

OFFICE OF INTERNAL AUDITING

Minnesota State Colleges and Universities

Incumbent Workforce Training Programs

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Incumbent Workforce Training Programs

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OFFICE OF INTERNAL AUDITING



Minnesota State Colleges & Universities

Honorable Andrew Boss, Chair
MnSCU Audit Committee

Members of the MnSCU Board of Trustees

Chancellor Morris Anderson

MnSCU Presidents

Incumbent Workforce Training Programs (often known as customized training or continuing education programs) represents a growing and dynamic aspect of MnSCU educational services. In July 1999, the MnSCU Audit Committee authorized us to conduct a system-wide study of these programs (See Appendix A). It has proven to be a challenging, but very rewarding project. The report analyzes issues related to organizational structure, finances, and operations. It offers a broad-based view of the current state and the future potential for these programs. MnSCU has an opportunity to assume a major role for training Minnesota's incumbent workforce. Successful program expansion and coordination, however, may depend on the willingness to realign traditional organizational structures and existing paradigms.

We conducted this study in compliance with the *Institute of Internal Auditors: Standards for Professional Practice of Internal Auditing*. We interviewed nearly 200 MnSCU employees, including training directors and representatives, chief academic officers, chief finance officers, and human resources directors. We are grateful to these employees for their assistance. We also analyzed extensive financial and program data.

Ms. Marilyn Hansmann was responsible for much of the lead work on this project, including the design of interview questionnaires. Other Internal Auditing employees, as identified on page *i*, also contributed significantly to this project. Finally, I would like to acknowledge the expert program assistance that we received from Mr. Richard Tvedten, System Director for Customized Training and Continuing Education, and Ms. Brenda Norman, Business and Industry Partnership Specialist.

Sincerely,

/s/ John Asmussen

John Asmussen, CPA, CIA, CISA
Executive Director
Office of Internal Auditing

Table of Contents

| Report Section | Pages |
|--|-------|
| Audit Participation..... | i |
| MnSCU Review & Response | ii |
| Letter from Chancellor Morris J. Anderson | iii |
| Executive Summary..... | vii |
| Chapter 1 – Introduction: An Opportunity Awaits..... | 1 |
| Chapter 2 – Organizational Structure..... | 7 |
| Chapter 3 – Finance..... | 15 |
| Chapter 4 – Operations..... | 27 |
| Appendix A: Audit Proposal..... | 45 |
| Appendix B: Additional Information Schedules..... | 47 |

Audit Participation

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MnSCU Review & Response

Draft reports on incumbent workforce training programs or some specific sections of these draft reports were reviewed and discussed with the following members of the system office and colleges.

| | |
|---------------------|---|
| Morris Anderson | Chancellor |
| Dr. Linda Baer | Senior Vice Chancellor – Academic and Student Affairs |
| Dr. Deena Allen | Associate Vice Chancellor for Academic Resources |
| Richard Tvedten | System Director of Customized Training and Continuing Education |
| Brenda Norman | Business and Industry Partnership Specialist |
| Laura King | Vice Chancellor – Chief Financial Officer |
| Allan Johnson | Associate Vice Chancellor for Facilities |
| Sally Grans | System Director Facilities Planning and Programming Services |
| Bill Tschida | Vice Chancellor – Human Resources |
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| Dr. Kathleen Nelson | President – Lake Superior College |
| Dr. Ron Wood | President – Minnesota West Community and Technical College |
| Michael Murphy | Associate Vice Chancellor and Executive Director – Corporate University |
| Ken Niemi | Associate Vice Chancellor for Information Systems – Chief Information Officer |
| Dale Jarrell | Chief Technology Officer |
| Larry Simmons | System Director Software Development and Office of Security |

Based on their review, the draft was modified to improve its clarity and accuracy. The final conclusions and recommendations represent the professional judgement of the MnSCU Office of Internal Auditing. Beginning on page iii, is a letter from Chancellor Anderson responding to this study.



June 14, 2000

Trustee Andrew Boss, Chair, Audit Committee
Board of Trustees
500 World Trade Center
30 East 7th Street
St. Paul, MN 55101

Dear Trustee Boss:

I appreciate the opportunity to comment on the internal audit of MnSCU's incumbent workforce training programs. As you know, I have been deeply committed to our system's involvement in providing education and training for Minnesotans already in the labor market. I encouraged the Office of Internal Auditing's initial interest in reviewing our operations around the state. I now welcome the findings and look forward to addressing them.

I am encouraged by a number of conclusions in the report.

