not reflected here). Contract cost savings are calculated by means of a baseline price (previous price paid) versus the awarded bid cost from a systemwide perspective.

UC Be Smart About Safety

BACKGROUND

The University's complexity produces a wide range of liability – workers' compensation, general liability, property, auto, etc. – that costs millions every year. The funding required to cover these liabilities is referred to as the "Cost of Risk". Every dollar we spend on the Cost of Risk is a dollar taken away from our primary mission. Studies have shown that when dealing with these liabilities, the saying "an ounce of prevention is worth a pound of cure" has never been truer.

GOAL

The goal is to make environments safer for faculty, staff, students, guests, and patients. This could be accomplished through a systemwide program that allows campuses and medical centers to proactively invest in loss-prevention and loss-mitigation programs specific to their unique needs. Such a program should allow UCOP to track results and share them with actuaries and insurance underwriters, thereby reducing Cost of Risk through decreased insurance premiums and claim payments.

SUCCESSES

The systemwide Be Smart About Safety (BSAS) program was developed to address this goal. Through BSAS, UCOP budgets a small amount of its total budget allocation to fund proactive loss-prevention and loss-control projects at campuses and medical centers. This funding is intended for projects specific to the purpose of reducing the frequency and/or severity of potential loss in the areas of workers' compensation, automobile liability and physical damage, employment practices liability, general liability, and property. BSAS funds cannot be used for expenses such as general operating supplies, personal protective and safety equipment required by law or regulation, or travel expenses.[11] BSAS funds may potentially be used for deferred maintenance corrections and capital improvement projects if the predominant purpose of the correction or improvement is to address an issue of life safety and loss prevention and/or loss mitigation.

CHALLENGES

During times of tight budget constraints and limited resources, it is difficult to find the funding to produce new loss-prevention and loss-mitigation programs.

INITIAL INVESTMENT

The BSAS inaugural year was limited to a workers' compensation program. The initial investment consisted of a systemwide 10% workers' compensation accrual surcharge which equated to $0.12 per $100 payroll, or $11.2 million.

FISCAL RESULTS, CURRENT AND ANTICIPATED

The University's actuaries have determined that the return on investment for approved programs ranges from 10% to 200%. In the workers' compensation program, systemwide annual new losses have decreased from 7,097 in fiscal year 2005-2006 to 5,057 in fiscal year 2009-2010. Furthermore, the systemwide accrual rate decreased from $1.51 per $100 payroll in fiscal year 2005-2006 to $1.07 per $100 payroll for fiscal year 2009-2010. This amounts to an annual reduction in funding for liability coverage of over $22 million.

CURRENT ACTIONS AND NEXT STEPS

UCOP continues to promote increased BSAS participation across the UC system. Hence, the steps to apply for BSAS funding are easy:

1. **Complete the "University of California Be Smart About Safety Funding Application",** which can be found at www.ucop.edu/riskmgt/bsas/documents/fundingapp.pdf Depending on the area of risk the proposal addresses, the application must be reviewed and approved by Environment, Health & Safety, workers' compensation manager and/or risk management at your location. You must also obtain approval of the head of your administration and finance department, and also comply with any local-specific requirements that may be in place.
2. **Submit your locally approved application to the Office of the President.** Send your approved application to:
   UCOP Risk Services
   Attn: Kevin Confetti
   1111 Franklin Street, 10th Floor
   Oakland, CA 94607
3. **UCOP Risk Services reviews the application for appropriateness.** Risk Services will send written approval or denial of the application and transfer any corresponding funding.

Proposals that are solidly based on statistical loss history or a defensible risk assessment (including mitigation of risks, an analysis of claims, or a hazard vulnerability study) receive priority when being considered for funding.

CONCLUDING STATEMENT

BSAS is proof that investments in loss prevention and loss mitigation can yield very favorable returns when dealing with the University's unique liabilities. It has not only decreased Cost of Risk, allowing us to direct more funds to our core mission; it also makes campus and medical center environments safer for all. ■

[11] Limited travel expense exceptions for "Train-the-Trainer" safety education.

