MINUTES OF THE COMMITTEE ON
EFFECTIVENESS & EFFICIENCY FOR THE FUTURE (EEF)
THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES
MAY 8, 2012

The Committee on Effectiveness & Efficiency for the Future (EEF) of the Board of Trustees met at 3:00 p.m. EDT, Tuesday, May 8, 2012 in the 8th Floor Conference Room of Andy Holt Tower in Knoxville.

I.   **Call to Order** — Mr. Douglas Horne, Committee Chair, called the meeting to order.

II.   **Roll Call** — Chair Horne asked Mr. Charles Peccolo, Treasurer, Chief Investment Officer and Interim CFO to call the roll. He did so and advised the Chair that a quorum was present.

       Present

       Douglas A. Horne, Committee Chair
       Don Stansberry, Vice Chair of the Board
       Joseph A. DiPietro, President
       Charles C. Anderson, Committee Member
       Crawford Gallimore, Committee Member
       Charles E. Wharton, Committee Member

       Absent
       Brian Ferguson, Committee Member
       James L. Murphy, III, Committee Member

       Also present was Charles Peccolo, Treasurer, Chief Investment Officer and Interim Chief Financial Offer and other members of staff.

       Chair Horne then made the following remarks:

       1. While the public is invited and welcome at all Board meetings, our meetings are "in the public" but not "public meetings."

       2. The Chair will recognize to speak only members of the Committee, other Trustees, and members of the senior staff.

       3. The Committee has a set agenda and prepared materials for that agenda. No "new business" has been brought to the Chair's attention prior to the meeting; so it is assumed there is none.

4. Lastly, the name of the Trustee making any motion and the second will be announced to help in the preparation of minutes.

III.   **Approval of Minutes of Last Meeting — Action —** Chair Horne asked if there were any additions or corrections to the minutes of January 27, 2012. A motion was made by Trustee Gallimore and seconded by Trustee Anderson, the minutes were unanimously approved.

IV.   **UT Martin Process Improvements — Information** (Exhibit 1) — Chair Horne introduced Mike Abney, Process Improvement Facilitator from the University of Tennessee Martin. Perfect Forms is a tool that was discovered when doing an intense and frantic Google search. He then went over the steps necessary to build a workflow solution.

Step 1 is to design the interface - he described putting a paper form that is familiar into a paperless but paper-like environment. All have e-mail and can sign on to workflow for paperless but paper-like using Perfect Forms.

Step 2 is to add intelligence to the form.

Step 3 is to map the workflow – where and how the form is actually moved from one step to another. An e-mail is received in the inbox with an encrypted link. Clicking on the link identifies who you are and what privileges you have to take action on the form.

Step 4 is to create reports – There are dashboards that allow drill downs with real time up-to-date analysis and then gave an example. The initial process worked on was dual enrollment and involved parents, students, high school counselors, principals and four major UT Martin campus departments. The form was switched to multi-part and intelligence was added. This process was rated four-stars from the strategic focus areas; automation / outsourcing, reduction in administration, salaries and benefits and revenue increases. Nancy Yarbrough, Interim Chief Business Officer at UTM stated there is now a way to track expenses with revenue. There were students that weren't counted on the 14th day because the process was so bad. The target of enrolling all students by the 14th day was reached by using Perfect Forms and increased revenues.

A multi-part form was finally made carbonless. The process had a maximum of 41 steps and was taken down to five (5) steps on a good day and ten (10) steps on a bad one.

Campus Technology Journal called this change a Master of Process Improvement for UT Martin and the University of Tennessee received worldwide exposure by the Press. There were 179 institutions from 68 countries recognized by Global University Network for Innovation (GUNI). GUNI now represents these Institutions and now has it as a best practice that the World can share.

The UTM Student ID was another process that was changed to an online paper-like form that allowed students to complete and attach a picture with a preview feature. This alleviated long lines, costs for cameras/tripods and overtime for full time employees to assist on the weekends.

