

Compliance: The Value of Uncovering Hidden Costs

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Abstract

Higher education finds itself in an increasingly regulated world. Congress, the White House, and numerous federal agencies continue to legislate, regulate, and offer friendly and not-so-friendly guidance on their particular concerns. State and local governments are also increasing their oversight, especially in light of the often decreasing money that they appropriate. Moreover, these governmental requirements are in addition to the numerous accreditation requirements for higher education institutions, and the ever-increasing expectations of parents, students, and the community for transparent information, often in a fixed format to allow comparison among institutions.

In the past, universities have been able to absorb regulatory costs within existing jobs and divisions. As we absorbed the costs, however, we did not account for them in a comprehensive manner. In order to understand fully the financial impact of this new regulatory world, however, universities must be able to quantify the costs of compliance. These costs impact our finances and our tuition, and potentially divert funds from mission critical tasks. Moreover, the government's ability to impose such costs – without university quantification – may lead to inefficient and potentially ineffective regulatory schemes.

With this background and goals in mind, the Office of the Vice President for Financial Affairs developed the UA Cost of Compliance Survey to document the financial liability associated with the response to federal, state and local government regulations and accreditation requirements. The analysis provides the context for consideration of how Financial Affairs has addressed both compliance and attention to regulation requirements, is scalable to document accurately the aggregate cost of compliance for the entire institution, and is adoptable to other higher education institutions. By capturing the cost of compliance, the University will establish crucial baseline data and allow comparison to other institutions and other industries. The knowledge can aid in a credible discussion of the burden of compliance.

The survey was emailed to area and department heads within the University's Division of Financial Affairs. Respondents completed three sections related to the cost of compliance: (1) Agency Identification and Reporting Frequency, (2) Percent of Employee Hours and (3) Other Compliance Costs. Summarized results of the surveys were sent to the respective areas for review and validation. The completed surveys populated with salary and fringe benefits data were analyzed. Finally, an assessment report was prepared which summarized the information at the division, area and department level.

The survey and the information captured therein increased awareness regarding the cost of compliance for the University. It is anticipated that the information will aid in providing administrators and external agency heads with an understanding of the true cost of complying with these requirements as well as contributing to a broader cost/benefit dialog.

Introduction of the Organization

Founded in 1831 as Alabama's first public college, The University of Alabama (UA) is dedicated to excellence in teaching, research and service. UA provides a creative, nurturing campus environment where students can become the best individuals, can learn from the best and brightest faculty, and can make a positive difference in the community, the state and the world.

In 2003, UA defined a new vision for the future of the institution including three core elements – to be a university of choice for the best and brightest, to be a tier one research university and to be an academic community united in its commitment to serve the state, nation, and world. This vision is wrapped in a growth plan that resulted in a record high 36,155 student enrollment for the fall 2014-15 year. The vision also included ambitious expansion plans in the areas of research and student life. UA completed a state of the art research hub in 2014 that fosters collaboration across scientific disciplines. The four-building complex boasts more than 900,000 square feet of research and instructional space, housing engineering, chemistry, biology, and technology fields of study. Other expansion projects resulted in the construction of more than 5,000 bed residential facilities, as well as new dining facilities, a new student recreation center, and a major renovation to the student union center. The University has made \$1.95 billion in capital improvements in less than a decade with more than 72 buildings including twelve residence halls added to the campus since 2003.

UA is the flagship institution of The University of Alabama System (UA System) that also includes the University of Alabama at Birmingham and the University of Alabama at Huntsville. The UA System is governed by the Board of Trustees. Dr. Judy Bonner has been President of The University of Alabama since 2012, and was Interim President and Executive Vice President for Academic Affairs and Provost prior to her appointment to lead UA. Six divisions exist within the

UA administration: Academic Affairs, Advancement, Community Affairs, Financial Affairs, Student Affairs and Research. Each division is led by a Vice President.

The Office of the Vice President for Financial Affairs conceptualized and launched the Cost of Compliance Survey project. Lynda Gilbert, Ph.D., has been Vice President for Financial Affairs and Treasurer for The University of Alabama since 2005. The UA Cost of Compliance Survey was sent to 56 area and department heads within the Division of Financial Affairs that encompasses 1,307 employees and provided comprehensive data for the study.

Statement of the Problem

With various versions of Higher Education Act Reauthorization bills navigating through Congress, discussions around higher education and the growing expense and expanse of federal, state, local and other agency regulations and the financial impact of these unfunded mandates has culminated into an intense debate. While the federal, state and local governmental regulations as well as those from other agencies achieve many benefits in accountability as well as health and safety assurances between federal, state, local government and accreditation agencies regulations and the financial impact of complying with these mandates has a hidden cost.

Regulation is increasing cost at an expanding rate at a time when funding for higher education has constricted and pressure to reign in tuition costs has escalated. Traditionally, the institution has absorbed compliance costs. However, the resulting financial burden has consumed resources that could be used for student financial aid, research, and/ or facility updates. The imbalance created by these unfunded mandates raises concerns that compliance efforts have affected the university's ability to provide educational opportunities at affordable levels. Unfunded mandates can negatively impact students by contributing to the rising cost of tuition.

