

Office of the President

TO MEMBERS OF THE COMMITTEE ON FINANCE:

**DISCUSSION ITEM**

*For Meeting of September 18, 2013*

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

**EXECUTIVE SUMMARY**

*“The University is committed to achieving a level of administrative excellence equivalent to that of its teaching and research enterprises”*

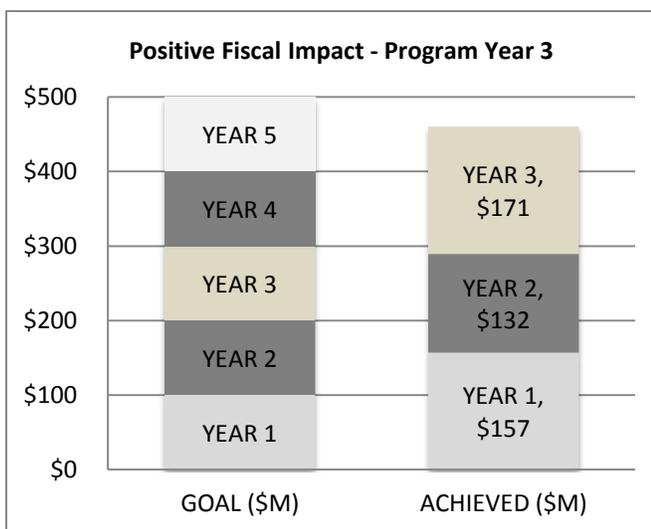
- *Regents Policy 5100*

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The *Working Smarter* initiative, at the conclusion of its third year, has made impressive progress toward its five-year program goal of generating \$500 million in administrative efficiencies. Thanks to the innovation and hard work of UC staff across the system, the university has generated an additional \$170 million in savings or new revenue this year which can be redirected to UC’s core mission of education and research. To date, the *Working Smarter* initiative’s cumulative fiscal impact is \$461 million, putting it on track to meet and exceed its five-year target.

Progress toward the fiscal impact goal is a critical metric. But fiscal results are not the whole story.

*Working Smarter* projects are also delivering results that improve staff efficiency and capabilities through cross-campus coordination. For instance, by aligning processes and systems (and underlying data), UC’s procurement staff are already moving toward a “centers of excellence” model. Experts in certain categories of spend are not only resources to their home campus, but to the entire UC system, and are literally looking at the same information as their colleagues in determining priorities and approaches in procurement.



The *Working Smarter* initiative acts as a point of coordination across campus-based efficiency efforts. *Working Smarter* is also actively collaborating with California State University’s systemwide “Synergy” efficiency program.

As the Program enters Year 4, *Working Smarter* will be focused on recognition of smaller-scale efficiency gains across UC, and building on the initial successes of the *Working Smarter* – Synergy cooperation this past year.

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

### POSITIVE FISCAL IMPACT AND PROJECT SUMMARIES – YEAR THREE OF FIVE

Many *Working Smarter* projects are still in development or early implementation and positive fiscal impact, net of any targeted investment, is not expected for another year or more. Complete realization of objectives requires planning and investment, and months or years for a full and disciplined implementation.

UCPath is one example of a project that is still in the middle stage of continued investment and work. The UCPath project, the most complex operational initiative ever undertaken at the University, is highly aligned to the goals of *Working Smarter*. It will replace outdated payroll and human resources (HR) benefits administration systems with industry standard technology and streamline internal processes. UCPath is not expected to result in systemwide efficiency gains or savings until after it fully launches in 2015.

In its first year, as reported in July 2011, the *Working Smarter Initiative* accrued \$157 million in new revenue and cost savings. Year 2, reported in July 2012, added another \$132 million. *Working Smarter* achieved over \$170 million in positive fiscal impact for Year 3. Overall program results are summarized in Table 1.

**Table 1: Working Smarter Program Results to Date**

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

<sup>1</sup> *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.