He noted that all across the University of Tennessee System processes are being improved but questioned whether all are following a simple protocol. He went on to explain that he has no staff, budget and no authority and is the full-time Process Improvement Facilitator.

Suggested first meeting of this type of task force would be Chancellor, Stakeholders, middle management and "Boots on the Ground" (secretaries and technicians, etc.) He showed a Process Improvement Cycle (BPM) and noted that UT Martin has a motto that if it is born electronic it stays electronic (why print or sign it).

Set measurable goals and stay focused. At the first meeting, UT Martin Chancellor made it clear that students were going to be registered by the 14th day and gave a charge and left the Facilitator and the "Boots on the Ground" to stay and work on the process.

He added that there are 250 + UT Martin e-forms or process improvements since 2008. Trustee Anderson asked if those were new e-forms or existing ones and Mr. Abney replied yes they had been created since 2008. UT Martin is very close to having a process that has immunization records in place before students attend class. The Higher Education Opportunity Act has a lot of rules and regulations that the campus is responsible for and is basically the "students' right to know". UT Martin had about 90% of this information but the information was in different areas because of the distributed

responsibility. They created a process that gives up-to-date minute-by-minute information with reminders and due dates. Also, bi-weekly time-sheets in campus recreation are now paper-like and will soon be expanded across the campus along with monthly timesheets. Copying one timesheet is the equivalent of a nickel a piece.

The successes of process improvements should be communicated and shared. One can find process improvements all across the system but there is no methodology and drive to report them. A standard of process improvement and measurements needs to be established. There needs to be a way of comparing the success of processes among the various campuses. Effectiveness and efficiency does not always contribute to the bottom line. An environment needs to be created for a culture of effectiveness and efficiency (process improvement).

UT Martin plans to use their expertise when positions become available by having the Process Improvement Facilitator work with these employees in making recommendations to the Review Board whether or not to rehire or repurpose the position. The recommendations are then sent to the Chancellor's staff for review. The Chief Business Officer for UT Martin would like to take a portion of the salary, set it aside and based on the Sibson guideline get folks where they need to be and compensate those working on improving processes. When we continue to do more and hire less is when the rubber meets the road.

He then asked for questions. Ron Loewen, University Wide Administration Budget Director asked if it has taken support from the IT staff or IT investments to make these processes happen. Mr. Abney responded that it has actually taken little support with only a few configurations on a router and some assistance on importing data. Chair Horne asked what Mr. Abney's professional background. He explained that he has been at UT 23 years and was director of technical services.

Vice Chair Stansberry asked if there were future plans for other campuses to initiate process improvements. President DiPietro stated that other campuses are working on initiatives. He stated that we need to look at audit and process improvements that we should get better at it across the board. There needs to be a quantifiable way to measure these savings. Mr. Abney added that it is measurable but there are so many ways of measuring it that it would be beneficial to have a main

standard of measurement. President DiPietro then asked him if he would argue to do the process if it cost more money. Mr. Abney replied that he would if it were effective and efficient mission critical. Chair Horne then asked if it has cost UT Martin money to do their improvements. Mr. Abney stated that it cost $40 a year to improve 250 processes. Vice Chair Stansberry agreed there should be a standard way to measure. Mr. Abney went on to say what he was told originally was that if it doesn't save money on the bottom line we don't want to know about it. That has changed especially with the EEF Committee initiatives.

President DiPietro suggested that if the immunization compliance cost a little more for the process improvement it is more than worth it to make sure that students don't get sick on campus. Is the extra money worth more than knowing you won't have illnesses and are in compliance? He went on to say that there is always more than one way to measure. Vice Chair Stansberry said if we are not doing the job now it is not fair to compare the cost of doing the job over not doing the job. If you are saying we don't comply with immunizations and now we will be in compliance. President DiPietro went on to say that there are two ways to comply. Does the student actually supply you with the record needed that verifies they have had the vaccination and how much time does staff have to chase down the student to make sure they have the right documentation submitted. If you can do it with less, then the University is better off.