- MnSCU faculty and staff have forged many close connections with Minnesota employers. These have resulted in dynamic new curriculum, faculty development and increased public awareness of MnSCU's broader ability to meet a host of higher education demands.
- Many MnSCU employees are skilled at coordinating assessment and training for the incumbent workforce around the state, creating a high level of access to MnSCU resources.
- The Customized Training Network has begun to build a more cohesive organizational structure and to address the many issues that challenge a system of independent institutions, each with its own entrepreneurial culture.
- The Integrated Student Record System module designed specifically to support contract and non-credit training will provide the Board with reliable data for the first time on the impact of these programs both on Minnesota's workforce and on our institutions.
- Effective practices involving client assessment and product development strategies have been emerging from our institutions and are being shared around the state.

I also recognize the challenges we face. As higher education continues its transition into 21st century performance expectations, and as MnSCU continues to evolve as a system of unparalleled access and leveraged capacities, education and training for the incumbent workforce will be one of our marks of distinction. This audit report, I believe, confirms

that we are headed in the right direction but that we need to do more, do it better and do it convincingly.

Three themes emerging from the report are, in my view, critical for the system to acknowledge and address decisively: competitiveness, governance and financial management. These themes clearly reflect a number of the priorities in the practical strategy I proposed to the Board last December.

Competitiveness

Serving the incumbent workforce in today's technologically sophisticated world demands that MnSCU adopt a competitive focus. Competitiveness is the driving force in quality organizations of all kinds, including higher education.

In order to be competitive as a system, we must re-examine our ideas on the public purposes of higher education. Serving the needs of Minnesota's incumbent workforce and the lifelong learning needs of all Minnesotans is one of the public purposes stated in MnSCU's mission and vision. This public purpose must be recognized by our stakeholders and by ourselves as integral to what we do and whom we serve.

Being competitive attracts competitors and turns them into partners. MnSCU must focus both on building internal partnerships within our colleges and universities and on building alliances with other organizations that recognize our capacity for growth. We must analyze carefully the kinds of growth we intend to pursue, its value to the state, its cost and what its coordination will entail.

Governance

Competitive organizations are structured strategically to produce results. Innovation, continuous improvement and service within a framework of high standards and consistency are the hallmarks of a competitive organization. We must revisit our organizational structure as it relates to serving the incumbent workforce. The efforts of our Customized Training Network alone will not create the competitive organization business and industry is demanding.

We need to build upon recommendations in the audit report regarding governance. Our marketing, program development, industry communication and operating standards (including pricing transparency and content consistency) should be structured at a system level to enhance local delivery of services to the incumbent workforce. The coordination of services should move into a regional structure to ensure that our leveraged capacity is maximized and internal competition is managed. For those large employers with a statewide reach, a system-level structure should also be put into place to ensure consistency and efficiency for the customer. The delivery of services -- customer contact, customization and actual delivery -- must remain a college and university role. Academic affairs and customized training must develop stronger working partnerships on every campus to build a broader range of services. Our faculty and staff must continue to

make the difference in distinguishing our services from others and ensuring maximum flexibility.

Financial Management

To increase our competitiveness, we must refocus a number of our financial management practices. We need to look at our tuition policy, our allocation methodology and our accounting operations. We need accurate information on which to base decisions to expand or redirect services. We need standards in place that will ensure college and university accountability. Financial management can never be taken for granted by competitive organizations. The audit report's recommendations provide a useful starting point for us.

I recognize that the Customized Training Network's strategic planning efforts have already begun to embrace a number of the report's recommendations. In addition, initiatives we have implemented during the past two years -- Targeted Industry Partnerships, Leveraged Equipment Funding and Emerging Curriculum Development -- have created a strong platform on which to build. But we need to go beyond dialogue into action that demonstrates alignment, flexibility, innovation and quality. This is what Minnesota business and industry expect from us.

As the Governor and Legislature's commitment to incumbent workforce development increases, MnSCU as a system must demonstrate a similar commitment. We must continue to build our partnerships with key state agencies to address our common concerns. We must all be open to the opportunity that serving the incumbent workforce presents. This opportunity is a significant part of our 21st century performance expectations.

I am convinced that MnSCU's recently legislated authority to invest in promising private sector equity ventures will become a key strategy in building our faculty's capacity to extend their expertise to a larger student population through e-Learning. Faculty are the essence of what MnSCU is all about. Faculty commitment to moving ahead into new ventures is absolutely necessary.

