On July 7, 2020, President Rudd appointed a Budget Reduction Task Force comprised of representatives from various University constituencies that were charged with evaluating and offering recommendations to our senior leadership team in response to the budget challenges resulting from losses of anticipated state funding and related financial impact from COVID-19.

The composition of the Task Force is as follows:

Chair, Raaj Kurapati, Executive Vice President for Business and Finance and Chief Financial Officer
Dr. Tom Nenon, Executive Vice President for Academic Affairs and Provost
Dr. Jeff Marchetta, Faculty Senate President
Dr. Peter McMickle, Faculty Senate Appointed Member
Ms. Meghan Cullen, Past Staff Senate President
Ms. Kara Bowen, Staff Senate Appointed Member
Mr. Mahbubul Hasan, Graduate Student Association President
Ms. Desiree Dyson, Student Government Association President
Dr. Kandi Hill-Clarke, Dean, College of Education (as representative of the Deans Council)
Dr. David Freeman, Chair, Department of Biological Sciences (as representative of Department Chairs)
Dr. Justin Lawhead, Dean of Students, Chief Health and Safety Officer

The Task Force met over the course of the past several weeks to review the current financial circumstances and deliberate over various approaches to addressing the budget challenges, including reviewing various documents presented to include:

1. An overview of the SRI budget process
2. A breakdown of the various institutional revenues
3. A breakdown of the overall institutional budget
4. The FY2021 State Budget, as it pertains to the University
5. A review of the “draft” three year plan offered to balance/adjust the State budget in response to the impacts of COVID-19
6. Details on what impacts COVID-19 had on the University’s FY20 Budget
7. A summary of the budget shortfall for FY21
8. The unaddressed known budget gap for FY21, $17M ($10M one-time and $7M recurring)
9. Various analysis including specific performance metrics to inform the development of our recommendation/strategies
10. Metrics to measure efficiency and performance, at a high level, to help inform budget decisions

The Budget Task Force summarized its recommendations/strategies, outlined further below, into two broad sets:

1. Phase I - Recommendations/Strategies to address the immediate known shortfall of $17M
2. Phase II - Recommendations/Strategies to address any additional budget shortfalls as a result of a drop in enrollments and/or additional financial impacts given ongoing issues related to COVID-19

It is noted that the recommendations/strategies are not mutually exclusive and may overlap as the University’s senior leadership works through our budget challenges, but given the nature of the actions warranted under Phase II, it is the Task Force’s expectation that the institution needs to employ these actions strategically and with significant research and thought to ensure they do not result in irreversible long-term negative consequences.
The Budget Task Force will welcome an opportunity to reconvene to provide support and review potential additional actions necessary should the institution be forced into a second round of budget actions (Phase II). The Task Force will continue to consult regularly with the Faculty and Staff Senates.

During the Budget Task Force’s deliberations, several overarching themes emerged which the Task Force believes warrant particular attention and action:

**Communication and Transparency**

The Task Force recognizes and appreciates all that the University has done on this front. Keeping this at the forefront as we transition to implementing various budget actions warranted to address the known and potential deficits should remain a priority. Specifically, the Task Force recommends that the communication and feedback mechanism should directly engage those impacted by any budget actions and within academic units should engage departmental chairs and faculty and solicit feedback from these constituencies prior to any budget actions being finalized and implemented.

**Comprehensive Compensation Study**

The Task Force recommends that a comprehensive compensation study be launched to include a review of job classifications and a clear articulation of rationale for related compensation ranges. It is the Task Force’s opinion that the current approach to compensation offers opportunity for disparate salary ranges for positions with similar qualifications. Standardization of compensation ranges for like positions may also allow for salary savings in the longer-term.

This study should also look at strategies to address staff and faculty compensation equity issues based on gender, race, education and other such considerations.

Should the University be forced to consider pay reductions to address (above the $7M current gap) any additional budget gap created by enrollment declines, it is further recommended that this be considered prior to moving to large levels of layoffs or a reduction in force. These decisions should be made with input from administrative unit level leadership and in academic units in consultation with chairs/directors, deans, the Faculty Senate, the Staff Senate and the Provost. Pay reductions should be limited to employees earning more than equitable wages as illustrated by the salary study considering education, sex and race and employees not meeting job expectations. (Please also refer to “Reduction in Force” strategy under Phase II).

