SECTION 4
ADMINISTRATIVE AREAS AND AUXILIARY ENTERPRISES

ADMINISTRATION

Administrative units continue to face major change in the way work is conducted as well as in what work needs to be done. Currently, two areas pose the greatest potential for change—regulatory compliance issues and the replacement of administrative computer systems.

Overview

Stanford, like many other institutions, must keep pace with regulations issued by a variety of outside agencies. New ways of financial accounting and reporting, building code changes, alternative methods for safely conducting research, and new policies regarding acceptable behavior in the workplace are examples of some of the ways in which Stanford is complying with changing expectations. While many of these changes are mandated, we welcome the opportunity to make Stanford a safer, more accessible place for all. However, these changes are not without significant cost.

Coming on the heels of six years of administrative cost reductions, new administrative systems are an investment necessary to provide the tools needed to work smarter and more efficiently. Moreover, new systems will enable us to comply with a host of requirements imposed on the University by outside entities, including local, state, and federal agencies. New administrative computer systems promise more flexibility and accountability. They, together with responsibilities necessary to comply with new regulations, however, call for a higher level of technical expertise in our work force. Those who will use these new systems will require significant training in order to effectively incorporate their use into the daily work flow. With as many as eight major new systems ready for use in the next several years, the impact on staff is not to be underestimated. Equally important is the financial impact of compliance and the systems overhaul on the University Unrestricted Budget.

Regulatory Compliance

Here are some of the areas in which Stanford is involved in meeting changing requirements and expectations.

<u>Government Cost and Rate Studies:</u> The Office of Government Cost and Rate Studies (GCRS) assists university management in assuring compliance with federal regulations regarding indirect cost allocation and recovery, staff benefits, service center rates and property (equipment) administration.

Stanford and the federal government are finally close to agreeing on many of Stanford's indirect cost recovery methodologies. Stanford's property administration procedures, however, remain a significant issue to resolve. Under prior agreements with the government, we were not required to perform equipment inventories or otherwise track dispositions and movement of equipment subsequent to purchase. Therefore, we did not have adequate systems in place to allow us easily to perform these functions. After the prior agreements were cancelled, the University committed to an aggressive timetable for completing the following three projects: a complete equipment inventory (of more than 80,000 assets), the development and implementation of a capital asset management system (CAMS), and the reconciliation of the inventory results to the financial records. Stanford has dedicated eleven staff members and consultants to the physical inventory project alone and has engaged external consultants to assist university staff in the system development and financial reconciliation projects. The physical inventory project will be completed in 1995/96. The CAMS project and the financial reconciliation will be completed in fiscal year 1996/97.

Changes and expansions in the federal regulations governing cost recovery at educational institutions also impact the workload in GCRS. A particularly onerous example is the imposition of federal Cost Accounting Standards (CAS) on the university community, which requires universities to submit a Disclosure Statement describing their cost accounting practices. The process of preparing and issuing the Disclosure Statement, participating in the monitoring of compliance with the disclosed practices, and responding to the DCAA audits requires a significant effort on the part of GCRS staff.

OMB is expected to Circular A-21 (the federal rule book governing recovery of indirect costs) in the very near future. One of the potential revisions would eliminate special cost analysis studies, a methodology commonly used to develop Library, Utility, and Student Services allocation bases. Not only would this change result in the need for GCRS to review and develop new costing methodologies, but it is very likely to reduce the University's total recovery of indirect costs.

The total base budget for GCRS in 1996/97 is expected to be $3.7 million. An additional $2.2 million is one-time funding is also needed, bringing the total budget to $5.9 million. We expect to reduce the need for one-time funding substantially over the next few years.

<u>Environmental Health and Safety (EH&S):</u> Another area of the University whose activity is largely driven by external forces is environmental health and safety. Over the last five years, the introduction and implementation of new environmental health and safety regulatory requirements has significantly affected the amount of resources needed to support regulatory compliance at Stanford. In addition, new interpretations of existing regulations and their applicability within the research and academic laboratories has increased the cost of compliance management at Stanford. There are more than twenty different federal, state, and county regulatory agencies involved in the development and implementation of environmental health and safety regulations that directly affect Stanford's facilities and operations. Over 95% of the Environmental Health and Safety program (a budget of nearly $6 million) is driven by external regulatory requirements.