In the months ahead, I will keep you informed of our progress in moving forward along the path I have proposed and addressing the audit report's recommendations. I applaud the Office of Internal Auditing for its thorough approach to the task and for the clarity of their conclusions. I also appreciate the considerable efforts of our presidents and staff in gathering information for the report.

Sincerely,

/s/ Morris J. Anderson

Morris J. Anderson
Chancellor

In the face of rapid technological change and global competitive forces, Minnesota employers are challenged to maintain the skills and productivity of their workers. Incumbent workers represent a vast and growing market for training and educational services. MnSCU colleges and universities have emerged as a viable source for meeting the training needs of the incumbent workforce. In fiscal year 1999, MnSCU executed over 4,000 contracts to deliver training services to Minnesota employers. More than 200,000 Minnesota workers received MnSCU training services.

MnSCU has built instructional, sales, and curriculum capacity to deliver training to the incumbent workforce. Dedicated, entrepreneurial employees manage incumbent workforce training programs. Collectively, colleges and universities employ a sales force of about 200 representatives that market training programs to Minnesota employers and incumbent workers. A pool of nearly 4,000 instructors (about 500 instructors are full or part-time faculty who also teach credit-based courses) has been assembled to deliver courses in a wide range of subject matters.

MnSCU colleges and universities have learned that there are many benefits derived from building incumbent workforce training programs to complement traditional academic programs. Training programs serve as a research and development vehicle and connect colleges and universities to Minnesota employers, their communities and regional economies. The programs provide great potential for marketing educational services, developing faculty, and expanding MnSCU's physical presence.

Despite the efforts to build its capacity for incumbent workforce training, MnSCU has barely scratched the surface of what the Minnesota Citizens League estimates is a \$2 billion market. MnSCU has a unique opportunity to leverage its cumulative resources to help fill the rapidly escalating training needs of Minnesota employers. It must seek creative ways, however, to maintain institutional autonomy, while blending colleges and universities into a unified entity that can compete effectively in the corporate environment. We recommend that traditional organizational structures and roles be reexamined.

In fiscal year 2000, MnSCU invested over \$12 million in supporting the development and delivery of incumbent workforce training programs. We found, however, that the distribution of those funds was not equitable and recommend that new methods of targeting system-level funding be explored. Also, greater accountability must be achieved for system-level funding. The concept of market pricing requires extensive study. Financial reporting measures for incumbent workforce training programs must be established to generate meaningful, consistent financial information.

This study also identified system-wide opportunities to improve operations for incumbent workforce training programs. Collective efforts will allow colleges and universities to achieve operational efficiencies. Furthermore, there are numerous opportunities for college and university program managers to improve their operations by learning from the best practices developed by other MnSCU colleges and universities.

Chapter 1. Introduction: An Opportunity Awaits

MnSCU colleges and universities, particularly the two-year colleges, have developed the capacity to deliver timely, relevant training opportunities to Minnesota's incumbent workforce. Many talented MnSCU employees have worked very hard to develop these programs and to position MnSCU to fill an escalating training need for Minnesota employers. In return, MnSCU colleges and universities have realized many benefits that complement traditional academic programs.

There is a tremendous demand for providing skills training for the incumbent workforce. MnSCU is in a position to assume a leadership role in meeting this demand. A November 23, 1999 Citizens League report on Workforce Training cited the following statistics on the demand for training the incumbent workforce:

Employers have been spending more in recent years on training. Between 1993 and 1998, annual training expenditures by companies with 100 or more employees increased by 26 percent nationwide, to \$60 billion. Employers in Minnesota currently spend about \$2 billion annually on training.

The report continued to say:

The \$2 billion that employers spend annually on training represents a huge market for the state's system (MnSCU) which only customized training programs are beginning to tap. At a time when the public higher education system faces chronic underfunding, failure to capture a greater share of this growing market is a lost opportunity for the higher education system.

Historical Perspective

MnSCU technical colleges and community colleges have different histories of offering training courses that are targeted to the incumbent workforce. Both approaches have been targeted to people already employed and have enhanced the state's economic development efforts. Technical colleges have concentrated on delivering customized training through contracts with Minnesota employers. Community colleges began by offering non-credit open enrollment courses with content that often appealed to persons in the workforce. For purposes of this report, we collectively refer to customized training, non-credit open enrollment courses, and other related efforts as **incumbent workforce training programs**.

Since the early 1970s, technical colleges have been providing skill-based training and education for adults in need of specific instruction to maintain or advance in employment. Joining a national trend, the technical colleges began to look to employers, as the point of contact in assessing training needs, establishing programs and delivering services. By the mid-1980s, employer-contracted training, referred to as "customized training", had

become a major emphasis of technical colleges. Today, customized training is big business for MnSCU technical and consolidated colleges. Colleges hire training representatives that actively market programs to private and public sector customers.