**Operational Audits using a Lean Management Strategy**

The Task Force sees value in an institutional approach to conducting operational audits to inform administrative efficiency and related decisions. A general document with additional detail on an Operational Auditing Program is provided in Attachment A to this report.

The three guiding principles of lean management as related to universities are: (1) the main objective is to deliver high quality education in teaching, research and service; (2) focus on continuous improvement by identifying strengths and concerns and finding ways to consciously improve the education process; and (3) eliminate waste and duplication by optimizing the use of resources. Following the principles of
lean management, a continuous improvement strategy should be considered by the University to classify educational and administrative activities into four broad categories: value-adding, non-value adding, essential and nonessential.

It is recommended that the University employ an operational auditing program guided by lean management principles and categorization of functions to further inform efficiency and reductions where warranted.

**Strategic Reinvestment in Institutional Priorities**

While the charge of the Task Force was specific to making recommendations to address the budget gap, the Task Force believes that in all circumstances the University should not lose sight of its longer-term vision. Toward this end, the Task Force encourages leadership to continue to make strategic investments in such areas. Additionally, when the current issues have been addressed, restoration of budgets should focus on areas which promote the long-term vision to include sustaining and growing our academic and research engines, investing in expansion of our student recruitment and retention efforts, hiring and retention of highly qualified faculty and staff, etc.

**Recommendations and Strategies under the two Phases noted above follow:**

**Phase I:**

Specific to the currently known budget shortfall - $17M, the Task Force offers the following tiered set of strategies/recommendations:

**Tier 1 (Immediate and near-term)**

- Continue the hiring moratorium and strategic management of vacancies and attrition, a critical tool for addressing base budget gaps. The current process for review of approval of exceptions to the hiring moratorium should continue to allow for strategic hiring needs.

- Effect a pull-back of carry-forward balances at 50% or an appropriate percentage, with limited exceptions to address one-time budget gaps.

- Establish incentives to accommodate early retirement for faculty and staff. Consideration of such a program should focus on cost savings and retention of positions which are critical to program and service continuity. Such an incentive program should include a cost-benefit analysis process which is applied uniformly and should look at achieving efficiencies by consolidating positions, expanding shared service models, etc.

- Examine faculty workloads to ensure there is consistency and appropriate distribution of such across academic units. Opportunities to maximize teaching assignments absent research production should be critically reviewed prior to moving to reduce faculty lines and further aim to reduce costs related to adjunct faculty/instructors and graduate/teaching assistantships.
• Consolidation of offices/functions with an aim to reduce the number of senior administrators. The Task Force recognizes that the senior leadership has undertaken significant steps to reduce administrative overhead and the number of senior administrators but offers that this should be an ongoing process and organizational structures across the University should be examined and adjusted to reduce redundancy.

A review of administrative efficiency shall be conducted based on research of similarly situated current and aspirational peer institutions to further inform staffing levels for central and distributed administrative functions. (Attachment B)

• The colleges, schools and departments should carefully examine administrative faculty and support positions at the college and department level to achieve further efficiencies in administrative support for the faculty and students.

The Provost Office will share an analysis of the support positions in each college with unit leadership and the Operational Audit Team and work with the deans to develop an analysis of the department level support.

• All administrative appointments must be returned to a similarly placed faculty position and related compensation. Appropriate policy changes should be implemented immediately to assure consistent application of this expectation going forward.

Tier II (longer-term):

• A review of administrative efficiency shall be conducted based on research of similarly situated current and aspirational peer institutions to further inform staffing levels for central and distributed administrative functions.

Actions to streamline operations and staffing levels shall be informed by this research to include:

The establishment of an Operational Audit program (Attachment A) that incorporates the Lean Management Principles for higher education. The program should be applied uniformly across divisions and units to inform administrative efficiency, opportunities for improvement, consolidations, etc. Further, the institutional process for conducting operational audits should also inform administrative structure and efficiency and any related budget/personnel actions.

The Budget Task Force has developed a list of current and aspirational institutions (Attachment B), which has been vetted by the President’s Council and should serve as a starting point for comparative analysis of administrative capacity and efficiency.

