

Office of the President

TO MEMBERS OF THE COMMITTEE ON LONG RANGE PLANNING:

DISCUSSION ITEM

For Meeting of November 19, 2014

PROGRESS REPORT ON WORKING SMARTER: SYSTEMWIDE ADMINISTRATIVE EFFICIENCIES AT THE UNIVERSITY OF CALIFORNIA

EXECUTIVE SUMMARY

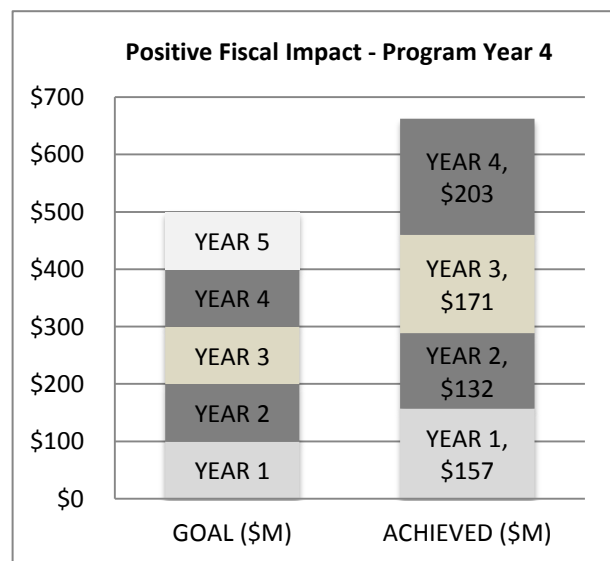
“...Efficiency measures must be continually advanced, executed, and expanded to enable the University to build a sustainable financial model to carry the University forward,”

- *Regents Policy 5100, Approved July 2010*

The *Working Smarter* initiative, at the conclusion of its fourth year, has surpassed its five-year program goal of generating \$500 million in administrative efficiencies. The measurable cumulative fiscal impact now stands at nearly \$664 million, a testament to extraordinary efforts by many across the UC system.

Launched during a time of deep fiscal cuts and uncertainty, this initiative challenged the “status quo” in the University’s administrative structure and processes. While most *Working Smarter* projects aim to deliver streamlined, common systems and highly integrated administrative frameworks, there is a balance between campus autonomy (and campus-based administrative efficiency efforts), and University-wide systems.

The *Working Smarter Initiative* acts as a point of coordination for campus-based efficiency efforts, and it serves as a platform for systemwide initiatives that benefit from synergies and economies of scale. In the past year, the *Working Smarter* program also deepened its collaboration with California State University’s system-wide *Synergy* efficiency program, and is beginning to explore opportunities to work with the California Community College system.



As the Program enters Year 5, *Working Smarter* will be focused on engaging more of our staff in smaller scale efforts to make every day processes more efficient.

Relevant Authorities: Regents Policy 5100 requires periodic progress reports on initiatives to implement significant administrative efficiencies. This is the fourth formal annual report since Policy 5100 was adopted in July 2010.

BACKGROUND

Positive Fiscal Impact and Project Summaries – Year Four of Five

About a third of the *Working Smarter* projects are still in an “investment” or implementation phase, so positive fiscal impact, net of any targeted investment, is not expected for another year or more. Complete realization of project objectives – particularly for the more complex undertakings – requires planning and investment, and months or years for a full and disciplined implementation. A more detailed description of the calculations can be found in Appendix A, attached.

It is important to note that progress against goals has included monies that accrue to both core operations and non-core (such as auxiliaries and other self-supporting functions within the University). The core budget savings will most directly help the University through current and future fiscal concerns by freeing up funds that were previously used for other purposes, avoiding costs, or generating revenue. It is estimated that about two-thirds of the positive fiscal impact from *Working Smarter* projects will accrue ultimately to core operations.

Table 1: Working Smarter Program Results to Date

Program/ Fiscal Year	Annual Fiscal Impact¹ Goal (\$M)	Annual Fiscal Impact Results (\$M)	Cumulative Program Fiscal Impact Results (\$M)
1: FY2010-2011	\$100	\$157	\$157
2: FY2011-2012	\$100	\$132	\$289
3: FY2012-2013	\$100	\$171	\$461
4: FY2013-2014	\$100	\$203	\$664
5: FY2014-2015	\$100		

In addition, some projects incur permanent savings – usually resulting from substantial and transformative changes; others are more opportunistic. The latter, usually one-time events, are measured and accrue to our fiscal goals but the far greater focus of the initiative is on the permanent savings or revenue.