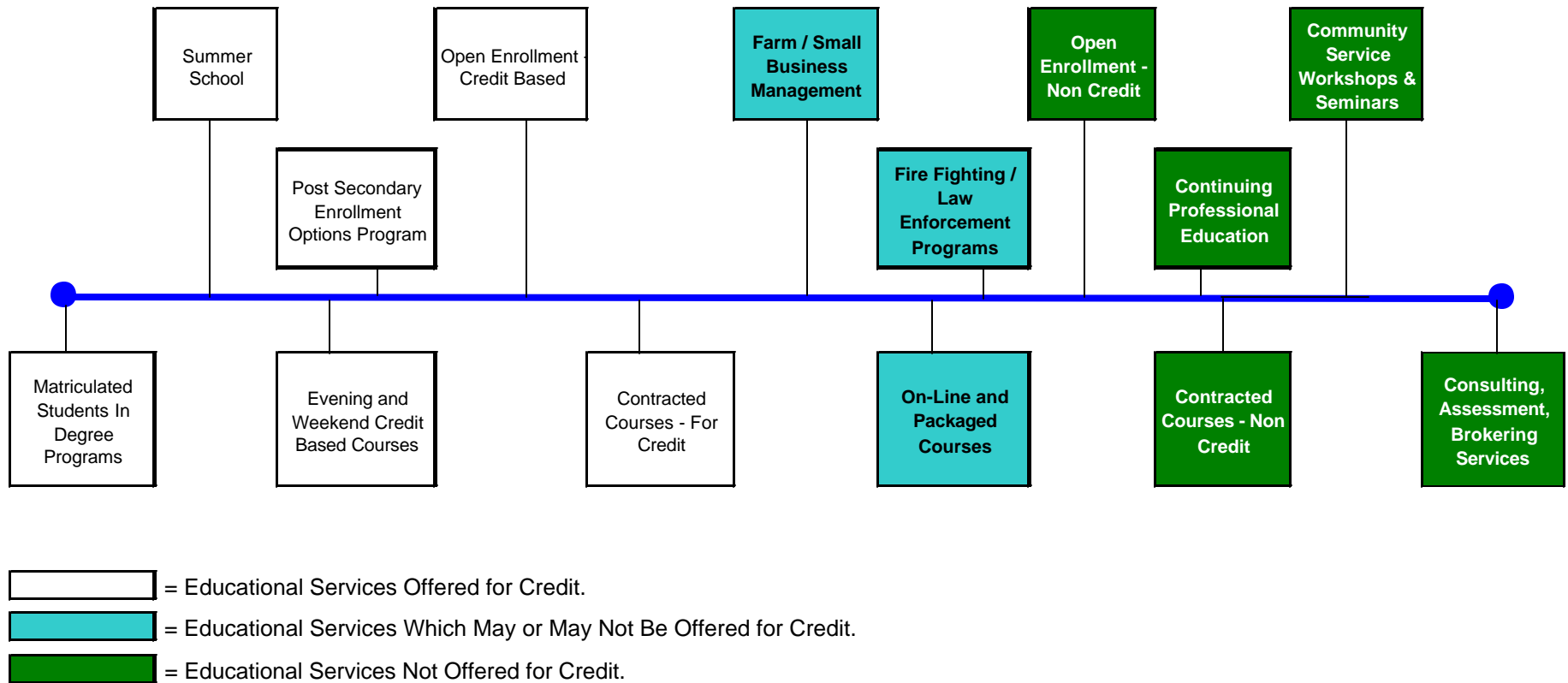
Community colleges and state universities have historically placed less emphasis on marketing educational programs to employers. Educational programs targeted to working adults emerged, however, as continuing education programs (non-credit open enrollment courses). Continuing education programs are often offered to the general public and usually do not earn college credits.

Incumbent workforce training programs cover a broad range of topics. Examples include:

- Computer Skills, including computer languages, such as COBOL, JAVA, and HTML, databases, work productivity applications, such as word-processing and e-mail, network administration, and computer hardware repairs.
- Manufacturing & Mechanical Skills, including machine trades, plastics technologies, construction trades, and heating, air conditioning, and refrigeration.
- Safety & Emergency Services, including emergency medical services, CPR and first aid, and fire fighting skills.
- Business and Management Skills, including team building, holding effective meetings, project management, and specialty areas, such as real estate sales.
- Law Enforcement Skills, including refreshers on search warrants, pursuit driving techniques, and interrogation and interviewing.