• A close examination of graduate assistantship (GA) positions at the Masters level should be part of the review of the financial viability of academic programs. In general, an examination of the cost and institutional contributions of all of the graduate programs that are not primarily supported by tuition-paying students is appropriate. This review should strike a balance between ensuring we remain true to our mission as an institution of access and affordability and our strategic goal and vision of becoming a R1 institution and sustaining that status.
Reductions in GA support wherever practical should be balanced with shifting that support to external funding, sponsored research or otherwise. This should also be aligned with an examination of approaches at peer institutions on GA support. It is also recommended that the process of identifying and hiring qualified GAs is better defined/refined to include a consistent compensation and benefits structure across the University.

- Consider revising monthly payments for graduate assistantships to one-time scholarship gift aid with a service requirement for the purpose of reducing tax impacts for students and reinforcing the relationship as a service requirement instead of an employee/employer relationship.

- Develop an institutional policy and share best practices that governs Professional Development Assignments (PDAs) that is applied consistently across campus.

- Appointment of External Department Chairs should be governed by a uniform and standardized institutional policy to include a standardization of terms and compensation and applied consistently across units. Policy should ensure that internal appointments are strongly encouraged.

**Phase II:**

The Task Force recognizes that the current known budget shortfall of $17M assumes student enrollments remain flat, i.e., reflect that experienced in AY19-20. Given that student tuition and fees make up approximately 60% of the University’s budget, the Task Force notes that any drop in enrollments will have additional negative impacts on the University’s finances. The Committee also recognizes that the University relies on the State of Tennessee to support a significant portion of its unrestricted budget. The State expects the financial impacts of COVID-19 to continue through at least two additional fiscal cycles. Should the current three-year plan to balance the State budget be affected, there are likely to be additional budget consequences to the University. While the Task Force remains optimistic that we will be able to manage enrollment shortfalls and the State experiences a robust recovery in a shorter timeframe, the institution will be required to take additional actions if circumstances take a turn for the worse to ensure it operates on a balanced budget and in a fiscally sound and responsible manner.

While enrollments have the largest impacts on finances, the Task Force also notes related impacts of revenue shortfalls in fee driven auxiliary and other enterprises, such as athletics and conference and event services, should also employ the recommendations offered to address their budget issues.

The Task Force also recognizes the recent decision by the University to defer a return to campus and to begin fall with most instruction being delivered in a virtual/remote format is likely to trigger some additional actions such as those prompted when the institution moved to remote learning in spring 2020. These include a demand for refunds of various student fees if access to those services is limited or barred. Should the University be forced to make refunds as in the spring, they will create additional financial challenges for the University. For reference, in spring 2020, the University refunded approximately $4.08M in dining, housing and parking fees/charges to the students. Funding received from the CARES Act in FY20, helped the institution offset these costs. The University remains optimistic that the next round of stimulus support being currently vetted in the US Congress will provide similar
relief. Absent such, the Task Force notes that additional actions will likely also be warranted to manage those impacts.

Based on the level of the additional impacts, the Task Force recommends the following additional strategies/recommendations for consideration and action as deemed appropriate by University Leadership:

- **Strategic Reduction In Force (RIF)**

  Department budget gaps created by short-term enrollment declines or temporary revenue declines should consider one year pay reductions before moving to a reduction in force or furlough strategy. Furloughs or reduction in force may be used to reflect the decline in workflow for the current year and to allow time for strategic planning for permanent reductions in force due to program cancellation or prolonged budget shortfalls.

  For resolving department budget gaps that are persistent beyond one year and/or not detrimental to the current mission of the University, a reduction in force reflecting the loss of workflow experienced by the department should be considered. High performing employees necessary to preserve the essential functions of the department should be retained wherever practical. Permanent pay reductions should only be considered for employees earning more than equitable wages as illustrated by the salary study.

  Actions to reduce personnel levels should be strategic and should be based on performance with an aim to retain effective and high performing employees.

  These decisions for staff should be made with input from, as appropriate, administrative unit level leadership and in academic units in consultation with chairs/directors, deans and the Provost.

  If there is a need for similar actions in faculty ranks, such should follow established policies governing those actions.

- **The Task Force recommends an expansion of shared services with an aim to reduce distributed administrative positions.** Expansion of the shared services operation would call for centralization of certain administrative tasks. Given that, clearly articulated service level agreements should accompany any such consolidation to assure that customer service and efficiency metrics are clearly articulated and agreed to ensure appropriate accountability.