Mr. Peccolo informed the Committee that the University is currently reviewing all the paper processes and are trying to piggyback on the work that has been done at UT Martin. Additionally, there are scheduled Chief Business Officers meetings and one of the standing agenda items is what are the campuses doing so we can showcase the process improvements and whether or not those processes would work at the other campuses. The mentality of being effective and efficient is pretty well engrained across our campuses as far as identifying ways to do that.

President DiPietro asked the Committee to think about the student's frustration on the part of the Institution. The example that he used was standing in line or going to someone's office to hand in a document. They are a digitized generation and are willing to do that effective and efficiently and would add value to the place decreases their frustration with places such as our University that has not always

been as user friendly as they needed. Chancellor Cheek mentioned that he had given a presentation recently regarding this very issue.

Trustee Gallimore asked if during this process if orphan forms are reviewed. These are forms that are just there without knowing why they are but they always have been. Mr. Abney replied yes because a protocol was adopted. The protocol consists of what is the scope and how does it work now.

V. **Treasurer's Office Initiatives — Information** (Exhibit 2) Chair Horne asked Mark Paganelli, Executive Director, Treasurer's Office to present. Mr. Paganelli informed the Committee that UT Martin is pushing for a digitized system by demanding for operations to become paperless. Mr. Paganelli referenced that during Al Hooten's tenure as the chief business officer, UT Martin had the foresight to put together a digital system using Perfect Forms. At every level of the University, the culture has changed and old, antiquated forms are no longer being used because they are not needed.

Mr. Paganelli provided 2010 data from the System Accounts Payable Office (ten employees involved in Accounts Payable operations):

- 124,303 checks valued at $654,118,430
- 202,898 invoices processed
- 106,037 P-card transactions totaling $24,648,732
- 23,643 travel reimbursements totaling $15,156,590
- 6,012 vendors created
- 6,404 1099s issued

If the University moved more of the $650 million from checks to P-cards, it would give the University greater rebates from transactions, thereby producing revenue from purchases already being made. A way to do this is by giving P-cards to the campus computer stores in Knoxville and Martin with $1 million dollar limits. Almost all purchases are Apple products for departments and for re-sell to students, faculty, and staff. By having these purchases on P-cards it adds significantly to the dollars received in rebates.

Mr. Paganelli pointed out that when the University's P-card contract expired with First Tennessee Bank, it was re-bid. The rebate was increased from 1.25% to 1.8%. The rebate went up 55 basis points and a $450,000 signing bonus spread over 5 years was included. The other

good thing about this is it increased oversight through internal audit. For some invoices, they are able to see exactly what is on the invoice and exactly what is being purchased, providing real time transactional data.

The question was raised regarding using the process with travel and whether it would have the same level of transparency by President DiPietro. Mr. Paganelli answered that some of this is currently being charged to Accounts Payable P-Card. Our travel agency charges direct bill airfare to a P-Card assigned to them. Allowing P-cards to be used for individual travel could make Accounts Payable a collection agency when users disregard University fiscal policy and use P-cards for expenses that aren't allowed.

Mr. Peccolo commented that employees cannot create a liability for the University when they travel. President DiPietro cited the issue of travelers who are, because of a lack of personal resources, forced to either receive a cash advance or pay out-of-pocket for a certain period of time when they travel. The P-card approach for travel, with the right regulations in place, would allow lower-income travelers not to incur any out of pocket expenses. Mr. Paganelli stated that some universities are doing this, Florida being one, but that he has not been able to become familiar and comfortable with what they're doing. They are either using a personal liability card approach (which the University has used unsuccessfully in the past) or the card's transactions are logged in a system that separates personal from official business transactions, and the personal expenses are deducted directly from the traveler's paycheck. If the traveler leaves the University, Accounts Payable would again become a collection agency. President DiPietro stated that if a way could be figured out to ensure the University was not being cheated, but still not processing large amounts of paperwork, the costs of travel reimbursements could be streamlined. It was clarified that travel reimbursements are no longer on paper for the most part; they are scanned in the IRIS system. The only paper portion is the signature. Mr. Paganelli advised that he plans to attend a higher education travel conference and would explore this further.