Over time, the lines between customized training and continuing education have become less distinct. The same educational programs may be offered to a group of employees from the same company, open to the general public, or presented in conjunction with a state workforce center to help prepare employees for the workplace. The same program may be available as part of the curriculum in a degree granting program or offered on an ad-hoc basis to the general public. Students may have the option on whether to earn college credits for taking the program. Figure 1-1 depicts how these programs have blended with other higher education programs.

Figure 1-1: MnSCU Educational Services



Source: Compiled by Office of Internal Auditing based on interviews with college and university representatives.

Benefits of Incumbent Workforce Training Programs

The Citizen League report suggests that the huge market for incumbent workforce training programs presents an enormous financial opportunity for MnSCU. We estimate that MnSCU spent about \$36 million on incumbent workforce training programs in fiscal year 1999. Compared to the Citizen League estimates, MnSCU has barely scratched the surface of this potential market.

MnSCU training programs do, however, reach a significant number of Minnesota employers and citizens. MnSCU colleges and universities reported 4,001 employer contracts in fiscal year 1999. They also reported delivering credit contract courses to 9,871 students, non-credit contract courses to 135,382 students, and non-credit open enrollment courses to 89,389 students.

In addition to financial incentives, there are several other attractive benefits to MnSCU's participation in workforce training:

- ✓ **Serves as a research and development vehicle.** 28 MnSCU colleges and universities have developed courses that have become part of their credit-based curriculum. Ten of these same colleges and universities have developed on-line courses for skills training. Other colleges reported success in keeping major employers in their region due to the availability of worker training programs.
- ✓ **Connects colleges and universities to Minnesota employers, their communities and regional economies.** Training representatives have extensive contact with Minnesota employers and community leaders. This contact allows colleges and universities to learn employers' needs firsthand and to target training programs that will have a positive impact on the local economy.
- ✓ **Provides great potential as a marketing vehicle.** It exposes MnSCU to audiences that it might not otherwise encounter and provides an opportunity to open their eyes to existing programs.
- ✓ **Presents opportunities for faculty development.** It provides faculty an opportunity to interact with corporate employees who understand the challenges of applying skills on the job. It also brings a substantial number of experts from the business community into MnSCU colleges and universities to serve as instructors (adjunct, community, or contract instructors).
- ✓ **Expands the physical presence of MnSCU colleges and universities.** About 20 colleges and universities have developed either remote facilities to offer skills training or have dedicated space on campus for incumbent workforce training programs.

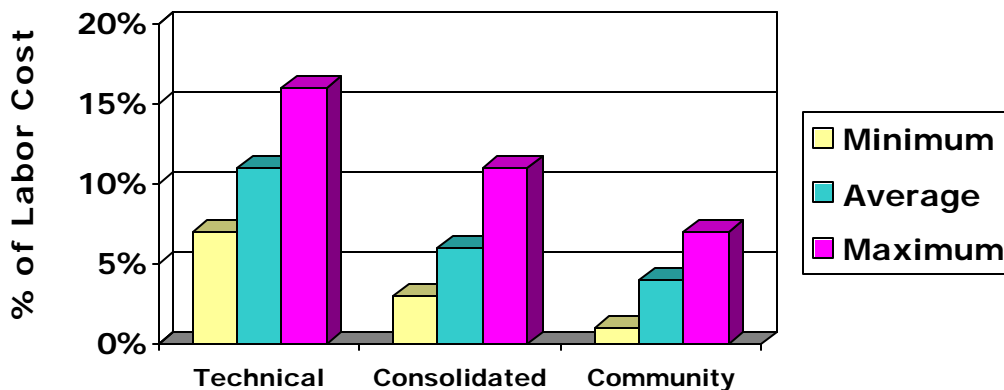
MnSCU’s Current Capacity to Deliver Training Programs

MnSCU has built instructional, sales, and curriculum capacity to deliver training to the incumbent workforce. Collectively, colleges and universities employ a sales force of about 200 representatives that market training programs to Minnesota employers and incumbent workers. Dedicated, entrepreneurial employees manage incumbent workforce training programs. A pool of nearly 4,000 instructors (about 500 instructors are full or part-time faculty who also teach credit-based courses) has been assembled to deliver courses in a wide range of subject matters.