- **A strategic alignment of the budgets with University priorities should be an ongoing process that is particularly important since the immediate reductions will have to be based more on the positions that happen to be open at the moment than on long-term priorities.**

  Internal realignments within the units consistent with University priorities should use resources that become available later in the year and in the next few years to bring the budgets into closer alignment with the colleges’ strategic goals and the University should continue to employ the SRI process to assure that college priorities and investments are also aligned with University strategic priorities.
Conclusion:

Again, while the charge of the Task Force was to identify and offer specific strategies and recommendations to help assist leadership in addressing the known and potential budget deficits resulting from the impacts of COVID-19, during our deliberations it became clear that some the recommendations/strategies should be institutionalized and implemented, regardless of the current circumstances, as processes for regular periodic reviews. The Task Force further recognizes that the institutions greatest assets are its people and preserving a quality workforce should always be the top priority. This is critical to the University's long-term posture and growth. The Task Force affirms the strategies and recommendations offered in this report are motivated by our intent to minimize the number of involuntary separations to the fullest extent possible.
Acknowledgements

The Nature of Auditing

A little background is necessary for understanding this topic. The term “Auditing” came into widespread use in the British Isles in the 1200s. Its correct definition is widely misunderstood, but it is the same today as it was then. To be properly understood, Auditing must be explained organizationally. An Audit is an examination of an accountable unit (called an Auditee) conducted by an Auditor. The Auditor is an agent whose authority has been delegated to them by the Auditee’s higher authority, called the Auditant.

The Auditant typically does not have the capability, time, expertise, resources or interest in personally conducting the examination. So, the Auditant delegates authority to the Auditor to conduct the audit, along with the responsibility to report back the audit results to the Auditant.

The Auditor must be competent to conduct the audit and clearly independent both in fact and in appearance from the Auditee. The completed Audit Report is addressed back to the higher authority Auditant.

Because CPA type, financial statement and attest audits, first introduced about 140 years ago, have become very common all over the world, many persons without giving it too much thought, believe that they must be the model for auditing, but they are not. Financial attest audits are just a specialized type of auditing, not the general model.

For 800 years there have continually been audits, called audits, that are different in scope from financial attest audits. Simply stated, an audit’s scope has always encompassed matters of a:

Audit vs. Review

A “Review” can be conducted and appear to be just the same as an audit. The only difference being who authorized it. If a Unit (Auditee) hires or requests that a qualified auditor conduct an examination of any scope and report the results back to the unit; it is a Review. If the examination is requested by the accountable unit’s higher authority, even though the examination is exactly the same; it is an Audit.

BROADSCOPE AUDITING

CPA’s are external, public, financial and attest auditors. They do not conduct broadscope audits. State and Federal auditors are external auditors who frequently conduct broadscope audits. Since the late-1960s, the central State Auditors and the U. S. Government Accounting Office have called these audits Performance Audits. This activity has been promoted by their professional organization, the Association of Government Accountants.
Internal auditors in both the private and public sector frequently conduct broadscope audits. Since the mid-1950s, Internal Auditors have called these audits Operational Audits. This activity has been very strongly promoted by their professional organization, the Institute of Internal Auditors.

**Operational Auditing**

The Institute of Internal Auditors (IIA) defines “Operational Audit” as a systematic process of evaluating an organization's effectiveness, efficiency and economy of operations under management’s control and reporting to appropriate persons the results of the evaluation along with recommendations for improvement.

**The Operational Audit Team**

As mentioned above, the Auditor is an agent whose authority has been delegated to them by the Auditee’s higher authority, called the Auditant. The Auditor must be competent to conduct the audit and clearly independent both in fact and in appearance from the Auditee.

Operation audits are best conducted by an audit team. The recommended operational audit team is two to three auditors. One auditor does not command the respect that two or more do. A team of any greater than three auditors becomes unwieldy.