Mr. Paganelli went over the P-card rebate history from 2012 back to 2008 showing how P-card rebates relate to the Accounts Payable budget. With the new changes, the rebate amount has more than

doubled which, in perspective, is more than the Accounts Payable budget. We are now turning a profit on P-card rebates.

For travel, Ag was the first unit to scan their receipts. This process made Audit a little nervous. The processing time involving campus mail was too long, leaving employees with out of pocket costs waiting for their travel reimbursement to be processed. Now everything is scanned into the system, submitted into IRIS and instantly to Accounts Payable. This potentially reduces reimbursement time to a day or two as opposed to a week or more. Also, the issue of filing paper travel reimbursements in records management, etc., and then finding the forms in case of a public records request was brought up. A paperless system eliminates these problems where you can access a reimbursement statement, print a copy, and send it in seconds. We're looking at digital signatures as well, but we are not there yet (requires an IT solution).

Mr. Paganelli moved on to address vendors and W-9s. There are 107,000 vendors in the system and IRIS requires W-9s on file before we pay them. A transaction has been created that attaches W-9s to the vendor file in IRIS. Now, everyone knows the W-9 is on file before paying a vendor. Petty cash will also be an electronic process soon and we are looking at automating contract payments. The hope is to have all records located in one file (the contract, the vendor and W-9, what has been paid toward the contract) so that accounts payable, the department and all involved parties can see the same thing in IRIS. This system will be piloted at UT Martin soon.

Mr. Paganelli also stated that using checks (124,000 checks issued last year) is an expensive way to pay vendors. UT is exploring solutions to eliminate checks such as E-payables and ACH. This will also increase rebates by about $1 million. We are now using ACH with travel, petty cash reimbursements, and for employees pay. We just have to roll this out to vendors to eliminate checks for vendors. A question was raised about the category these checks are in. Mr. Paganelli answered that the majority of these checks are under $5,000 in amount. Student refund checks would never be eliminated by E-payables, but the majority is small amounts. Vendors would prefer the E-payable method to receiving checks and the bank charges the University more to process a check than it does to process an electronic payment, so this system would be a win/win for everyone involved. It's just a matter of getting all the interfaces set up before UT can implement this.

In Purchasing, there has been some staff turnover and the new management team has new ideas that will change how the University buys. Trustee Wharton asked who has authority to sign contracts. Mr. Paganelli answered that the campuses have authority to sign contracts, and a video is in the works using the University of Memphis as an example to make everyone aware of the consequences and bring a stop to individual UT employees signing contracts they do not have the authority to sign.

Other problems in Purchasing are that there are too many ways to purchase through the University. Mr. Paganelli also addressed a question of renewable contracts, stating that contracts that go through the contract review process with auto-renew clauses would be noted and altered to fit University fiscal policy.

The solution with purchasing is technology. Two vendors were highlighted: Fisher Scientific ($5,177,532 in checks; 10,261 invoices processed) and Staples ($2,315,653 in checks; 8,053 invoices processed). People are entering invoices when they should be using P-cards to make purchases with these vendors (the vendors are also setting up a receivable account for us so using the P-card is best for both parties). Mr. Paganelli referenced a University of Washington study that showed it costs an average of $65 to process an invoice. If paper invoices can be eliminated, the University can save $1.7 million. If UT implemented a University Electronic Mall, we could control the process. We set up the contract with the vendor, we control what is in the catalog at what prices, and authorized individuals in departments can purchase whatever they might need (toner, lab supplies, etc.). No invoices would be entered into the system. Also, by using catalogs we could tag items as assets. So, when a department buys an asset, it is routed to the Controller's office and entered into the inventory management system. This system could be used for business cards, catering and all sorts of purchases. On the vendor side, they could do their own data entry with tax forms, W-9s, etc. and all we do is quality assurance on our end.