¹ *Working Smarter* measures “Fiscal Impact,” which identifies both incremental direct cost savings and incremental new “revenue” (cash received, net of investments in the project, during the time period measured) equally. While many *Working Smarter* projects include “soft gains” such as time savings and improved quality, these are not a part of the fiscal impact calculation.

UC's procurement staff across the system contributed a substantial portion of the Year 4 results and their efforts in many ways epitomize the overall program: Over the last few years, procurement has begun a full transformation of its governance, structure, systems and metrics through a project called "P200." UC campuses collectively spend more than \$7 billion a year to procure goods and services, representing nearly one-third of the university's operating budget. P200 was launched in 2012 and aims to deliver \$200 million in savings annually by the end of fiscal year 2016-17. One of the transformative changes recently adopted throughout UC procurement is the "Centers of Excellence."

The original idea for the Centers of Excellence came out of a workshop in which campus procurement leadership and campus Controllers thought about different ways to organize systemwide strategic sourcing efforts in order to achieve results more quickly and effectively. The Centers are small, focused groups of commodity and sourcing specialists working virtually from across the system, seeing the same data and analytics and collaborating actively. The teams come together (via technology) as needs dictate, function as a unified and nimble entity empowered to make appropriate decisions, and use standardized, streamlined, and scalable processes.

This Centers of Excellence model is new to UC and critical to achieving Procurement's system-wide vision of being a high performing strategic partner. This approach is accelerating progress against P200's project goals. This past year, the P200 program delivered over \$124 million in negotiated savings. In addition, UC procurement staff have contributed significantly to the advancement of many other initiatives, such as a recent large purchase of solar energy², which at 206,000 megawatt-hours per year is the largest solar energy purchase by any U.S. higher education institution. This purchase transaction marked a milestone in the University's strategy to become carbon neutral by 2025.

Several projects are expected to report new fiscal impact results in Year 5, as savings are just now eclipsing the costs associated with the *Working Smarter* change. A few projects are not expected to produce material financial results at any point in time, but in all other ways belong firmly in the *Working Smarter* portfolio. One such initiative is known simply as the Policy Project. This extensive effort began with a detailed review of all existing University-wide policies for accuracy and relevance. Policies were then edited to use more current, "plain English" and now conform to a five-year review cycle. As a result of the review, 201 policies were rescinded and/or consolidated, cutting the number of policies to 319. The University-wide Policy Office also created a standard policy template, put all policies online, added answers to Frequently Asked Questions and provided more information on recently updated policies.

Nine projects in the *Working Smarter* portfolio contributed to the total Year 4 results. Each reporting project's fiscal impact for Year 4 is shown in Table 2 and project summaries are included below.

² The "Power Purchase Agreements" (announced September 8, 2014), which UC procurement staff supported, are not included in the fiscal impact for the P200/Procurement Transformation project. It is cited here as an example of recent procurement work supporting other high impact initiatives.