One of the greatest challenges in compliance management at Stanford is attempting to apply regulations developed for control and oversight of industrial use of hazardous materials to the research and academic environment. While the research and academic areas of investigation at the University are often not dissimilar to those conducted in industry, they are usually on a much smaller and more limited scale. The existing regulations, however, do not recognize and, to date, have not accommodated this significant difference in the application of regulations regarding the use of hazardous materials. Many of the regulations are industry or material specific and, therefore, have limited impact on any one specific industry. Because Stanford's research activities span a broad cross-section of endeavors, regulations that are often restricted to a specialized industry are applied in their entirety to the campus. The results are substantially higher unit costs for compliance at the University.

University environmental health and safety program areas that are most significantly impacted by new or revised compliance requirements include: hazardous chemical waste management, the asbestos materials program, the lead-containing paint program, low-level radioactive waste management, revised building and fire codes, hazardous materials storage, acutely hazardous materials use, and toxic gas use and storage.

The total base budget for EH&S in 1996/97 is expected to be $5.9 million, including an incremental $500,000 to convert the radioactive waste cost center to base funding and to increase support for existing programs.

<u>Maintenance and Capital Costs:</u> New or revised regulations also have a significant impact on

maintenance and capital costs. This is particularly true in the areas of asbestos and lead-containing paint regulations, changes in the state and county fire and building codes, and the Santa Clara County Toxic Gas Ordinance. Each of these requirements substantially increases the costs for repair, maintenance, and renovation of existing facilities. And in many cases the University must make expensive renovations to existing buildings simply to meet these new code requirements. One example of this impact is the cost to upgrade Building 570 to meet the new fire codes and toxic gas ordinance—$4.6 million for this building alone.

Another way in which our capital program is affected by compliance with state and federal laws is The Americans with Disabilities Act of 1990 (ADA)—federal legislation that gives civil rights protection to individuals with disabilities. The University is committed to providing equal access to its programs and facilities for all individuals. All major facility renovations undergo an analysis of the facility to determine whether it is appropriate to address ADA issues at the same time the renovation is done, regardless of the type of renovation planned. The Housing and Dining Services capital program, currently underway, includes a significant component to make campus residences and dining facilities accessible to all students. Another major project that addresses ADA issues is the upgrade planned for Memorial Auditorium.

Compliance with external agencies is also a concern for the administration of Stanford's research programs. A specific problem has arisen in the requirements for the administration of Human Subjects protocols. Due to the significant increase in required reviews for the Federal Food and Drug Administration, it is necessary to hire an additional administrator to staff a second Human Subjects panel, with incremental annual cost of $70,000.

As described in the preceding paragraphs, Stanford's efforts to comply with a host of federal, state, and local regulations is necessary, and generally beneficial to the University community, but not without significant cost. The following table lists incremental continuing non-capital costs of compliance planned for 1996/97.

Engineering–Local Health & Safety	$75,000
Disability Resource Center	$136,000
Sexual Harassment Coordinating Advisor's Office	$116,000
Human Subjects Administrator	$70,000
Environmental Health & Safety Office	$500,000
Total Non-Capital Costs of Compliance	$897,000

In addition, we expect the following compliance costs on capital projects:

ADA Compliance on Capital Projects	$1,400,000
Fire and Life Safety Code (Non-Seismic)	$1,000,000
Utilities Regulatory Compliance	$50,000
Total Capital Costs of Compliance	$2,450,000

Administrative Systems

In June 1994, the Trustees approved the strategic directions and expected investment of $60 million for the Administrative Information System (AIS) Plan to be completed over five years. The first phase of this plan was estimated to cost $40 million over three years and to incorporate the development of nearly a dozen major applications projects as well as the support infrastructure.

<u>Completed Applications:</u> Three projects are complete: the ID Card system, the Indirect Cost Allocation Software project, and the PORTIA investment system. Each of these projects was completed in less than a year and under $500,000 and has resulted in significant benefits through cost savings, increased accuracy and efficiencies.

More than 28,000 students, faculty, and staff now carry the Stanford Card as identification with optional connections to local banking, purchases at various on-campus sites such as the Bookstore and Tresidder, and dining services in the residences. The income generation capabilities (increase in university float, concession sales, and sales commissions) of the card are expected to more than offset the investment in the system over the next three years.

