EXPLORING SYSTEM-WIDE BEST PRACTICES

PRESENTED TO THE FLORIDA BOARD OF GOVERNORS
BY THE STATE UNIVERSITY SYSTEM
COUNCIL FOR ADMINISTRATIVE AND FISCAL AFFAIRS

Introduction

In establishing a system of governance for the state university system in Florida, Article IX, Section 7, of the state constitution emphasizes the instruction, public service, and research mission of Florida's public universities to benefit the state's citizens, their communities and economies. It further focuses on the "well-planned coordination and operation of the system, and avoiding wasteful duplication of facilities or programs." In its description of postsecondary education's purpose and mission, the Florida Legislature, in s.1004.01, F.S., also mentions the "effective and efficient use of human and physical resources." Notwithstanding the potential for conflicting goals among the various constituencies of state universities, it is clear that, as public entities, Florida's universities must conduct their operations with maximum effectiveness, efficiency, and systemic harmony (i.e. harmony within individual institutions and between all public institutions as integral parts of a system).

To ensure that this system-wide "Best Practices" project does, indeed, determine those best practices for Florida's public universities, it is worthwhile to define and discuss just what the concepts of "effectiveness," "efficiency," and "harmony" mean.

Effectiveness refers whether we have accomplished what we explicitly set out to accomplish. In its simplest application, effectiveness refers to goal achievement in measurable terms. For example, within the *State University System of Florida: Strategic Plan 2005-13*, that document lists specific, measurable system-wide goals regarding: access to and production of degrees; meeting statewide professional and workforce needs; building world-class academic programs and research quality capacity; and meeting community needs and fulfilling unique institutional responsibilities.

Similarly, we have set and continue to set specific, measurable goals for a multitude of financial and administrative operations. These goals range from decreasing the number of sexual assaults on campus to increasing the number of employees who successfully undergo IT training. In short, effectiveness means, *a priori*, that we set achievable goals, succinctly measure whether we achieve these goals in quantifiable terms, and adjust accordingly.

However, as organizations comprised of human beings serving the needs of human beings, other aspects of effectiveness must be considered (although they can be difficult to measure quantitatively). For instance, do our operations satisfy the needs of our multiple constituencies? Are we offering the very best services we can? By what criteria are different constituencies deemed to be satisfied? Likewise, no matter how effective our operations in terms of goal achievement, are they "humanistic" in terms of fostering the personal and professional growth of the organization's employees and improving the university experience for all whom we serve? We might very well meet very high production goals set for our controllers' offices, but perhaps we achieve them at the cost of placing undue strain on employees. Therefore, although we ***must*** identify and set achievable goals, we must take into consideration other factors that might not be easily measurable, but which can affect goal accomplishment.

Effectiveness, as a distinct and separate concept for determining institutional success, is significantly weakened unless integrated with the concept of efficiency. Efficiency simply refers to the relationship between expenditure of resources and results, i.e., "Are we getting the most bang for our buck?" An organization can be effective yet not efficient. That is, as organizations, we can achieve many measurable goals, but if we do so at a net loss of revenue or reduced customer satisfaction, then our success is questionable. However, because so many administrative and financial operations and goals are long-term in nature, we must be cognizant of the reality that although we may be inefficient in the short-run, we can become ***both*** effective and efficient in the long-run as we fine-tune our processes.

The concept of harmony is perhaps more subjective than objective, but it is critical. As we set and accomplish goals with the objectives of effectiveness and efficiency, we must bear in mind that organizational success also hinges upon minimizing internal strain, i.e., ensuring "harmony." The changes that are effected as public universities seek to become more successful in measurable terms can and do exert strain upon units, individuals, and processes. Therefore, as we establish and meet our goals with minimal expenditure of resources, it is also imperative that we take into account such variables as: establishment and maintenance of communication channels; minimization of interpersonal and inter-unit conflict; clarification of roles; encouragement of participation; emphasis upon training and development; etc. Harmony is the result of balancing effectiveness and efficiency.

As we set out to identify and implement the best practices—within our individual universities and throughout the system—we must also be aware that we are not always the "captains of our own ships." Changing constituency needs; governmental mandates; rigid compliance standards from accreditation agencies; statutes and rules; the frenetic pace of technology advancement; and resource limitations can and will affect our goals. Therefore, it is equally important that we maintain flexibility as well as firmness in this collective endeavor.

Of the 200 "best practices" identified for this exercise, we selected eight as those most feasible for additional discussion and possible adoption by the institutions comprising the SUS. These "best practices" comprise: Strategic Sourcing in Purchasing; Collection Agency Contracts; Performance Contracting; E-Commerce; P-Card (purchasing card); Maintenance Service Agreements; Vehicle Purchasing; and FICA Alternative Plan.