Table 2: Fiscal Impact by Project

WS Projects Reporting Positive Fiscal Impact	Type of Fiscal Impact	Year 1 (\$M)	Year 2 (\$M)	Year 3 (\$M)	Year 4 (\$M)	Cumulative 4 Year Total
Banking & Treasury Services Efficiencies	Savings	\$ -	\$ 1.64	\$ -	\$ -	\$ 1.64
Benefits Redesign (Family Member Eligibility Verif.)	Savings			\$ 35.00	\$ -	\$ 35.00
CampusConnexions	Savings	\$ 4.24	\$ -	\$ -	\$ -	\$ 4.24
Connexus Travel Program	Savings	\$ -	\$ 6.48	\$ 7.93	\$ 9.14	\$ 23.55
Enterprise Risk Management*	Savings	\$ 82.91	\$ 71.06	\$ 32.03	\$ (2.71)	\$ 183.29
Legal Services	Savings	\$ -	\$ 3.12	\$ -	\$ 1.45	\$ 4.57
Liquidity Management	Revenue	\$ 40.04	\$ 18.86	\$ 33.23	\$ 38.30	\$ 130.43
Parent Giving	Revenue	\$ -	\$ 12.00	\$ 15.00	\$ 17.46	\$ 44.46
Procurement Transformation/Incentives**	Revenue	\$ -	\$ 11.44	\$ 23.24	\$ 6.30	\$ 40.98
Procurement Transformation/Savings**	Savings	\$ -	\$ -	\$ -	\$ 124.96	\$ 124.96
Purchase Card Program	Revenue	\$ 3.89	\$ 5.14	\$ 5.75	\$ 7.14	\$ 21.91
Statewide Energy Partnership	Savings	\$ 25.00	\$ -	\$ 18.53	\$ -	\$ 43.53
UC Equip. Maintenance Insurance Prog.	Savings	\$ 0.62	\$ 0.56	\$ 0.63	\$ 0.85	\$ 2.67
UC Travel Insurance Program	Savings	\$ 0.68	\$ 1.88	\$ -	\$ -	\$ 2.55
TOTAL		\$157.38	\$132.18	\$171.35	\$202.89	\$ 663.79

TABLE 2 NOTES:

* Enterprise Risk Management program records a net cost of the program in Year 4 of Working Smarter; see project notes in item for more

** The Working Smarter initiative opted not to report negotiated contract savings until year 4, following the implementation of a standard system and set of metrics across UC. The revenue to the campuses reported for this project is comprised of patronage incentive payments, volume incentives, early pay discounts and e-commerce incentives. In many vendor purchase contracts, to encourage local contract compliance and aid in supporting complementary programs such as eProcurement use, the University receives quarterly cash rebates of usually 2 percent of net purchases made under the agreement. These payments are monitored centrally but made directly to the local campus.

Connexus Travel Program and the Purchase Card Program both report on a calendar year; showing CY2013 results.

For all figures above, approximately two-thirds of the positive fiscal impact of the Working Smarter initiative is expected to accrue to core funds.

Working Smarter: Future Plans

“Smaller-Scale” Efficiency

The first four years of the program have surpassed goals through the achievements of primarily UC-wide administrative projects. Most UC campuses are also quite busy with campus-wide efficiency and new revenue programs that affect the entire local campus community. This coming year, *Working Smarter* will seek to sustain and increase its administrative gains by engaging staff across the University in smaller-scale efforts with goals that can be realized more quickly. These efforts can go a long way to help make the day-to-day business of UC run more smoothly, quickly, and easily for our students, faculty, and staff.

Improve and Increase Coordination across UC, California State University System and the California Community Colleges

The *Working Smarter* initiative this past year co-sponsored with its sister initiative at California State University (CSU), *Synergy*, several events to further shared goals. These events included two-day workshops on “Applying Lean Principles in California Public Higher Education,” an

intensive session among procurement professionals and a conference recently hosted at the CSU East Bay campus for all three segments, “2014 California Public Higher Education Collaborative Business and Administrative Services Conference.”

One of the major achievements of this past year was the development of a shared “virtual location” for collaboration, a website where staff from all three segments can share ideas, accomplishments and find new ways to address common challenges. See: <http://www.uknowledgeshare.org/>

Learn more about *Working Smarter* at: <http://workingsmarter.universityofcalifornia.edu/>.

APPENDIX A: WORKING SMARTER BACKGROUND

Beginning in July 2009, with Chairman Gould and President 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.

At the May 19, 2010 meeting of the Committee on Finance, then-Executive Vice President, Chief Financial Officer Taylor and then-Executive Vice President, Business Operations Brostrom presented plans for the multi-year efficiency initiative. This *Working Smarter* plan envisioned ten distinct campuses using one streamlined administrative framework, specifically, common and integrated systems for:

- Finance and payroll
- Extramural fund accounting
- Asset management
- Energy and climate solutions
- Library-efficiency strategies
- Time & attendance systems
- Data warehousing
- E-procurement
- Indirect cost recovery
- Risk management

On July 14, 2010, the Regents formalized the University's efficiency objective by adopting Policy 5100: Resolution Regarding Administrative Efficiencies. The policy established the Regents' expectations of the President and the Office of the President with respect to realization of the objective. In the UC's Commission on the Future Final Report, dated November 2010, recommendation #14 specifies, "Expedite Implementation of UC's Initiative on System-wide Administrative Reforms, With the Goal of \$500 Million in Annual Savings."