The new indirect cost software provides to GCRS significant reduction in the manual effort required as well as improved accuracy in the analysis and preparation of audit trail documentation in support of indirect cost proposals, incurred cost studies, and reports.

The PORTIA investment system benefits both the Stanford Management Company and the Controller's Office by offering a cost-effective solution to Stanford's investment portfolio and accounting needs. This client/server system is a real-time portfolio management system that can handle a wide array of investment vehicles, enabling Stanford to maintain a complete portfolio on-line in a single system, thereby eliminating the need for and risk of maintaining data in multiple spreadsheets. The ongoing costs of maintaining the system are expected be roughly $115,000 lower than the previous system.

Applications in Process: The Financial Aid Project is breaking new ground for Stanford by being the first major systems project to implement a client/server transaction processing system. It is the first project in the AIS Plan to implement a three-tiered architecture and integrate a client/server package with Stanford's legacy SPIRES systems using "open systems" strategies and technologies. As a result, the total project cost is higher than initially expected ($2.4 million vs. $1.5 million), but many of the benefits from this investment will accrue to the other client/server projects that follow. Major benefits include easy access to data necessary for needs analysis and packaging review, less data entry, and faster delivery of financial aid packages. Moreover, annual updates of the system by an outside company will improve compliance with the rapidly changing external rules that govern the delivery of aid. The processing of aid for newly admitted freshmen has been implemented on this system.

In order to maintain the momentum in the Consolidated Budget initiative, the University Budget Office purchased a system called Hyperion Pillar for use in the budgeting process. It is a proven desk-top application that will provide immediate benefit to 300-400 people by offering them a dynamic tool to formulate, consolidate, and revise their budgets. The project is expected to be completed by the end of the current fiscal year, thereby allowing users to input their 1996/97 Consolidated Budget in the Hyperion Pillar budget system.

Another client/server project fully underway is the Development System replacement. The primary functions of the system are gift processing and acknowledgment, trust administration, database maintenance, and reporting and analysis. The new system will substantially improve our customer service to donors and volunteers, provide timely and useful management reports, and reduce or eliminate manual effort. The project will be completed during 1996/97.

The Research Administration System project includes significant reengineering of the process by which pre and post award research administration services are delivered. The current phase of the project is dedicated to the construction of a budget tool for grants and contracts and the development of a prototype business process engine. Full implementation of a three-tiered, rule-based system has been delayed pending further development of the Core Financials Project and the University's infrastructure capabilities.

The Departmental Expenditure Management System (DEMS) is the first enterprise-wide deployment of an ITSS supported client/server administrative application in schools and departments. This system provides to users a tool for streamlining business processes in financial administration and management. It allows users to enter one-time and recurring commitments, budget funds, and set individual reporting periods. It also tracks daily commitments from the current purchasing system and provides a means for automatic reconciliation of monthly expenditure statements. While much of the functionality of DEMS will later be replaced by Oracle Financials, DEMS provides a much needed bridge to future financial systems at a reasonable cost to the institution.

The Capital Asset Management System (CAMS) project will replace the existing Equipment Inventory System and provide the University with a completely integrated, relational asset management system fully compliant with both internal and external requirements. It will ensure the performance of all asset management transactions for departmental as well as central administration use. It will be the system of record and subsidiary ledger for capital assets for the University, but may be used by departments to record non-capital assets as well. The system will include all functionality associated with the entire life cycle of an asset, addressing useful life and depreciation of assets, financed equipment, and buildings and land improvements. The project will be completed in 1996/97.

Stanford is redesigning its accounting system to provide more timely, complete, and accessible financial information. By replacing the Chart of Accounts and General Ledger, a financial foundation will be built to support future flexibility, enabling the University to respond quickly to internal and external reporting requirements, as well as organizational and technological changes. Oracle Corporation has been selected as our vendor partner, and several of their system modules are expected to be installed by September 1997.

A major component of the planned new Core Financials systems is a new purchasing and payables system (Buy/Pay) based on completely redesigned purchasing processes. The redesign includes Campus Wide Agreements, which partner Stanford with suppliers to obtain greater purchasing flexibility; Electronic Data Interchange, a computer-to-computer exchange of information that directly links Stanford with selected suppliers of goods and services; changes to the SNAP Check Certification process which will allow faster reimbursements for out of pocket expenses; eventual replacement of SNAP with the new BuyPay Information System (BIS); and the creation of a new team-based organization called Stanford Acquisition Support which represents a merger and reorganization of the current Accounts Payable, Travel, and Procurement functions.

