



University of Pittsburgh

*Comments of the University of Pittsburgh
Submitted to*

SENATE GOVERNMENT MANAGEMENT
AND
COST STUDY COMMISSION

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University Cost-Savings, Efficiencies, and Revenue Enhancement Initiatives

In addition to contending with the recent severe economic downturn, Pitt and Pennsylvania's three other state-related universities also have faced longer-term challenges tied to state funding. By now, the basic source of those concerns—comparatively low levels of Commonwealth funding over an extended period of time is well known to most observers. From FY 2001 to FY 2009: Pennsylvania's budget increased just over 36 percent; inflation increased by about 24 percent; but over the same period of time, Pitt's appropriation remained essentially the same, and Pennsylvania's investment in Pitt actually decreased by 5 percent as a result of the use of federal Recovery Act funds (2009-2011) and matching Medicaid funding that replaced state funds in Pitt's medical education funding (since 2006).

In addition to academic strategic planning initiatives, extensive efforts have been made throughout the University of Pittsburgh to remain as efficient as possible without jeopardizing our three-part mission. Faced with declining Commonwealth support and rising costs, the University continually engages in a cost-benefit analysis of its financial policies and practices with an eye toward cutting costs without harming our core mission and strategies. The analysis includes all employee-related costs and outsourcing opportunities as well as areas to target for potential headcount reductions. We also consider services that might be reduced or eliminated, expenses that might be curtailed, and revenue sources that can be enhanced.

As a result, the University has identified and implemented a number of cost-trimming initiatives, revenue enhancements, and operational efficiencies. Prior to implementation, senior management reviews each initiative, balancing opportunities with associated risks—such as impairing critical programs, relationships, and strategies. Each initiative is evaluated with a critical eye on creating efficiencies and improving the quality of service at a reasonable cost.

Relevant examples of impactful cost savings and operational efficiency initiatives undertaken by the University include:

- **Budget Discipline.** Due to the continuing economic decline and diminishing state support, the University implemented a salary freeze in FY 2010 for all staff and faculty (including senior executives, whose salaries were also frozen for FY 2009). In addition, hiring decisions were subjected to greater scrutiny and justification, including approval of all hires by senior officers. The University also reviewed all construction and renovation projects and delayed, cancelled, or reduced the scope of as many projects as possible.

- **Workers' Compensation Performance Outranks All Peers in Pennsylvania; Ranked "Best in Class" on National Scale.** An intensive effort to examine all medical bill data and searching for errors and duplications resulted in program savings of over \$1 million in 2008 and \$3.1 million over the past five years. An independent benchmarking report prepared by our Excess Workers' Compensation carrier showed that for the third year in a row, the University consistently outperformed all of its peers in Pennsylvania across the three most commonly used statistical benchmarks.
- **Energy Conservation.** Through various **energy conservation initiatives**, the University achieved utilities savings of \$2.2 million in FY 2009. Savings include: Energy Efficient Design - energy efficient lighting; occupancy sensors; direct digital controls required for all mechanical installations/upgrades; energy efficient solar control low-E glazing; heat recovery equipment for laboratory exhaust systems; variable frequency drives; and low flow plumbing fixtures; Master Plan Initiatives - Chiller plant upgrades; building automation system replacement and expansion; and demand limiting (to start/stop chillers efficiently); and Other Initiatives - Lighting system retrofits and standardization of lighting purchases; extension of central steam and chilled water systems; electric, steam, and chilled water metering; Posvar Hall lighting control upgrade; and steam trap replacements.
- **Custom-built Online Budget Application.** Two different departments at the University, Budget and Financial Reporting and Financial Information Systems (FIS), worked together to design, build, and launch an online screen-based budget application that interfaces with the University's financial system and collects proposed budget information from all University Responsibility Centers (RC). The new application replaces an antiquated, paper based system and saves countless hours of manual budget processing.
- **Online Purchasing System Implementation, Improvements and Savings.** Purchasing under all of the new University-wide contracts is enabled using PantherBuy, our paperless internet procurement system. The efficiency and ease-of-use of PantherBuy increases University departments' willingness to buy on-contract and thereby realize product cost savings. PantherBuy also improves operational efficiencies. The increase in orders placed via PantherBuy during FY 2009 resulted in an estimated \$422,000 of additional administrative costs savings for departments across the University.
- **Streamlining of Travel and Business Expense Reimbursement.** The University has begun a multi-year project to streamline the travel and business expense reimbursement process. The project includes implementing a direct deposit option for employees and the development of an online travel and business reporting process called IExpense, which will eliminate the need for processing manual reimbursement checks. Annual savings from this new project are expected to exceed \$120,000 per year. The new system will also capture more detailed information about