On March 2-3, 2011, Executive Vice Presidents Brostrom and Taylor convened a large team of *Working Smarter* participants for an all-hands meeting in Oakland. Attendance included campus leadership, campus Operational Excellence staff, Academic Senate membership and staff, Staff Assemblies membership, UCOP project owners, functional managers, and technical staff, as well as the full membership of the *Working Smarter* Executive Steering Committee. This group ratified a proposed initial portfolio of projects that are in line with the fiscal and strategic goals of *Working Smarter*.

In February 2012, Cathy O'Sullivan joined as the first Director of *Working Smarter*; she is tasked with furthering the success of the current group of projects, encouraging new innovative ideas from across the UC system, and refining the metrics against which *Working Smarter* projects and proposals are assessed. Director O'Sullivan has in the prior year expanded greatly the outreach and collaboration with the CSU *Synergy* initiative on topics and projects of mutual interest.

The *Working Smarter* Executive Steering Committee members are Executive Vice President and Chief Financial Officer and Interim Chief Operating Officer Nathan Brostrom (Chair), UC Davis Provost Ralph J. Hexter and UC San Francisco Senior Vice Chancellor of Finance and Administration John Plotts; there is one seat vacant on the Executive Steering Committee. The Committee is supported by an Advisory Group and Director O'Sullivan. Each individual project

under *Working Smarter* is championed and executed by an Executive Sponsor, a Project Owner, a Functional Team, and, where applicable, Campus Manager.

QUANTIFYING THE FISCAL IMPACT

In evaluating projects for inclusion in the portfolio, an assessment is made of expected fiscal impact or process efficiency gains. Fiscal impact can be reported only after direct savings or revenue eclipse any up-front investment such as implementation services, hiring of new staff to support the project or investments in new technologies. Revenue is defined as cash received during the time period measured and which is directly attributable to the project. Direct savings are defined as incremental, not cumulative, savings when comparing the prior process to the new one. Once net direct savings are claimed in the first year after launch of a project, each subsequent year of savings is reportable if in excess of the prior year's (i.e., incremental new savings).³

Only direct cost savings and realized revenue are measured and reported as positive fiscal impact under *Working Smarter*. This focus on the "bottom line" has not excluded projects from the portfolio that aim solely to improve process efficiency.

³ An exception to the standard calculation methodology was granted to Enterprise Risk Management. In this program area, a discrete 12-month snapshot was not reflective of the true costs and longer term impacts of both prevention activities and actual claims paid. Claims paid in any one year may be tied to occurrences years prior. Similarly, avoided costs and savings can take some time to build after new programs are implemented. For the University's overall "Cost of Risk" calculation, *Working Smarter* reports savings as the reduction in combined premium costs in the reporting fiscal year (2012-13) over the average costs of a previous three-year period (in this year, the comparison averages 2009-10 through 2011-12; this is consistent, rolling forward by one year, with the approach noted in the prior two formal annual *Working Smarter* reports).

APPENDIX B: WORKING SMARTER PROJECT DETAIL

Banking and Treasury Services Efficiencies: The University of California incurs approximately \$25 million per year for expenses related to banking services for all campuses and medical centers. These services include all depository, disbursement, payroll, and merchant card accounts and related transaction activities. The Banking Services team implemented a cloud computing solution that provides the required functionality, security, and control of a contemporary workstation. Although some internal business processes had to be adjusted for the new system, it allows staff to perform critical processes for the daily management of UC cash. The new system also enhanced disaster recovery backup for this mission critical function. The cost differential between the original and the new treasury workstation resulted in a savings of approximately \$960,000 annually. In addition, the team renegotiated its merchant credit card fees. The University of California maintains approximately 1,100 merchant credit card accounts across all campuses and medical centers. These accounts allow departments such as bookstores, athletic venues, and medical clinics to accept credit cards for payment of goods and services. UC creates approximately 9 million transactions each year; a few cents saved per transaction has resulted in additional annual savings of about \$675,000.

Benefits Redesign/HR-Compliance: Family Member Eligibility Verification. The effort in Year 3 of the Working Smarter program was a full validation of every single individual claimed as a dependent and covered by UC's health benefits. By ensuring only eligible dependents were covered, the University saw a \$35 million annual reduction in employer costs. As part of the project, a more stringent set of verification measures was put in place and a systemwide Family Member Eligibility Verification process will be conducted every four years.