Strategic Sourcing in Purchasing

Basic Premises

Strategic sourcing in purchasing focuses primarily achieving bottom-line savings and significant competitive advantage through improvements in an institution's purchasing practices. When implemented appropriately, strategic sourcing leverages institutional buying power and enhances supplier business relationships. The ultimate goals include:

- reducing the costs of products and services;
- reducing order cycle time;
- reducing the amount of institutional overhead and staff effort required to support the purchasing function; and
- maximizing the value of long-term relationships with key suppliers.

The institution may conduct its own strategic sourcing or may elect to utilize consultant services to assist with the following: contract negotiations with vendors; vendor selection; historical analysis of purchasing and consumption patterns; performance measurement; and knowledge transfer to the institution's purchasing staff. For the contractor's consideration, it receives a fixed percentage of the savings that accrue to the institution. For example, the contractor would be paid 50% of the total savings accrued during the first year of the contract. For a multi-year contract, the institution would receive all the savings accrued during those subsequent years. At the University of North Carolina at Chapel Hill, for example, its strategic sourcing contract with Huron Consulting Group resulted in $2 million in institutional savings for the first year (and for which Huron was paid $1 million). Whether a consultant organization is utilized or not, the "essence" of strategic sourcing is:

- to gather reliable data on past purchases;

- to use the negotiation process (rather than invitations to bid at the lowest price) to obtain the best value; and
- realize incentives such as contract extensions for a lower unit price or free shipping regardless of destination and size of shipment.

In general, strategic sourcing contracts are enacted between the institution and preferred vendor(s) for large volume commodities, such as copy paper, bathroom supplies, and computers.

Caveats

Ensure that the contract with the consultant and subsequent contracts with vendors ***do*** provide the maximum return to the institution.

System-Wide Applications

Strategic sourcing will provide the greatest benefit to the larger universities because of the sheer volume of commodities they must purchase. In addition, and as a companion concept, strategic sourcing may be combined with consortium purchasing to provide even greater value. In other words, there is "strength in numbers."

One great advantage of consortium purchasing is the ability of one institution to use another institution's bid with a specific vendor and therefore achieve the same savings per volume of purchases that the other institution has negotiated. Consortium purchasing also significantly increases the ability to "mine data" across institutional boundaries in order to obtain the most pertinent and up-to-date price and volume information that will result in price reductions and institutional savings.

Should strategic sourcing contracts be effected between consultant(s) and all eleven SUS institutions acting as a single body for purchasing purposes, more significant savings would accrue to both the SUS and its individual universities.

Areas for Improvement

One area that could be significantly improved is the application software for both strategic and consortium purchasing. Specifically, there exists a need to improve the interface between various institutional, contractor, and vendor systems, i.e., simplified, "one-stop" shopping such as offered by Amazon.com. Should this application software be improved to provide greater accessibility to and utilization of purchasing-related information across the board, there would be increased savings in terms of staff hours spent on the purchasing function and order cycle time. Such software improvements would enable institutional purchasing departments to "manage" the entire purchasing function more effectively while devolving the actual purchasing "implementation" to those departments that actually purchase and utilize the myriad products, services, and commodities.

Collection Agency Contracts

Basic Premises

Institutional contracts with debt collection agencies are an effective means for recovering long-term delinquent student debts in areas such as tuition/fees, housing, parking, and library.

The collection agency adds a surcharge of 25-35% to the debt. Should the agency be successful in collecting the entire debt and surcharge, then it collects a fee equal to the surcharge. For example, if the total debt is $100 and the surcharge is $30, then the agency receives $30 as its fee (or 23%). If the total amount collected is less than the total amount of the debt, then the fee is proportionate. For example, if the total debt and surcharge equal $130, but only $100 is eventually collected, then the agency receives $23. The University Controller estimates that collection agencies have historically collected approximately 25% of the total non-enrolled student debt.

Caveats

There are several critical federal and state rules and procedures that must be followed before a student-related debt can be turned over to a collection agency. In addition, a great deal of institutional staff time and effort must be spent on conducting financial reconciliations with the collection agencies, i.e., staff must work across different accounting systems and reports that are very time consuming. Also, although collection agencies have surety bonds, there is always the potential problem of not obtaining collected debts in a timely manner should the collection agency, itself, go bankrupt. Finally, there is always the potential problem of angering future alumni donors, thereby decreasing the amount of monies that might be donated or pledged to the University at a future date.