Approximately one-third of the currently 34 projects in the *Working Smarter* portfolio contributed to the total Year 3 results. Each reporting project’s fiscal impact for Year 3 is shown in Table 2 and project summaries are included below.

**Table 2: Year 3 Fiscal Impact by Project**

Project Name	Year 3 Fiscal Impact (\$M)	Type of impact
<b>Benefits Redesign</b>	<b>\$35.0</b>	<b>Savings</b>
<b>Connexus Travel Program</b>	<b>\$7.9</b>	<b>Savings</b>
<b>Enterprise Risk Management (ERM)</b>	<b>\$32.0</b>	<b>Savings</b>
<i>General Liability Self-Insurance</i>	<i>\$1.8</i>	
<i>Professional Liability Self-Insurance</i>	<i>\$9.4</i>	
<i>Workers Compensation Self Insurance</i>	<i>\$20.8</i>	
<b>Liquidity Management</b>	<b>\$32.0</b>	<b>Revenue</b>
<b>P\$200/Strategic Procurement</b>	<b>\$23.2</b>	<b>Revenue</b>
<b>Parent Giving</b>	<b>\$15.0</b>	<b>Revenue</b>
<b>Purchase Card Program</b>	<b>\$5.7</b>	<b>Revenue</b>
<b>Statewide Energy Partnership</b>	<b>\$18.5</b>	<b>Savings</b>
<b>UC Equip. Maintenance Insurance Prog. (UCEMIP)</b>	<b>\$0.6</b>	<b>Savings</b>

**Table 2 Notes:**

Connexus Travel Program and the Purchase Card Program both report on a calendar year; showing CY2012 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” Projects**

The first three years of the program have surpassed initial goals through milestone 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. The results from larger scale efforts have proven their value, but sustaining and improving UC’s administrative gains to date depends on all UC staff. The focus for Year 4 of the program will be on recognizing the much smaller scale improvements that any UC staff member can make to make the “day to day business of UC” run more smoothly, quickly and easily for our students, faculty and staff served by these processes.

**Improve and Increase Coordination across UC and CSU**

Procurement Services leadership has been working directly with its counterparts at the California State University (CSU) system to produce mutually beneficial results: in the past several months, the two institutions have worked together to combine volumes of planned purchases and improve pricing and other terms for systemwide contracts. At time of publication, UC Procurement Services has two active RFPs (Requests for Proposal) jointly tendered with the CSU system.

The *Working Smarter* initiative this past year sponsored several events to bring campus leaders

together to collaborate on solutions to common local issues.

*Working Smarter* is also actively collaborating today with its sister systemwide efficiency initiative at the CSU system, *Synergy*. Real, productive cooperative efforts between the two University systems have been under way in many areas (for example admissions, procurement, sustainability) for decades. This collaboration around administrative efficiencies and cost savings is now gaining traction.

In October 2012, *Working Smarter* hosted leadership from all UC campuses, UCOP, and the CSU Office of the Chancellor, who came together for a planning and strategy day in Oakland. The morning was structured as a roundtable, allowing all locations dedicated time to relay to colleagues their local priorities and issues. The afternoon was spent focused on developing solutions to some of the identified issues, and some brainstorming around opportunities to collaborate with other campuses.

In January 2013, a group of senior leaders from UCOP joined CSU at the Office of the Chancellor for a day spent sharing near- and mid-term projects that may benefit from our institutions sharing strategies and solutions.

One outcome from the January meeting was an event focused on “Shared Services” held in July 2013. This was a jointly planned UC-CSU Conference, hosted by *Working Smarter* at UC Irvine. Nearly 150 attended from all UC and CSU locations. The idea behind Shared Services is to gain operational efficiency by consolidating, or sharing, services that are needed throughout an organization. While most shared service projects start out as a way to save money, well-implemented operations usually also result in quality improvements, more staffing for the service and needed technology upgrades.

Future events between UC and CSU are already being planned and range from training sessions on “Applying Lean Principles” to deeper examinations of some future opportunities to work together.