CampusConnexions: UC Campus Connexions is a program that provides insurance coverage to faculty, staff, students and supporting third parties (e.g., foundations, alumni associations, etc.) for events and activities held on campus. Previously, UC insurance programs did not cover such events. By offering this program on a systemwide basis, savings of about ten percent can be achieved through volume purchasing. The program has reduced insurance costs for these individuals and organizations while at the same time protecting the University against property damage or lawsuits arising from student and other supporting organizations' activities. In addition to providing a source of insurance, the carrier also provides loss control/safety tips for groups purchasing the products. CampusConnexions' first year of implementation resulted in significant savings.

Connexus Travel: is a centrally managed travel program offering online and agent-based reservation options and discounts to UC and CSU travelers. Across all locations, average utilization is 39 percent for all types of UC travel; UCOP location utilization is at 98 percent. To increase utilization, the project team recently redesigned the portal to strengthen the user experience, and was able to initiate or renegotiate airline discounts on several carriers; air bookings are the most substantial portion of travel expenses tracked through Connexus. Future plans include additional focus on redirecting more bookings to the online portal, which will both

directly save agent fees and “capture” more data on UC travel to inform negotiations and other plans.

Enterprise Risk Management: (ERM) takes a strategic approach to managing enterprise-wide risks. These include hazard risks such as workers’ compensation, a variety of liability risks and property. It does the same with other strategic, operational, financial, and reputational risks. UC campuses continue to enhance their ERM programs through a collaborative effort. UCOP Risk Services supports campuses with investment in new systems and tools to facilitate the efficient management of risk.

UC’s cost of risk is made up of a variety of components, with the largest of course being self-insured claims. In previous years, it had been estimated that the amounts incurred for the cost of individual claims accounted for about two-thirds of the annual total. The remaining one-third of the Cost of Risk was for expenses for administration and loss control and loss prevention programs, as well as excess insurance premiums to cover the costs of individual claims above UC’s retention level. However, for the most recent year, the distribution of claims versus expenses was approximately 50/50.

UC has been successful in managing its risk by investing in claims administration and loss control and loss prevention programs. The “Be Smart about Safety” program in particular has impacted the loss experience, resulting in a reduction of the actuarial estimates of ultimate losses and therefore also in the Total Cost of Risk. A similar program, “Shoes for Crews” is also being credited by Risk Services with reductions in reducing Workers Compensation injuries and the cost of incurred claims.

Legal Services: In January 2010, the Office of General Counsel (OGC) began implementing a new approach to reducing expenses on UC’s Legal Services without increasing risk to the University. The effort has two objectives, both very targeted in their implementation: “in-sourcing” and “preferred provider panels.” With in-sourcing, OGC is staffing attorneys in-house where that work can replace what was previously spent on outside counsel. OGC’s attorney rates (including benefits and overhead) are approximately \$100/hour less than comparable outside counsel billing rates. In addition, OGC has looked to increase its focus on identifying opportunities for affirmative litigation, which will result in substantial financial recoveries in future years.

Liquidity Management: This project seeks to optimize the allocation of campus working capital between UC’s Short Term Investment Pool (STIP) and its Total Return Investment Pool (TRIP), and explore the possibility of a systemwide, coordinated approach to liquidity management. By reviewing historical trends and likely future needs for operating capital, and then making moderate adjustments, the University has generated an additional \$38.3 million in investment income during 2013-14. Some of the success of this project has been fortuitously improved by the overall investment markets. Going forward, expectations are that gains will not continue on this trajectory.

Parent Giving: Several years ago UC determined that parent giving at UC was falling short compared with other universities. UCOP provided initial funds and, working with counterparts at each of the nine undergraduate campuses, implemented the Parent Giving and Supplemental Development Fund to boost parent and alumni donations and support other giving models. These funds were matched on a two-for-one basis by the campuses. Due to significant budget cuts and expected maturity of the programs reducing reliance on that support, the funding was recently decreased.

In the first year of the program, systemwide parent giving rose to \$10.7 million from \$3.6 million the previous year. Parent Giving topped \$17 million in fiscal year 2013-14.