Using an Electronic Mall would change the role of Purchasing. Instead of approving purchase requests for equipment, Purchasing would monitor contracts with vendors, going in to ensure prices and quality of the catalogs, etc. If there is a discrepancy, Purchasing would work with the vendor based on the bid. The other aspect of the Electronic

Mall is that it uses our terms and conditions. Vendors can create an electronic invoice but they are not allowed to change any of the payment terms and conditions.

Mr. Paganelli stated that vendors want to be in this system because it increases business for them. Other Universities are using space in the Electronic Mall for advertising space, so that if a vendor wanted to be listed on the first page of possible vendors when a department logs in, they pay a marketing fee to be considered a "showcase" supplier. It functions no differently than a mall where shops pay more for the best locations.

The Electronic Mall would also allow us to better see what we are spending so that we know what to focus our bids on next time. We can also do reverse bidding, giving the specifications with a time limit for bids and at the end of that time limit, the lowest bid gets the contract.

Mr. Paganelli discussed data from Iowa State regarding how much purchasing through their version of Electronic Mall has eliminated the need for paper invoices altogether. More and more people are using the catalog to purchase from the vendor. It tells us exactly what departments are buying from vendors. The paperwork disappears over time.

The Electronic Mall system is not cheap. An RFP is being developed now and will be presented to the Chief Business Officers using this data from Iowa State. Hopefully, it will mostly pay for itself with the increase in P-card rebates. ETSU, MTSU, and the University of Memphis already have systems like this in place and an institution this size should definitely have one in place.

Sandy Jansen affirmed that it changed the purchasing world at Texas Tech University. It was more efficient and departments could get what they needed. It was also easy for faculty and department heads. It was a paper process before, but this system with catalogs changed the entire University System and increased the buying power.

Trustee Gallimore asked if Iowa State commented on what percentage of their Accounts Payable they were able to route through this system. Mr. Paganelli answered no, but Virginia did state that 57% of their invoices were being routed through the Electronic Mall system, and in

fact started charging vendors ½ of 1% if they wanted a check issued instead. SciQuest is one vendor under review. The price was around $500,000 per year, but their customer list was a sort of "Who's Who" in higher education, probably Top 25 peers.

Mr. Paganelli gave an update on Payroll, addressing W-2s. The federal government requires individuals to opt-in for electronic W-2s. Last year the University mailed out 32,000 W-2s, many to student workers who have fluid addresses and the W-2s were returned. We are going to try to drive the opt-in for electronic W-2s, possibly with orientation or new-hire paperwork.

Mr. Paganelli also mentioned flexible spending cards. A request for proposal is out right now for these cards. It is a pre-taxed card for medical expenses, and will be loaded on the front end rather than reimbursing employees on the back end. It will eliminate out-of-pocket costs for employees and hopefully increase efficiency in cash flow for employees.

VI.   **Funding Update — Information** (Exhibit 3) — Ron Loewen, UWA Budget Director gave the Committee an update on funding and appropriations. He explained that state funding has decreased, and cuts this year could be as high as 5%. Even though tuition has increased, those increases have not kept up with cuts to state funding. Efficiency efforts have helped fill this gap. In the Governor's budget proposed in February, an across the board 2% reduction was imposed for all state government. We were given a productivity increase to offset that reduction. The original productivity increase did not include the non-formula institutes, so Dr. DiPietro went back to make sure they were included. We also received partial funding for a 2.5% salary increase totaling $12 million.

Other adjustments the University received are zero-sum adjustments totaling $6.5 million. Current year, state revenues continue to outperform expectations. The governor's proposed budget is in-line to be approved with a few minor amendments.