Nearly \$10 million was targeted by the MnSCU system to incumbent workforce training programs in fiscal year 1999. The Legislature appropriated an additional \$2.5 million for these programs in fiscal year 2000. Historically, this investment has been targeted at two-year colleges, with the majority going to technical colleges. The distribution of these funds is based primarily on the amount of investment each of the previous systems made in delivery of customized training and non-credit continuing education courses. In recent years, there has been an effort to distribute some funding to state universities and to base the distribution to individual colleges on performance measures.

In fiscal year 1999, we estimate that two-year colleges have leveraged this investment into a \$36 million effort to deliver training to Minnesota employers. Figure 1-2 shows the estimated financial impact that incumbent workforce training programs have on the two-year colleges.

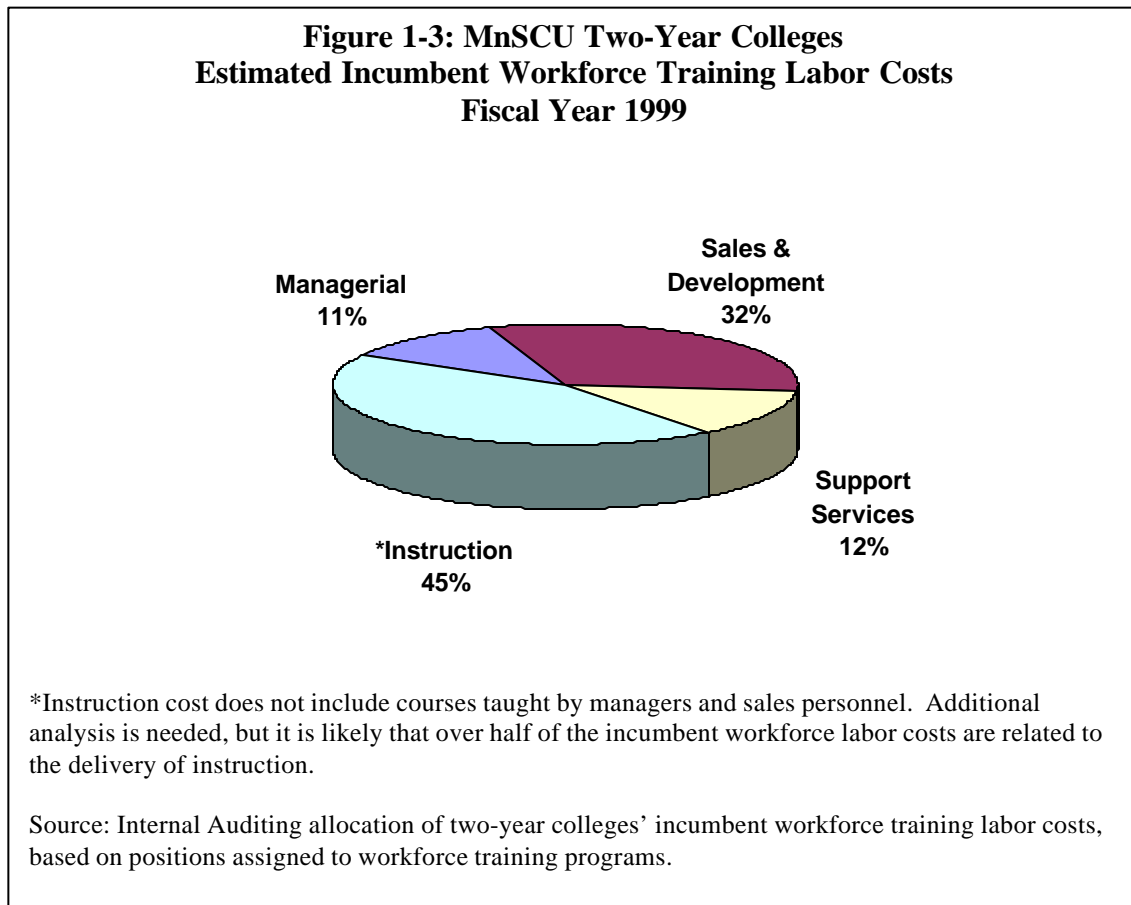
**Figure 1-2: Estimated Incumbent Workforce Training Activity
MnSCU Two-Year Colleges by College Type
Fiscal Year 1999**



Source: Internal Auditing calculations of labor costs devoted to workforce training programs divided into total college labor costs.

Until fiscal year 2000, efforts to focus state universities on the training needs of the incumbent workforce have been negligible. In fiscal year 1999, \$133,000 of customized training appropriated funds were distributed to state universities. In fiscal year 2000, after receiving a supplemental appropriation of \$2.5 million from the state legislature, the system increased its customized training allocation to \$525,000 for state universities.