Systemwide Safety Index: December 2010 Snapshot

	Under-Performance	Average Performance	High Performance
Berkeley		✓	
Davis		✓	
Davis-MC		✓	
Irvine		✓	
Irvine-MC			✓
Los Angeles		✓	
Los Angles-MC		✓	
Merced		✓	
Riverside			✓
San Diego		✓	
San Diego-MC		✓	
San Francisco	✓		
San Francisco-MC			✓
Santa Barbara			✓
Santa Cruz		✓	

Figure 27:

The three categories above are based on the ERMIS systemwide safety index, which is comprised of 11 individual safety metrics related to loss experience. Examples include workers' compensation incidents relative to FTE (hours worked and headcount), vehicle events relative to fleet size, general liability events relative to student population, property losses related to annual expenditure, etc. The metric is a month-by-month snapshot, and performance fluctuates over time. If you would like more information on the systemwide safety index, please email erm@ucop.edu.

UC TRAVEL INSURANCE PROGRAM

BACKGROUND

The University of California's mission takes faculty, staff, and students all over the world, introducing a variety of travel risks subject to constant change. Prior to October 2007, the University purchased Travel Accident insurance that included the primary benefit of Accidental Death and Dismemberment coverage and some accident/sickness medical expense coverage. In later years, it was expanded to include limited emergency medical evacuation and repatriation. While the University had coverage, it provided only minimum benefits.

As the market for this type of insurance evolved over time, much better and broader coverage became available. In order for the University to secure better coverage, it had to provide, at a minimum, statistics of where and when our employees and students were traveling. The University had no centralized source that could provide this information, neither systemwide nor at individual campuses or medical centers. For example, UC could not procure travel insurance for high-risk countries because of this lack of reliable travel data. This came to light when some professors and students were planning travel to Afghanistan.

GOAL

Risk Services at the Office of the President aimed to develop a web portal to capture travel information that would enable the University to procure better coverage to protect the health, safety, and security of faculty, students, and staff while traveling on University business. The portal would be accessible to all travelers as a resource for information on the Travel Insurance Program, UC TRIPS.

SUCCESSES

UC TRIPS included expanded travel assistance resources, including, medical evacuation and security extraction which can deploy emergency response services throughout the world at a moment's notice. There are several success stories of UC employees and students having used these resources.

We were able to locate, provide guidance, and confirm the safety of several employees and students during the 2008 Mumbai hotel bombing, the 2009 H1N1 flu outbreak in Mexico, and the 2010 civil unrest in Thailand. A professor conducting research in New Caledonia was medically evacuated after being seriously injured when he fell down a ravine; a journalism student detained by Egyptian police was extracted from Mahalla during a food riot; travelers were evacuated following the 2009 coup in Honduras, 2010 earthquake in Haiti, and 2010 earthquake in Chile; travelers were assisted during the March 2010 volcanic ash cloud in Europe. All were returned safely to the U.S.

A key feature of UC TRIPS is the ability to provide real-time alerts to travelers on conditions impacting their travel (e.g., health, security, weather, natural disasters, airport closures, civil unrest, etc.) and maintain communication with them.

CHALLENGES

Despite the growing success of the systemwide travel program Connexxus, travel booking within the University is still highly decentralized. There are numerous methods and avenues for arranging travel, and it would be impossible to attempt to retrieve this data from all travel booking methods. The web portal www.uctrips-insurance.org was created as a mechanism to centralize this travel information.

INITIAL INVESTMENT

By leveraging technology developed at UC Riverside, UC TRIPS was deployed systemwide for just under $100,000. Ongoing costs are approximately $32,000 per year.

FISCAL RESULTS, CURRENT AND ANTICIPATED

While this Program is primarily about providing better protection and maintaining a centralized source for data, it also provides cost savings. Prior to UC TRIPS, campus departments purchased travel coverage for individual trips. Under UC TRIPS, UC saves approximately 35-40% and receives significantly broader coverage. The Education Abroad Program has benefited greatly from the more comprehensive coverage provided, including safety information, insurance, and travel medical and security service. By purchasing this insurance on a systemwide basis, the University achieves volume savings and provides uniform and comprehensive coverage to all travelers.