1. At the University of Memphis, an independent operational audit team of two would probably be most effective and economical. One auditor should be a specialist, to the extent possible, in the typical operation of the type of organizational unit being examined and the other team member should be a generalist, knowledgeable of operational auditing methodology. They should be authorized by and report back to a higher authority that is above the unit. That higher authority should not be such that any negative comments by the auditor would also reflect badly on that higher authority. If that should be the case, the auditor should be responsible to an even higher authority or parallel authority. Knowledgeable auditors should be chosen that naturally have a friendly, helpful manner. They should have an outgoing personality. They are there to help, not criticize. They should, however, always act in a professional manner and always maintain the confidentiality of the audit.

**Characteristics of an Operational Audit**

There are two ways of conducting an operational audit: deductive and inductive. The best approach is a combination of the two.

The deductive approach, moving from the general to the specific, can be accomplished by the use of a Good Practices Checklist that represents the ideal (the general) which is applied as a yardstick against the unit’s practices (the specific). Over the years, many model controls and procedures, both general and specific, have been identified and summarized into technical checklists, some numbering in the hundreds of pages. Many good checklists are available.
The inductive systems approach, moving from the specific to the general, studies the unit’s practices (the specific) through interviews, observations and document reviews. They should concentrate on what comes in and what goes out of each desk and section (the system). This operation study should use an open ended, big picture approach. This approach is not limited by the constraints of checklist questions which often fail to cover matters unique to that unit. The auditors apply logic and common sense backed up by their professional background and experience with good management. Then, through analysis, recommendations can be made for improvement that bring the unit closer to the ideal (the general).

The University of Memphis should start their operational auditing activities using the deductive checklist approach. Such checklists would certainly be shared with UofM by other universities with active internal operational audits. A quick perusal of the Internet found Wayne State University’s, Office of Internal Audit, Auditing Best Practices. This is an excellent, descriptive, general checklist for use by a university in conducting operational audits. It can be viewed at: https://internalaudit.wayne.edu/audit-practices

The University should encourage its early audit teams to also use the deductive systems approach to operational auditing. It is fairly easy to grasp by auditors with maturity and common sense. They can also attend classes. Many two- to-five-day professional development courses for operational auditing are offered by organizations such as the Institute of Internal Auditors.

**Suggested Steps in the University of Memphis’ Operational Audit Process**

The following operational auditing steps are general and certainly not exhaustive. However, exclusion of any of these steps should be intentional, rather than accidental.

**Preparation:**

1. Decision to Make the Audit
2. Selection of the Audit Team
3. Pre-engagement Contact
4. Auditor Familiarization
5. First Draft of the Audit Plan
6. Audit Entrance Conference
7. The Walk-Through
8. Revision of the Audit Plan

**Conduct:**

1. The Preliminary Survey
2. Verification and Evaluation

**Reporting:**

1. Continuous Reporting to the Auditee
2. Flash Reports to the Higher Authority Audit Recipient
3. The Draft Report
4. The Audit Exit Conference
5. The Final Audit Report

Distribution of the Audit Report

Settlement:

1. Evaluation of Audit Findings and Recommendations
2. Joint Agreement on a Plan of Action between the Auditee and the Higher Authority
3. Higher Authority Review of Corrective Actions Taken

Auditor Follow-Up

Conclusion: Starting Operational Auditing at the University of Memphis

Operational auditing teams could come on-line very quickly here using volunteers. This would be somewhat like the assembly of one-time accreditation visitation teams. This should only be the start-up approach. As funds later become available on a more permanent, sustainable basis, the operational audit staff should shift from voluntary to regular employees. Involvement with the Board’s Internal Auditor should be considered. The most effective organizational design approach at our institution would probably be for the operational audit unit to report to an internal audit committee of vice presidents.

We obviously have many very capable staff and administrators with appropriate skills to draw from. We also have academic departments with professors who have, and regularly teach, the very skills needed. Examples that come to mind are Leadership in the College of Education and Management and Accountancy in the Fogelman College of Business and Economics. Many other professors with meaningful administrative or business experience could be identified in other departments.