This study identified 4,342 employees or contract vendors that the two-year colleges used to develop, teach and administer training for the incumbent workforce. See Figure 1-3 for an estimated distribution of these labor costs by function.



The pace of technological change and development of new knowledge continually challenge the skills of the incumbent workforce. MnSCU has built some capacity to help Minnesota employers address this challenge. There are significant benefits, though, for MnSCU colleges and universities to focus more attention on programs targeted to the incumbent workforce. As discussed in Chapter 2, consideration must be given to realigning organizational structures to take full advantage of the collective resources in MnSCU. Chapter 3 analyzes several financial issues. It explores opportunities to target funding and improve accountability for workforce training programs. It also addresses issues related to measuring financial results for these programs. Finally, in Chapter 4, a variety of operational issues, many unique to these programs, is reviewed.

Chapter 2. Organizational Structure

MnSCU has a unique opportunity to leverage its cumulative resources to address the training needs of Minnesota employers. It must seek creative ways, however, to maintain institutional autonomy, while blending colleges and universities into a unified entity that can compete effectively in the corporate environment.

The former technical college system launched the Customized Training Network (CTN) in 1994 to coordinate efforts of technical colleges in meeting the training needs of Minnesota's incumbent workforce. When the system merger occurred in 1995, the CTN was retained, and ultimately its role was expanded to include incumbent workforce training programs delivered to employers by the community colleges, consolidated colleges and state universities.

The CTN has taken the lead in building MnSCU's capacity to deliver training for the incumbent workforce. To date, its role has been limited to distributing state funding for customized training programs, encouraging cooperation between MnSCU colleges and universities, and motivating several good practices through its performance funding measures. The CTN has not yet assumed responsibility for non-credit open enrollment courses (traditional continuing education courses), which colleges and universities offer to a variety of customers, including the incumbent workforce.

In fiscal year 1999, customized training programs had to satisfy the following performance factors to receive their full share of system funding:

- **Deliver most programs to targeted industries.** Each college and university was required to identify its targeted industries, essentially defined as industries that were important to their local economy. The performance factors set a threshold of delivering at least 70% of training services to employers from these targeted industries.
- **Develop effective partnerships to deliver training programs.** This performance factor encouraged collaboration with other MnSCU institutions, state and local agencies, and non-profit organizations in delivering training programs.
- **Evaluate client and student satisfaction.** Upon completing courses, both clients (contracting employers) and students were to be surveyed to determine that their satisfaction with the course and other services met prescribed levels.
- **Generate revenues through client fees and grants.** Revenue measures were established based on the amount of the CTN allocation distributed to each institution. Overall client revenues were expected to surpass 150% of the allocation received by the college or university. Client revenues generated from employers in targeted industries were to at least equal the institution's allocation amount.

There has been a high degree of compliance with the performance measures established by the CTN. Although the performance measures have not had a significant impact on the allocation formula, as discussed in Chapter 3, they have inspired colleges and universities to adopt some baseline best practices in delivering training programs.

In fiscal year 2000, the Legislature appropriated an additional \$2.5 million to MnSCU's customized training programs. The majority of these funds (over \$2 million) was distributed to college and university customized training programs. The balance of the new funding was retained to "create and implement a strategic plan for the CTN which would, for the first time, systematically address the communication, marketing, research and development, accountability, organization and leadership dimensions of the network."

In November 1999, the CTN strategic planning effort culminated with the development of vision and mission statements and an action plan for the future. The CTN mission statement is:

We advance the economic vitality of Minnesota by providing a dynamic statewide Network of customized education and training services for business and industry.

The Network leverages an unmatched range of education and training services, and generates:

- Proactive solutions to customer needs,
- Increased competitiveness for business and industry,
- Ongoing skill and career development for individuals, and
- Effective return on investment for customers and stakeholders.

The Network achieves exceptional performance through:

- A commitment to continuous improvement and research and development,
- A strong identity, and
- Local and regional flexibility.

The CTN strategic planning process also produced five action plans devoted to the following areas of emphasis: (1) Organizational Structure, (2) Funding, (3) Communication/Marketing, (4) Information Systems, and (5) Professional Development (for MnSCU employees).

1. The Customized Training Network is at a critical crossroads and faces many difficult challenges in helping MnSCU meet its full potential for serving the incumbent workforce.