CURRENT ACTION AND NEXT STEPS

We encourage all UC locations to continue to promote the UC TRIPS and increase awareness of travel risks. Risk Services at the Office of the President continues to enhance the program to meet the University's needs. For example, UC TRIPS has partnered with Connexxus to provide direct data feeds to populate travel information (www.ucop.edu/ucoptravel).

CONCLUDING STATEMENT

Since inception in October 2007, UC TRIPS has proven a vast improvement over the prior program at no cost to travelers. As the program continues to grow and improve, it will continue to effectively protect the health, safety, and security of the University's faculty, staff, and students as they carry out the University's mission all over the world. ■

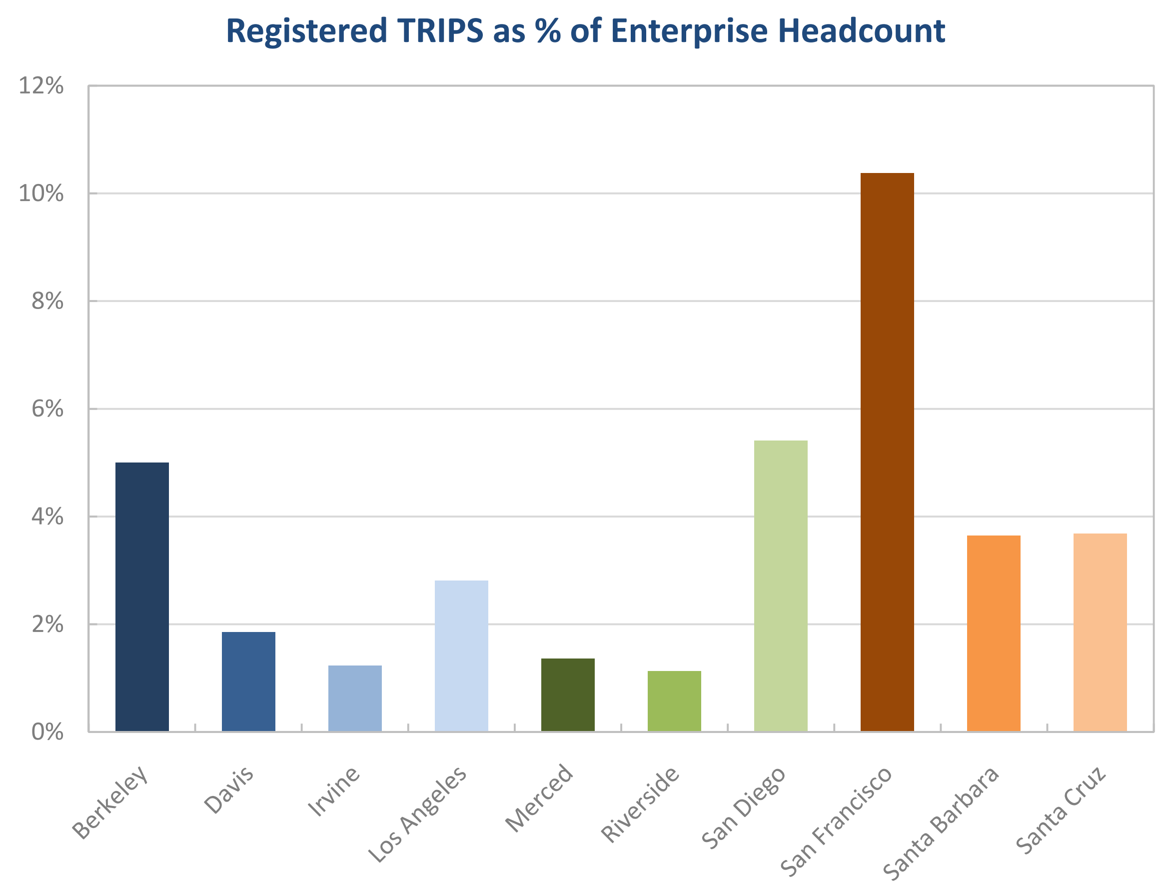


Figure 28:

Enterprise headcount is defined as student enrollment plus employee headcount. An average annual number of UC TRIPS travel registrations was derived per campus. These figures were then compared to enterprise headcount at each campus to produce the percentages shown above. A higher percentage generally indicates healthier risk management vis-à-vis enterprise size. Travel registrations with UC TRIPS are on the rise. The Office of Risk Services is developing automated accountability tools to promote, measure, and report increased compliance with trip registration.