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, Executive Vice Presidents Brostrom and Taylor 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 and 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.<sup>2</sup> 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 Commission on the Future Final Report, dated November 2010, recommendation #14 specifies, "Expedite Implementation of UC's Initiative on Systemwide 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 CFO Peter Taylor (co-Chair), Executive Vice President Nathan Brostrom (co-Chair), UC Irvine Chancellor Michael V. Drake, M.D., UC Davis Provost Ralph J. Hexter and UC San Francisco

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<sup>2</sup> View Regents Policy 5100 in its entirety at: <http://regents.universityofcalifornia.edu/policies/5100.html>

Senior Vice Chancellor of Finance and Administration John Plotts. The five-person Executive Steering 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).<sup>3</sup>

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 solely aim to improve process efficiency.

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 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.

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.

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<sup>3</sup> 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

**Benefits Redesign/HR-Compliance:** Family Member Eligibility Verification. The effort in the last 12 months to validate every single individual claimed as a dependent and covered by UC's health benefits was particularly successful. By ensuring only eligible dependents were covered, the University expects 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.

More on this project at:

<http://workingsmarter.universityofcalifornia.edu/projects/enterprise-risk-management/case-study/>

**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. To increase utilization, the project team recently redesigned the portal to strengthen the user experience. Over \$6 million of the reported \$7.9 million savings in the program are attributable to negotiated airline discounts.

More on this project at:

<http://workingsmarter.universityofcalifornia.edu/projects/connexus-travel-program/case-study/>

**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, the largest of which is self-insured claims. The cost of individual claims account for about two-thirds of the annual total. The remaining one-third of the Cost of Risk goes toward expenses for claims 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. 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 affected 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.

More on this program at:

<http://workingsmarter.universityofcalifornia.edu/projects/enterprise-risk-management/overview/>

**Liquidity Management.** This project seeks to optimize the allocation of campus working capital between UC's Short Term Investment Pool and its Total Return Investment Pool, 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 \$33.2 million in investment income during 2012-13.

More on this project at:

<http://workingsmarter.universityofcalifornia.edu/projects/liquidity-management/case-study/>

**P200: Strategic Procurement** 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.

Because the new procurement system is not yet fully launched, *Working Smarter* has opted not to report negotiated contract savings. The \$23 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 the last fiscal year, participating UC locations received a combined total of over \$23 million from across the 138 UC-wide contracts with these incentives as part of the agreements.

More on this project at:

<http://workingsmarter.universityofcalifornia.edu/projects/e-sourcing/p200-program-overview/>

**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 is expected to top \$15million in FY 2012-13 (results at deadline are preliminary and estimated conservatively here).

More on this project at:

<http://workingsmarter.universityofcalifornia.edu/projects/parent-giving/case-study/>

**Purchase Card Program** generated over \$5 million in direct savings, incentive payments and signing bonuses in calendar year 2012. The program provided additional savings to the UC-operated National Laboratories not reported here. While the Purchase Card is acknowledged as a more efficient payment vehicle than payment via hard copy check, that process efficiency is not monetized in the *Working Smarter* reported results.

More on this project at:

<http://workingsmarter.universityofcalifornia.edu/projects/purchase-card-program/case-study/>

**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 to establish a permanent framework for a sustainable, long-term, comprehensive energy management program.

Notable highlights in the last reporting period include the completion of the largest single energy savings project at UCSF and the first large-scale energy upgrade project at UCSF Medical Center. In a ceremony at UCSF on February 19, 2013, PG&E (Pacific Gas & Electric Company) presented UCSF with a check for \$846,000. Events like this one are becoming increasingly common across UC, as grant-based incentives are paid out for completed projects that also result in significantly lower energy bills.

More on this project at:

<http://workingsmarter.universityofcalifornia.edu/projects/statewide-energy-partnership/case-study/>

**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 \$600,000.

More on this project at:

<http://workingsmarter.universityofcalifornia.edu/projects/equipment-maintenance/case-study/>