travel and business expenses which is used to improve management of travel costs and to improve auditing and controls over travel and business expense requests.

- **Reducing Retiree Medical Expense.** Pitt has phased in a new program that caps retiree medical benefits for the future, and adds additional age and years of service requirements, while protecting those who have already retired or are about to retire.

In response to the challenging economic environment, it is clear that the University has focused on maximizing its resources, implementing efficiencies and cost-savings programs, and carrying out its three-part mission of instruction, research, and public service, without sacrificing excellence.

Additional Suggestions for Commonwealth Cost-Cutting Measures

Streamlining Auditing and Reporting for State Grants and Contracts:

Currently, many state grants - particularly those through the Department of Community and Economic Development - require grant-specific audits. In addition, state agencies have varying requirements in regards to invoicing and reporting for grants and contracts. Similar to the federal government's single audit requirement (OMB Circular A-133), the state should consider a single audit of state grants and contracts by the auditee rather than auditing individual awards. Although these audits are typically done by an external firm, the cost is oftentimes charged to the award and the audit reports are reviewed by state personnel. A single audit would save audit fees and significant effort by state personnel. In addition, the state should consider standardizing invoicing and reporting requirements across all departments and agencies. Currently, invoicing and reporting requirements vary from agency to agency and oftentimes within individual agencies or departments.

Multi-Year Audit of Commonwealth Appropriation:

The state should consider doing biennial audits of the Commonwealth appropriation for the state-related universities. Particularly at larger institutions, these audits have proven to be low risk - evidenced by very few audit findings - so an audit every other year would save time and money without sacrificing results. Furthermore, the annual financial statements for each of these entities are audited by an external audit firm each year, which provides support for the state moving to a biennial audit of the appropriation.

Eliminate Invoicing for Commonwealth Appropriation:

Currently the University is required to send a monthly invoice to Harrisburg requesting release of the next installment of Pitt's Commonwealth appropriation. Since the appropriation is a known amount, it seems unnecessary to require an invoice each month. Eliminating this requirement would save time and money associated with processing the invoices in Harrisburg.

Multi-Year Budgeting:

The Commonwealth may benefit from moving to a multi-year budget cycle. Some of the potential benefits include:

- a. Encouraging the Commonwealth to take a longer term view of the budget;
- b. Reducing the “spend it or lose it” mentality that often occurs in an annual budget cycle, particularly for non-profits and governmental entities;
- c. Reducing the time and effort spent on preparing budgets.

Report Consolidation:

The state should consider consolidating and streamlining the various reporting requirements for the state-related universities. Current reporting obligations that apply to Pitt and the other state-related universities include:

- a. “Snyder Report” data required by 24 P.S. § 20-2002-D et seq.;
- b. Annual Statement of Expenditures and Costs, required by appropriation act, see e.g. Act 11A of 2009 (SB 1036), Section 4;
- c. Act 101 reporting requirements, 24 P.S. § 2510-303 et seq.;
- d. Annual Collection of Programs;
- e. Pennsylvania Resident Graduation Survey;
- f. Student Residence Data, submitted to PHEAA every other year.

Much of the information required in these and other reports is duplicative and could provide more useful and consistent information if the reporting were consolidated.