System-Wide Applications

The use of collection agencies is currently system-wide. That is, the eleven state institutions participate in a system-wide RFP that has resulted in debt collection contracts with ten different collection agencies. Among other aspects, these contracts require collection agencies to remit the full amount collected by a certain monthly date; prepare and submit monthly reports; maintain trust accounts; and otherwise conform to numerous contractual provisions that comport to state law and further the best interests of the University.

Areas for Improvement

Outsourcing the billing function to an external organization would centralize and expedite the billing function that is hampered within the University because of the sheer number of collection points (e.g., Parking, Libraries, Registrar, Housing, etc.).

Performance Contracting

Basic Premises

Performance contracting can occur within a variety of contractor/institutional relationships. For the purpose of this presentation, however, we discuss performance contracting as it pertains to the matter of utilities, an ever-increasing problem for all SUS institutions. This type of performance contracting occurs when an institution contracts with an external organization to perform the following: audit any building or other facility to determine methods leading to cost savings; prepare designs to effect any potential savings identified by the audit; and perform the actual construction based upon the design. The resultant savings are required by contract to exceed the cost of the work. The savings are used to pay back the audit and construction costs, with all excess savings accruing to the institution into perpetuity.

Contractors are specialists in areas regarding the feasibility of projects, cost/benefit analysis, and payback of the project over a specific period of time. Succinctly stated, performance contractors have maintained a historic track of record of utilizing those "best practices" that can and will reduce energy costs to the University. The shorter the time of any payback period, the more lucrative the contract to the University in achieving significant savings. Such contracts are particularly favorable to the University when it doesn't have current funds to finance other projects. That is, the anticipated and actual savings will oftentimes provide the monies required to do any separate projects that must eventually be accomplished (but which are not, in and of themselves, associated with any performance contract).

Savings are guaranteed by the contractor through the use of new technology, conversion of systems/facilities, installation of products, and/or training of staff.

Any deficiencies between savings and project costs must be made up by the contractor.

Caveats

If the University has money on hand, it is more cost effective to use existing monies than to execute a performance contract, i.e., performance contracting is favored when existing monies are either non-existent or earmarked for other purposes. In other words, the university provides its own financing. In addition, if and when the required expertise and services are only available within the private sector as specialized "niches," then it is perhaps best to contract out certain services to those organizations that possess the expertise. Another problem concerns excessive overhead costs and profits by the contractor. In some instances, the fee paid to the contractor can be excessive if and when the contractor subcontracts the work at a significantly reduced price.

Most performance contract specifications require the institution to pay back the bank that actually loans the "up-front" money to the contractor to perform the audit, design, and construction. However, if the institution can obtain the "up-front" money through bonding, then that interest is usually significantly lower than what the institution must pay to the contractor's bank.

System-Wide Applications

With the exception of some Department of Management Services (DMS) performance contracts that are available to SUS institutions, there is potential for additional savings should some or all of the SUS institutions band together (as with purchasing consortia) to execute system-wide contracts with performance contractors. That is, there is "strength in numbers" because greater economies of scale can be achieved. Also, system-wide cooperation would provide for shared expertise concerning the efficacy of one performance contractor versus another and the actual utility of various energy-saving projects.

Areas for Improvement

Should such system-wide contracts be executed, it is recommended that overhead costs, and profitability issues be explicitly determined via "open-door pricing," whereby the contractor's overhead and profits are set as fixed percentages of the construction costs. Also, it is recommended that any contractor subcontracts must include a minimum of three invitations to bid in order to ensure that the best (and least expensive) subcontract is entered into and executed.

E-Commerce

Basic Premises

E-commerce simply refers to the conduct of business activities via the internet as opposed to traditional face-to-face or mail interactions. There are four aspects of E-commerce that pertain to the Universities. The first centers upon academic interactions, such as students being able to pay tuition, fees, and other outstanding debts on-line; completing applications for admission; registering for classes; searching the academic catalogue; viewing financial status with the University, etc. The second aspect concerns retail trade/auxiliaries, such as buying textbooks on line; parking decal distribution and fine payments/appeals; and completing purchases through on campus stores or web sites. The third aspect focuses upon departmental activities, such as facilitating via the internet large-volume printing and mailing activities. The fourth aspect is the University to vendor transaction for any and all commodities needed by the University. The so-called E-commerce shopping mall could be accessed by all universities that would alert to ***"best pricing"*** and ***"named vendors"*** that creates a dynamic competitive setting that is real time.