The Environmental Health & Safety Initiative is the outgrowth of a comprehensive evaluation that identified numerous environmental health and safety issues for which information management systems could create efficiencies and facilitate compliance and safety. The goal of the EH&S Initiative is to develop information systems solutions for the highest priority environmental health and safety issues. There are currently four projects underway. The first is to develop and install a small system to track institutional environmental health and safety compliance obligations. The second is to install an interim system solution for managing chemical inventories. The third is to design a way to make the greatest number of Material Safety Data Sheets accessible to the widest distribution for the lowest cost in the shortest time. The fourth project is to document an improved process for entering and retrieving data for managing hazardous materials inventories and to determine high level systems requirements for a future hazardous material management system.

In addition to the major applications, the University is investing heavily in the infrastructure necessary to support these projects. This includes development of a campus wide distributed file system, security, network services, database administration, work flow, and others. In addition to the infrastructure projects, other projects related to the AIS plan are necessary to coordinate their implementation. These include the Change Support Team, legal and audit costs, and training facility upgrades.

The AIS Plan is funded entirely from unrestricted funds, broken into three sources: 1) reallocations of staff effort by project sponsors in support of the projects; 2) reallocation of budgeted funds in ITSS; and 3) central unrestricted funds.

AUXILIARY ENTERPRISES

Housing and Dining Services (H&DS)

The largest auxiliary is Housing and Dining Services which is comprised of Housing Facilities and Services (including Residential Education and Graduate Residences), Housing Assignment Services, University Dining Services, and Conference Services. The combined bottom line for these units is a net decrease of $269,000 in fund balances.

Included in the budget is an increase in funding for maintenance and repairs, specifically to be used to address long-standing problems of under funding in Escondido Village. In addition, the budget includes an increase in support for Residential Deans, the staff in Residential Education and Graduate Residences who are responsible for responding to incidents of student misconduct and to students experiencing personal crisis.

This budget provides debt service associated with the fifth year of the Capital Improvements Program. Projects will include refurbishing apartments in Escondido Village ($4.2 million), Phase I of seismic strengthening in the five eight story apartment buildings in Escondido Village ($3.8 million), renovations to three Row Houses ($2.7 million), and wiring buildings throughout the system for computer network connectivity ($500,000). Financing will be accomplished using short-term and long-term debt.

Housing & Dining Services
(in thousands)

	Projected 1995/96	Proposed Budget 1996/97
Operating Activity		
Student Housing		
Operating Income	$38,858	$40,813
Operating Expense	38,404	41,221
Transfer to Facilities Reserve	1,353	334
Net Gain (Loss)	($899)	($742)
Dining Services		
Operating Income	$16,931	$17,435
Operating Expense	16,080	16,906
Transfer to Facilities Reserve	167	172
Net Gain (Loss)	$684	$357
Conference Services		
Operating Income	$2,735	$2,886
Operating Expense	1,955	2,120
Net Gain (Loss)	$780	$766
Total Operating Income	$58,524	$61,134
Total Operating Expense	56,439	60,247
Total Transfer to Facilities Reserve	1,520	506
Total Gain (Loss) from Operations	$565	$381
Facilities Reserve Summary:		
Balance September 1	$6,163	$6,567
Transfer from Operating Budget	1,520	506
Net Gain from Operating Budget	565	381
Interest Earnings	354	512
Funds Used	(2,035)	(1,668)
Net Bottom Line	$404	($269)
Balance August 31	$6,567	$6,298

Department of Athletics, Physical Education, and Recreation (DAPER)

For 1996/97, DAPER is expecting a balanced operating budget. Income gains are expected through DAPER's contracts with Nike and Sports Channel, through improved management and services at the Golf Course, and through a redirection of licensing fees formerly used in support of student financial aid.

Budgeted expenses for 1996/97 will increase over 1995/96 to cover the cost of salaries and staff benefits, utilities, insurance, and to correct the under budgeting of certain cost items within the overall operating budget.