UNIVERSITY CONTROLLED INSURANCE PROGRAM

BACKGROUND

The University of California generates one of the largest volumes of construction in the State of California. Historically, contractors performing work on the project site would provide their own insurance for general liability and workers' compensation. The University pays for this coverage through costs embedded in contractor bids, which generally include overhead and profit mark-up. In light of recent budget reductions, the University must find new avenues to reduce costs and maximize efficiency in the use of construction funds. If the University procured insurance for the entire project, savings could be achieved through volume purchasing, leverage in the insurance market, and the elimination of contractor overhead and mark-up. Even though contractors perform the work, UC faces myriad risks related to construction operations and defects. With contractor-provided insurance, the University must rely on contractor coverage; when a claim arises, contractor insurance may be exhausted, insufficient, or unavailable to the University. If the University procured the insurance, the University could more effectively protect itself for the duration of the project.

GOAL

Risk Services at UCOP aimed to develop and implement a systemwide University Controlled Insurance Program (UCIP) for all projects with construction budgets over $25 million, with higher limits dedicated to the UC project, broader coverage, and uniform/consistent coverage for the project duration. The $25 million threshold was determined to provide the greatest benefit.

SUCCESSES

This program concept has existed for the past 40 years; however, in the last ten years, it has received widespread understanding and acceptance. Many public and private entities have successfully implemented similar programs. Even contractors have implemented "Contractor Controlled Insurance Programs" whereby the contractor procures insurance for the entire project and reaps cost savings itself.

CHALLENGES

Resistance to change has been the primary challenge. While the Risk Services at UCOP maintains the authority to procure insurance, implementing UCIP required collaborative efforts with the Office of the General Counsel and with Facilities, Design and Construction offices, which oversee and manage construction projects. UCIP required changes to the University's construction contract documents to incorporate UCIP language, reflect that the University would provide the insurance, and ensure that projects are bid Net of Insurance. UC uses various methods of contracting; each contract method has its own set of contract documents, requiring multiple documents to be reviewed and updated.

INITIAL INVESTMENT

There was no initial investment, other than time and effort, to develop and implement UCIP.

FISCAL RESULTS, CURRENT AND ANTICIPATED

UCIP's legacy program (Owner Controlled Insurance Program, or OCIP) completed four projects at two campuses with a total construction value of $234 million and a total return savings at close-out of $1.9 million.[12] The new UCIP has enrolled seven additional projects from four campuses with a combined construction value of $1.4 billion and potential savings in the range of $14 million to $42 million (1% to 3%). It is anticipated that through the program, the University can save 1% to 3% of total construction value and up to $17 million annually, based on projected construction completion per year. The savings on insurance itself can be as much as 35% below traditional insurance costs. Return savings are driven by the safety and loss experience specific to each project. UCIP provides enhanced safety, leading to improved loss experience and a safer construction site which creates the potential for greater return savings. The average loss ratio is under 20%, which reflects the benefits of the increased safety awareness provided by UCIP.

CURRENT ACTION AND NEXT STEPS

A directive was issued in October 2009 by the University's Executive Vice President—Business Operations and Executive Vice President—Chief Financial Officer, stating that UCIP implementation would begin January 1, 2010. As of December 2010, there are seven projects enrolled in UCIP; two are major hospital projects: UC San Francisco Mission Bay Hospital and UC San Diego Jacobs Medical Center. UCIP costs for UC San Diego Jacobs Medical Center are estimated at $6 million compared to the traditional insurance cost estimate of $12 million. Next steps are to continue enrolling projects into UCIP and to monitor and maintain efficiency of the process.