The benefits accruing to the University as a result of E-commerce are numerous, e.g., time savings, more and better customer services, less staff involvement with day-to-day business interactions, increased retail sales and revenues, simplification of operations, reduced inventory costs, and overall economies of scale (such as adding advertising to a web page without having to hire new staff).

Caveats

Although the potential for E-commerce is perhaps "limitless," the implementation of E-commerce may in certain cases require a significant financial investment in hardware, software, and various other systems. Likewise, the maintenance, upgrade, and expansion of such systems do require a reservoir of technical expertise by staff members.

System-Wide Applications

Any centralized system-wide applications of E-commerce applications would be difficult to achieve because of institutions' different IT architectures and business operations. National research has also indicated that only the larger institutions can take full advantage of the many potential benefits offered by E-commerce.* That is, the smaller the school, the more likely that the school will only select E-commerce applications that are simple to adopt, require the least costs, and provide direct benefits to students. The larger the institution, the more likely it is to adopt the wide-range of applications discussed above.

Although system-wide centralization might not prove to be feasible, it is likely and desirable that one SUS institution (if technically possible) adopt a positive E-commerce application initiated by another institution.

Areas for Improvement

Potential improvements must be geared towards improving existing customer-based services and creating new services. This, in turn, requires improving customer-based websites (e.g., creating a customer-based website to track progress on projects), offering new products and services, improving security features, and enhancing marketing efforts to promote the various products and services available on E-commerce sites.

P-Card (Purchasing Card)

Basic Premises

Since receiving authorization to issue and use P-Cards in 1997, SUS institutions have utilized these cards to pay for travel expenses and purchase commodities. While some universities utilize the State of Florida contract with the Bank of America for the issuance and usage of P-Cards, other universities have contracted with local banks.

There is agreement that P-Card usage allows for greater efficiency regarding the travel and purchasing functions since the actual "purchasing" has been devolved to the departments, i.e., "point-of-sale" procurement. The P-Card rebates are a source of revenue for the Universities. The central purchasing offices, however, are responsible for authorizing/monitoring usage, reporting, training, promulgating policies and procedures, and limitations.

Caveats

Although there are no charges to the user institutions for participating in P-Card program(s), the central accounting units at user institutions do incur costs associated with administering the program. Should there be a great volume of card usage, then the rebates can and will help pay these costs, e.g., staff salary and benefits. Moreover, the size of the rebates in terms of percentage points varies between those institutions utilizing the State of Florida/Bank of America contract and those institutions contracting with local banks. In addition, because of the desire to maintain or improve local business relationships, some SUS institutions prefer to do business with local banks (notwithstanding additional revenues that may be earned through a consolidated contract as discussed below). For the most part local banks may indeed be large national bank but with a local presence.

System-Wide Applications

Greater advantage and benefits may accrue to SUS institutions should a consolidated contract be issued by all eleven institutions for a single provider. That is, adhering to the "strength in numbers" philosophy, the consolidation of P-Card usage throughout the SUS could lead to a significant increase in the percentage point basis determining the amount of rebates.

Areas for Improvement

Should all SUS institutions enter into a single, state-wide contract with a financial institution for P-Card administration, it would be necessary to develop, implement, and monitor common policies, procedures, and authorized uses. Conversely, at the institutional level, some departmental users desire greater flexibility in P-Card usage, i.e., to be able to make a wider variety of purchases that what is currently permitted.

* Kleen, B.A. and Shell, L. W., "Nationwide Survey of E-Commerce Applications in Higher Education," IACIS, 2003.

Maintenance Service Agreements

Basic Premises

All SUS institutions have many maintenance service agreements, ranging from service contracts for some out-of-warranty items to service contracts for new equipment that are included as part of the RFP and/or subsequent negotiations with the vendor. In addition to individual university service maintenance contracts, there are state-wide contracts that multiple institutions for specific items common to all. In other instances, an individual university's contract with a service provider oftentimes contains the explicit provision that what is applicable to one university shall also be applicable to others.

Many high-cost/high-care pieces of equipment (e.g., diagnostic and testing equipment, computers and related IT items, laboratory equipment, etc.) require on-going periodic maintenance, particularly after the initial warranties have expired. Ideally, service maintenance agreements with the original vendor or manufacturer assure that the university will have ready access to the parts and trained personnel required to maintain this equipment. However, as discussed below, service maintenance agreements for older, out-of-warranty equipment require close scrutiny before contracts are signed.