DAPER is expecting a surplus in the financial aid budget for 1995/96. In 1996/97 a deficit is forecast. This is due to increases in tuition and room and board rates as well as the addition of approximately 10 new scholarships. The deficit will continue for two to four years, at which time it will be eliminated by growth in the financial aid endowment, which has been bolstered in the past three years by Campaign 2000 gift commitments of $15.5 million.

Athletics

(in thousands)	Projected 1995/96	Proposed Budget 1996/97
Income		
Intercollegiate	$9,875	$9,879
Unrestricted	4,015	3,735
Golf Course	4,033	3,908
Fac/Staff Recreation	811	836
Restricted Funds	3,993	3,531
Summer Camps	200	180
Contingency	(100)	(100)
Total Income	$22,827	$21,968
Expense		
Sports	$9,965	$9,306
PE & Rec Activity	1,402	1,471
Administration	6,865	6,371
O&M	2,517	2,581
Golf Course	2,032	2,210
Summer Camps	28	29
Contingency		
Total Expense	$22,809	$21,968
Operating Gain (Loss)	$18	$0
Reserves Summary:		
Operating		
Balance September 1	($1,575)	($1,557)
Operating Gain (Loss)	18	0
Balance August 31	($1,557)	($1,557)
Financial Aid		
Balance September 1	$1,521	$1,858
Interest	80	80
Income	$7,275	$7,714
Expense	(7,135)	(8,038)
Financial Aid Variance	140	(324)
Balance August 31	$1,740	$1,614

Stanford University Press

(in thousands)	Projected 1995/96	Proposed Budget 1996/97
Income		
Net sales	$4,031	$4,372
Cost of sales	(1,935)	(2,077)
Subsidized Prod Cost	(150)	(140)
External Subsidies	70	65
Internal Subsidies	80	75
Margin on Rights	299	307
Other operating income	21	22
Total Income	$2,416	$2,624
Expenses		
Editorial	$520	$577
Production & design	227	242
Marketing	653	680
Order	207	218
Warehouse	461	458
Accounting	186	198
Office & general	440	453
Total Expense	$2,694	$2,826
Operating Gain (Loss)	($278)	($202)
Non-operating Income/Expense		
Publishing subsidy	$432	$432
Administrative assessment	(182)	(186)
External warehouse subsidy	57	0
Total Non-operating Income	$307	$246
Total Net Gain (Loss)	$29	$44
Operating Reserve		
Balance September 1	($21)	$68
Net Gain (Loss)	29	44
Balance August 31	$8	$52

Stanford University Press

For 1995/96 the Press projects a growth in sales income of almost 9%, the combined result of an increase in the number of titles it publishes, a very salable forthcoming list, and modest price increases. (The predicted rise in the cost of goods sold is the result of booming paperback sales and a shift in the Press's sales base away from the library market toward the book trade and bookstores.) The Press's near-term goal is to reduce the size of its net operating subsidy, which it plans to do by solving its warehousing problem, by making increased use of new technologies for increased productivity and cost-savings, and by adopting more aggressive pricing policies.

Total Auxiliary Activity, 1996/97
(in millions)

	Housing & Dining Services	Athletics	Medical Center Aux.	Press	Other	Total
Revenues & Transfers	$61.6	$22.0	$79.9	$2.9	$4.5	$170.9
Expenditures	$61.9	$22.0	$79.9	$2.8	4.5	$171.1
Net Change in Reserves	($0.3)	$0.0	$0.0	$0.1	$0.0	(0.2)

NOTE:
This table represents gross expenditures and revenues; when incorporated into the consolidated budget, interdepartmental transactions have to be netted out, resulting in lower total expenditures and revenues.

Medical School Auxiliaries/Other

Of the $79.9 million in this category, $56.6 million consists of anticipated payments to the School of Medicine from SHS, $11.4 million for Pediatrics. The remaining $11.9 million represents the Blood Center activity. Unlike other auxiliaries, these programs are fully integrated in the educational and research programs of the School. Faculty who provide clinical services are at the same time involved in both research and educational arenas.

All academic plans and initiatives are intertwined with the finances of this and the other budget categories within the School. Nearly 70% of the expenses and income are for faculty salaries and benefits; another 14% is for staff who work in support of faculty in this and other research and educational programs. A full description of the School's plans is contained in Section Three of this document.