Procurement Transformation/P200: is a University-wide program coordinated at UCOP by Procurement Services staff who negotiate vendor contracts to leverage UC's substantial combined buying power. The goal is to invest in people, processes and technology to return \$200 million in new savings in the next several years.

Until Year 4 of the program, *Working Smarter* had opted not to report negotiated contract savings, in anticipation of a standard system-wide metric and calculation. This is now in place and has captured verifiable savings as well as revenue. The \$6.3 million in revenue to the campuses reported for this project is comprised of patronage incentive payments, volume incentives, early pay discounts and e-commerce incentives. In many vendor purchase contracts, to encourage local contract compliance and aid in supporting complementary programs such as eProcurement use, the University receives quarterly cash rebates of usually two percent of net purchases made under the agreement. These payments are monitored centrally but made directly to the local campus. In 2013-14, the university achieved savings through a variety of systemwide collaborations. Several of these were highlighted in a full program update to the Committee on Long Range Planning in July 2014.

Purchase Card Program: generated over \$7 million in direct savings, incentive payments and signing bonuses in calendar year 2013 (this is one of the projects on a calendar year schedule). The program provided additional savings to the UC-operated National Laboratories not reported here. Use of the Purchase Card is acknowledged as a more efficient payment vehicle than payment via hard copy check; this process efficiency is not monetized in the *Working Smarter* reported results. Going forward, the project team will be focusing on converting more invoice settlement to the Purchase Card, which will bring additional "early pay" (typically two percent net 10) discounts that are often negotiated into procurement contracts with system-wide vendors.

Statewide Energy Partnership: is a portfolio of many hundreds of energy efficiency projects at campuses and medical centers. The University of California/California State University (UC/CSU) and Investor-Owned Utilities (IOUs) entered into an Energy Efficiency Partnership with a goal of achieving immediate, long-term peak energy and demand savings, and establishing a permanent framework for a sustainable, long-term, comprehensive energy management program. Much of the savings are achieved over time, as grant-based incentives are paid out for

completed projects that also result in significantly lower energy bills. The *Working Smarter* project reports Statewide Energy Partnership savings every two years, which more closely approximates the term for large scale replacement efforts to have full realization of savings, both recouping all project costs and seeing operating budget savings compared to historic utility expenditures.

UC Equipment Maintenance Insurance Program: (UCEMIP) is focused on a standardized, proactive approach to the maintenance of the University’s equipment and technology hardware. The program aims to replace emergency repairs and certain original equipment manufacturer maintenance contracts with a central equipment maintenance insurance policy priced to cover a wide range of equipment at any UC location. Over the past year, participating UC Locations saw direct savings of over \$851,000.

UC Travel Insurance Program: (UC TRIPs) provides improved coverage to protect the health, safety, and security of faculty, students, and staff while traveling on UC business. The program is focused primarily on providing better protection by more efficiently gathering UC’s travel data, negotiating this insurance on a systemwide basis, and automatically enrolling travelers who book using the UC Travel portal “Connexus.” (Southwest Airlines participates but requires one additional step for full coverage at no extra cost.) The University has seen participation in this program increase substantially each year since its introduction. Over the past fiscal year, the University of California has identified almost 78,000 registered trips, involving travel to every country of the world. The administrator of our travel insurance program opened 1506 cases this past year, approximately 800 of which were classified as “medical monitoring: outpatient.” Some of the highlights of the over 1500 cases and the resources provided by UC TRIPs include evacuation efforts during because of civil unrest in Egypt during July 2013 and a declining security situation in Yemen during August 2013. Program coordinators at the Office of the President coordinated efforts with the campus and travel insurance partners to locate, provide guidance, evacuation coordination, and confirm the safety of several employees and students. The majority of the travelers were evacuated out of those emergency security situations and transported out of the country. The travelers that remained were either outside of the immediate areas of concern or were traveling onto other locations for research activities.

Key to Acronyms

CSU	California State University
ERM	Enterprise Risk Management
IOU	Investor-Owned Utility
OGC	Office of the General Counsel
STIP	Short Term Investment Pool
TRIP	Total Return Investment Pool
UCEMIP	UC Equipment Maintenance Insurance Program
UCOP	UC Office of the President
UC TRIPs	UC Travel Insurance Program