CONCLUDING STATEMENT

UCIP represents a change in how insurance is procured for construction projects. While it will take time for staff to become familiar with the program, UCIP will ultimately serve as a cost-effective risk management tool to improve safety at our construction sites, provide broader and more uniform coverage, and better protect UC from financial loss. ■

[12] The legacy program OCIP is also poised to complete a fifth and final project at UC Davis with construction value of $330 million.

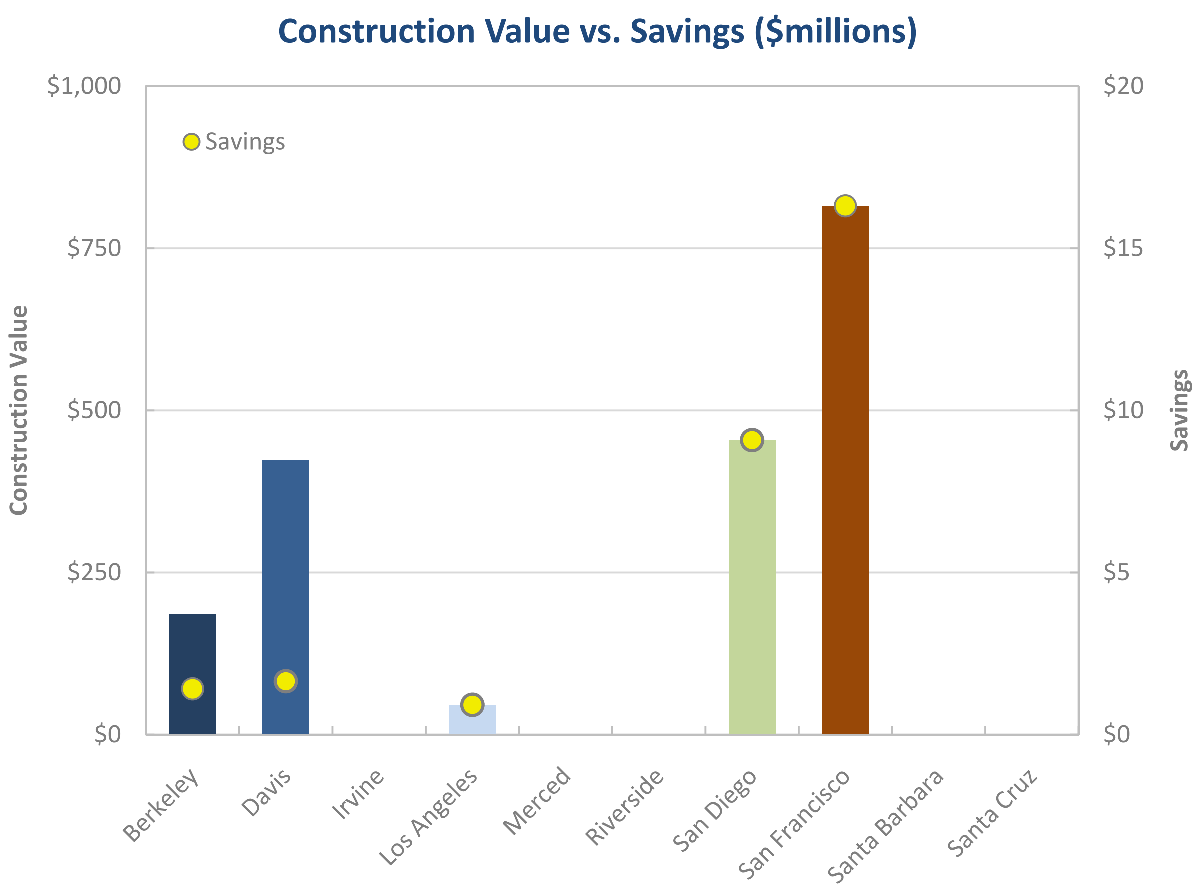


Figure 29:

To date, systemwide construction value enrolled in UCIP (and/or its legacy program, OCIP) has exceeded $1.9 billion, yielding potential average savings to UC of $19 million or more (savings will range from 1% to 3%). Data above for UC Berkeley and UC Davis include *actual* savings generated by the legacy program, OCIP. All other savings figures above are estimated based on 2% of construction value. Medical Center projects are included in campus totals.

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