Design

The UA Cost of Compliance Survey Project was led by Dr. Delphine Harris, Executive Director of Business Process Innovation. Dr. Harris established objectives for the project, which served to guide the survey instrument development as well as the implementation of the initiative.

The project objectives included:

1. Identify the federal, state and local government agencies as well as other associations that regulate the University;
2. Identify regulations that require the University to file reports, report data, provide notices to constituents, attend or conduct related training and/or perform another type of compliance activity;
3. Identify the frequency of the compliance activities and associated deadlines;
4. Determine the estimated amount and cost of employee time spent on compliance activities;
5. Determine other costs associated with compliance activities; and
6. Ascertain whether a change in compliance activities occurred over this year versus the prior year.

The survey instrument was designed to be clear and concise while ensuring that it captured all of the information needed to accomplish the stated objectives. The survey asked respondents to provide the following information:

1. Agency Identification and Reporting Frequency;
2. Percent of Employee Hours; and
3. Other Compliance Costs (such as consultants or external contract services).

A brief statement explaining why the Division of Financial Affairs was collecting the information was included, as well as written instructions for completing the survey. Two

departments successfully completed the survey as a pilot to ensure that respondents clearly understood the questions and the information required to complete the study.

Respondents were provided with the following information to assist in completing the Survey:

1. List of Federal, State, Local, Accreditation & Other Agencies (not comprehensive);
2. Link to the Higher Education Compliance Alliance Compliance Matrix for Federal Regulations related to higher education; and
3. List of employees customized for the area/department.

The survey was distributed via email with a message from the Vice President for Financial Affairs to area leaders and department heads. Respondents were given two weeks to complete the survey and contact information was provided for questions and/or additional instruction.

Implementation

The UA Cost of Compliance Survey was sent to the 56 area and department heads within the Division of Financial Affairs which encompasses 1,307 employees. Results were summarized by survey section and then by area in the Division of Financial Affairs: Administration, Auxiliary Services, Business Activities, Construction Administration, Facilities & Grounds, Financial Affairs - Office of the Vice President, Finance, Health Insurance Administration, Human Resources, Public Safety, University Planning and University Police.

The survey results were then compiled into a single spreadsheet and compared to a current employee list to ensure that all data was captured. Subsequently, salary and fringe benefit information was added to calculate the cost of the percent of employee time dedicated to compliance. Compiled results of the departmental surveys were sent to the respective areas for review and validation.

Benefits

The UA Cost of Compliance Survey project established a systematic process for capturing comprehensive data related to the labor, time and other costs dedicated to compliance requirements each year. This information served as an important instrument in understanding the impact of unfunded mandates on the University as well as higher education as a whole. The survey will be replicated and utilized by all divisions of the University to produce a comprehensive cost analysis and reporting database to facilitate discussion for regulatory policy change. The results will be disseminated to both internal and external stakeholders including legislators and governing boards as it relates to the broader conversation of the rising costs of tuition and the challenges in reducing costs.

An immediate and important benefit of the assessment is the increased awareness and understanding gained by University leaders regarding the effort involved in satisfying compliance reporting requirements within the Division of Financial Affairs. The total cost of compliance for the Division of Financial Affairs for the current year is \$19,412,910. The cost is comprised of \$9,340,355 in salaries and benefits and \$10,072,555 in other compliance costs. Area leaders and department heads now have baseline data for continued compliance planning and comparative analysis. The Survey also provides a preliminary assessment of the current compliance processes in order to look for opportunities to become more effective and efficient.

Retrospect

The UA Cost of Compliance Survey has sharply raised the awareness of the effort the University puts forth to meet regulatory and accreditation compliance requirements. While the Division of Financial Affairs was certain that a significant amount of personnel time and contractual

resources were spent in meeting these requirements, the survey provided quantifiable verification that compliance must be tracked as an independent expenditure.

The design of each survey instrument included a list of current employees for each area/department allowed the respondents to complete the survey with ease and within time constraints. However, it did not allow for an opportunity to further leverage technology by using a single online survey instrument. The original survey design does allow the project to be easily replicated within other divisions at the University. This is currently in process for all divisions of the University. The UA Cost of Compliance Survey will be administered on an annual basis to assist all areas and departments in becoming more aware of the university's responsibility in meeting compliance requirements.

In conclusion, the assessment is indicative of the increasing financial liability associated with the compliance to federal, state and local government regulatory and other agencies as evidenced by the documented rising costs year over year. This report provides critical baseline data for the University to monitor analyze and benchmark annual compliance cost data. The assessment provides data of compliance processes in order to look for opportunities to become more effective and efficient. The assessment results further provide valuable insight into the hidden costs of required compliance as well as clarification of the resulting financial impact to the University including the rising cost of tuition. This information will be disseminated to internal and external stakeholders including: legislators, Board of Trustees and higher education associations.