Caveats

When negotiating with vendors for new equipment, it is important that maintenance requirements be addressed within the bid document or during negotiations. Potential problems, however, can occur within service maintenance contracts for older, out-of-warranty equipment. Terms and conditions that should be discussed before any contractual obligation is signed include: working hours, labor, included services/parts versus excluded services/parts; response time; provision of loaner equipment; insurance coverage and bonding of service technicians, etc.

System-Wide Applications

As with strategic sourcing in purchasing and consortium purchasing discussed above, there exists great potential for obtaining the widest-ranging maintenance service providing the widest array of services and products at the least cost. Of course, the eleven SUS institutions have different missions, operations, and equipment. Thus, there is the problem of ensuring that any system-wide service maintenance contract has the maximum applications and utility for the greatest number of institutions.

Areas for Improvement

Because of its unique array of knowledge specific to SUS financial and administrative functions, CAFA should consider forming a subcommittee to explore developing service maintenance agreement RFPs. Comprised of purchasing and facilities directors, such a subcommittee would have the expertise to determine the most suitable types of agreements for the most widely-used types of equipment for the greatest number of SUS institutions.

In addition, many members of our institutional boards of trustees possess significant business experience. Trustees with considerable purchasing and maintenance experience could review the RFPs and suggest improvements based upon their private sector experiences.

Vehicle Purchasing

Basic Premises

The purchase of motor vehicles remains one of the most critical decisions by SUS institutions. In some instances, a particular university may wish to do business with local dealers in order to enhance community relationships or conduct business with successful (and benevolent) alumni and donors.

As with strategic sourcing and consortium purchasing, the "there is strength in numbers" philosophy is pertinent. Currently, state universities have the opportunity to participate in a statewide vehicle purchasing contract solicited by the Department of Management Services (DMS). This contract, which is very competitive, has the potential to offer significant savings for participant institutions. Moreover, there are also other vehicle purchasing contracts available to universities through municipal and county governments. In fact, many local government contracts better serves the needs of that specific institution than the DMS contract. As with many other types of state contracts, other SUS institutions can use this contract for vehicle purchases.

Caveats

The main problem with the DMS contract is that the manufacturers publish their cut-off dates for actual buying as early as February. This is to ensure that sufficient time is available to manufacture and ship prior to June 30. Also, this cut-off date accommodates the manufacturers' need to retool their factories for the new model year.

However, many universities choose to wait until the end of the FY to make new vehicle purchases because of the necessity of ensuring that other, high-priority budget needs have been accommodated.

System-Wide Applications

In addition to the DMS and county/municipal contracts discussed above, the SUS purchasing directors' organization (ICOPS) should investigate potential savings that could be accrued and the high quality vehicles that could be purchased by investigating other types of vehicle contracts with system-wide applications. What is critically important is to first identify the types and quantity of vehicles needed by most (if not all) SUS units.

Areas for Improvement

If institutions could plan for earlier vehicle purchases (well before the end of the FY), then it is logical that the SUS universities—individually and collectively—would obtain better pricing than what they obtain towards the end of the FY. Also, collective efforts undertaken by ICOPS could identify system-wide purchasing opportunities for special needs vehicles, e.g., emergency, handicapped accessible, hybrids, etc., that would also offer significant savings.

FICA Alternative Plan

Basic Premises

The IRS-approved FICA alternative plan provides significant retirement benefits to eligible part-time/temporary/seasonable employees and to the host institution. The Plan allows pre-tax, tax-deferred contributions to a retirement fund in lieu of requiring both the employee and the University pay the federal 6.2% FICA tax. Eligible employees who enroll have 7.5% of their pre-tax paychecks deposited in a retirement account managed by an external organization contracting with the university, e.g., BENCOR or Valic. The Medicare tax of 1.45% is not affected. Other benefits accruing to the eligible employee include immunity of benefits earned by other retirement plans, plan portability, and no administrative fees. For the host institution, it not only saves significant monies by not having to pay its FICA share, but administrative costs and overhead associated with having to pay FICA may also be significantly reduced.

Caveats

Not all part-time/temporary/seasonal employees are eligible for a FICA Alternative Plan. For example, employees participating in a university or state retirement plan are not eligible as are any other employees who are not required to pay FICA. Therefore, the potential savings to the institution are limited because student employees, graduate assistants, fellows, phased retirees, and rehired retirees may not participate.
There is also a penalty assessed against individuals for early withdrawal of any monies deposited in their FICA Alternative Plan accounts. Moreover, it is critically important to ensure that any Plan adopted is compliant with IRS regulations.

System-Wide Applications

This particular “best practice” would be a recommendation to each institution to adopt versus a system-wide contract. The savings are significant and the benefits are attractive for these employees.