A short indoctrination program for the volunteer auditors could be developed expanding on the concepts outlined above.
Universities in Urban Locations with enrollment between 18,000 to 28,000

<table>
<thead>
<tr>
<th>Aspirational (R 1 schools)</th>
<th>Location</th>
<th># Students</th>
<th>UG</th>
<th>Grad</th>
<th>% UG</th>
</tr>
</thead>
<tbody>
<tr>
<td>University of Cincinnati</td>
<td>Cincinatti, OH</td>
<td>46,388</td>
<td>35,498</td>
<td>10,890</td>
<td>76.52%</td>
</tr>
<tr>
<td>University of Houston</td>
<td>Houston, TX</td>
<td>46,148</td>
<td>37,689</td>
<td>8,459</td>
<td>81.67%</td>
</tr>
<tr>
<td>Univ of Louisville</td>
<td>Louisville, KY</td>
<td>22,684</td>
<td>16,074</td>
<td>5,846</td>
<td>73.33%</td>
</tr>
<tr>
<td>Univ of Alabama - Birmingham</td>
<td>Birmingham, AL</td>
<td>21,923</td>
<td>13,836</td>
<td>8,087</td>
<td>63.11%</td>
</tr>
<tr>
<td>Wayne State University</td>
<td>Detroit, MI</td>
<td>24,808</td>
<td>15,970</td>
<td>6,836</td>
<td>70.03%</td>
</tr>
<tr>
<td>Univ of Wisconsin - Milwaukee</td>
<td>Milwaukee, WI</td>
<td>24,933</td>
<td>20,256</td>
<td>4,677</td>
<td>81.24%</td>
</tr>
<tr>
<td>Georgia State University</td>
<td>Atlanta, GA</td>
<td>52,726</td>
<td>27,190</td>
<td>7,094</td>
<td>79.31%</td>
</tr>
<tr>
<td>Virginia Commonwealth Univ</td>
<td>Richmond, VA</td>
<td>30,103</td>
<td>23,172</td>
<td>5,292</td>
<td>81.41%</td>
</tr>
<tr>
<td>Auburn University</td>
<td>Auburn, AL</td>
<td>30,460</td>
<td>24,594</td>
<td>5,866</td>
<td>80.74%</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td></td>
<td><strong>33,353</strong></td>
<td><strong>23,809</strong></td>
<td><strong>7,005</strong></td>
<td><strong>77.27%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Peer (R 2 Schools)</th>
<th>Location</th>
<th># Students</th>
<th>UG</th>
<th>Grad</th>
<th>% UG</th>
</tr>
</thead>
<tbody>
<tr>
<td>DePaul University</td>
<td>Chicago, IL</td>
<td>22,437</td>
<td>14,507</td>
<td>7,930</td>
<td>64.66%</td>
</tr>
<tr>
<td>Old Dominion University</td>
<td>Norfolk, VA</td>
<td>24,176</td>
<td>19,372</td>
<td>4,804</td>
<td>80.13%</td>
</tr>
<tr>
<td>University of Akron</td>
<td>Akron, OH</td>
<td>19,218</td>
<td>16,407</td>
<td>2,366</td>
<td>87.40%</td>
</tr>
<tr>
<td>Indiana / Purdue U - Indianapolis</td>
<td>Indianapolis, IN</td>
<td>27,384</td>
<td>19,098</td>
<td>4,393</td>
<td>81.30%</td>
</tr>
<tr>
<td>Portland State University</td>
<td>Portland, OR</td>
<td>26,017</td>
<td>20,969</td>
<td>4,052</td>
<td>80.58%</td>
</tr>
<tr>
<td>Boise State University</td>
<td>Boise, ID</td>
<td>26,272</td>
<td>23,345</td>
<td>2,927</td>
<td>88.86%</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td></td>
<td><strong>24,251</strong></td>
<td><strong>19,950</strong></td>
<td><strong>4,579</strong></td>
<td><strong>80.54%</strong></td>
</tr>
<tr>
<td><strong>University of Memphis</strong></td>
<td>Memphis, TN</td>
<td><strong>21,643</strong></td>
<td><strong>17,471</strong></td>
<td><strong>4,172</strong></td>
<td><strong>80.72%</strong></td>
</tr>
</tbody>
</table>

Please note, all the universities in this list are public universities except DePaul University which is private (non-profit). Also, some R1 schools have enrollments greater than 26,000.

As expected, most of the aspirational peers have a smaller percentage of undergraduate students compared to the University of Memphis. Most peer schools are in the same band of percentages except DePaul. Also, University of Akron has had a steady decline in enrollment from a high of about 30,000 in 2011.

The Universities highlighted have a medical/veterinary school.