State appropriations for the University System were slightly over $500 million. The state funding picture continues to be favorable for the University. The State will be back to funding levels about the level of 2008 or exceeding 2008 numbers (pre-credit crisis recession). The

University's share of that pie has become smaller over the last few years.

VII.   **Other Business** — Committee Chair Horne asked if there was any other business to discuss; none was noted.

Committee Chair Horne thanked Jim Murphy and Andrea Loughry for initiating this committee in 2008. He quoted Mr. Peccolo's original 2008 letter stating that he wanted to create a culture of efficiency. He stated that through the Committee's efforts, the University has probably saved $55 million. It was suggested to move the EEF initiative into the Audit Committee by Committee Chair Horne.

Trustee Wharton disagreed with the recommendation based on three reasons. There is a PR plus of having a dedicated committee that focuses on costs. The second reason is that the EEF Committee has a breadth of experience and background that is simply not on the Audit Committee by virtue of the number of people. The third reason is a lot of the analysis that the Committee still needs to be focusing on. In fact, the Committee could be improved by ensuring a representative from every campus is at each meeting to focus on cross-pollination analysis that compares campus to campus. By keeping it as a standalone Committee it keeps the focus on cost savings.

Trustee Murphy stated that the Committee must consider the fact that rolling this Committee into the Audit Committee gives them double the work and might prevent them from being able to give enough focus to both because of overload. He added that it wasn't that he didn't think it shouldn't be done but there should be some time spent deciding whether or not it would hurt the Audit Committee and the EEF Committee by lumping the two together. It was his recollection that there are limits of who can be on the Audit Committee such as being on both the Finance and Administration Committee and Audit Committee. It could be an issue if we can't use someone with a finance perspective on the efficiency side. Some thought needs to go into whether or not the Audit Committee is right for this purpose.

Chair Horne added that he is happy to continue chairing the standalone committee. Trustee Murphy said it needs to be reviewed from an efficiency standpoint. Chair Horne then stated that as Andrea Loughry left the Board of Trustees she gave a few recommendations. One of them was for this Committee to be housed completely under

the Office of the President. Mr. Loewen interjected that it needs oversight.

President DiPietro agreed that it needs, without a doubt, the scrutiny of lots of intelligent people. He said that he had not considered that the Audit Committee had limits. If you are limited by who can be on the Committee there may not be an opportunity of having the most knowledgeable on it. He added that he thinks there will be visibility no matter where it is located if the commitment is there and you stand behind it.

Vice Chair Stansberry said that it is a Board Committee and should be brought before the Executive and Compensation Committee. Trustee Murphy agreed and said that his concern is whether it should be a standalone committee or a subset of one of the other committees. Perhaps it could be made as a subcommittee so the focus is not lost. Vice Chair Stansberry added that it couldn't be a part of Finance because they can barely get through all their agenda items.

Chair Horne went on to say that the EEF Committee has set a culture for the University. President DiPietro went on to say that one of Ms. Loughry's desires was to make it a permanent activity of looking at the University's effectiveness and efficiency.

Trustee Murphy stated that the University should be putting into place the changes addressed by Mike Abney and Mark Paganelli today, regardless of what our revenue picture looks like. They are just smart business practices and easier on staff, faculty and auditors.

Trustee Anderson stated that sometimes you work yourself out of a job when you're effective because you get most of the low hanging fruit out of the first years of the Committee. He suggested scheduling fewer meetings and then review.

President DiPietro did note that it is an ad-hoc committee and Trustee Murphy said part of that it is because there are not enough Board members to be on another permanent committee. The limit is two.

Trustee Gallimore agreed with what had been said but has concerns about it rolling into the Audit Committee because of the visibility. He agreed with having fewer meetings per year and then reviewing the outcome. In his opinion, the right answer will come if it is worked on.

Vice Chair Stansberry said it would be discussed in the Executive and Compensation Committee meeting.

VIII.   **Adjournment**—Committee Chair Horne adjourned the meeting.

Charles M. Peccolo
Treasurer and Chief Financial Officer