The autonomy of local decision-making is a concept that is embraced by all levels of MnSCU administrators (board of trustees, system office, and college/university). Colleges and universities are responsible for delivering educational opportunities and the trustees and system office are responsible for establishing and monitoring system-wide standards and policies to ensure coordination and quality. The distinction between system level and institutional roles is not always clear. Furthermore, these distinctive roles may differ depending on the type of customer being served. Traditional students usually establish an exclusive relationship with an institution to meet their educational needs. Employers, especially large employers, however, are accustomed to dealing with corporate entities that may have multiple points of delivery, but have one common identity. As a result, we believe that the distinctive roles and degree of autonomy for local decision-making must be examined in light of the customers being served. What works for traditional undergraduate students will not necessarily be successful for corporate Minnesota or for members of the incumbent workforce looking to enhance their current skills.

The CTN Communication/Marketing action team recognized the delicate balance between the roles of individual colleges and universities and the newly emerging CTN. It cites the following parameters on the role of the network:

The CTN does not directly provide services to Minnesota's employers. It exists to support local CT operations in delivering those services. The CTN provides tools (e.g., processes, forms, information systems) and shared services (e.g., state-level communication and marketing, professional development) to facilitate synergistic relationships between and among local/regional CT operations.

We agree with the CTN Communication/Marketing action team that services must be provided by colleges and universities, not the CTN. As discussed in Chapter 1, there are numerous benefits for colleges and universities to participate in incumbent workforce training programs. Many of those benefits would be lost if training programs were elevated to a system level. We believe, however, that the CTN should take a more aggressive leadership role to leverage the collective resources of MnSCU to best meet the needs of Minnesota employers.

The CTN Organizational Structure action team has created a leadership team, comprised of seven customized training administrators from colleges and universities, to focus on five activities: (1) planning, (2) managing network performance, (3) managing network priorities, (4) network promotion, and (5) facilitating collaboration. This team essentially serves in a liaison capacity and has limited authority. Its design documentation states:

The Leadership Team's ability to make changes and get results will depend on the overall Network's willingness to accept the team's leadership. If individual CT operations believe in the benefits that will be gained from working collaboratively and see the Leadership Team as a vehicle for increasing cooperation and leveraging individual capacities, the team will earn the right to lead the Network.

We see many exciting opportunities for enhancing MnSCU's incumbent workforce training programs and believe that the respective system-wide and local roles must be reexamined to ensure that the programs will best meet the needs of Minnesota employers. System-wide opportunities for enhancement include:

- ✓ **Creating a statewide identity.** These programs are known by a multitude of names and brands that are inconsistent and confusing to the general public. MnSCU training programs should present one face to the general public to take advantage of its capacity. Each MnSCU institution is presented as a separate stand-alone training source. We acknowledge it is important to preserve personal, long-standing relationships with corporate clients. A coordinated statewide training effort should be designed to enhance and not diminish those relationships. In our opinion, MnSCU institutions should not compete with each other in the open market for corporate clients. The CTN is in the process of developing a statewide marketing plan and a connected website. These initiatives will help set the stage for a more uniform identity.
- ✓ **Developing standards and common databases to share information and resources throughout the system.** There are opportunities for individual colleges and universities to leverage the vast capacity of the system by sharing information and resources. Information systems could be developed to build common databases for course content, instructors, employers, and students. The CTN strategic plan has begun to address these development issues. This change, however, represents a major paradigm shift for MnSCU colleges and universities. In particular, we anticipate that colleges and universities will resist sharing information on corporate clients. Thus, it will be essential for colleges and universities to agree to respect established customer relationships and use shared information in a manner that improves services. MnSCU will face a major barrier blocking its growth potential for these programs, until colleges and universities freely share information among themselves.
- ✓ **Achieving full acceptance by academic leadership.** Ten colleges or universities reported relationship problems between their incumbent workforce training programs and Academic Affairs Departments. These problems, however, were self-reported, so we suspect there may be unreported conflicts at other colleges and universities. The CTN leadership team is composed primarily of customized training deans or vice presidents. It should seek broader representation, particularly from presidents and Academic Affairs vice presidents. Alternatively, the CTN could develop an advisory committee or other group comprised of cross

- representation from academic and administrative functions. Although acceptance by academic leadership is important, it remains essential for workforce training to maintain its distinctiveness at colleges and universities.
- ✓ **Giving priority to marketing credit-based courses.** Credit-based courses offer many advantages to both employers and employees. An evaluative process ensures that students understand and are able to apply the knowledge, reassuring employers that the training has been successful. Also, credits would be recorded on transcripts and allow students to show a record of their skill development to present and future employers. For these reasons, colleges and universities should encourage customers to pursue such credit-based courses whenever they effectively address the skills demanded.
 - ✓ **Creating a delivery mechanism to address the training needs of large statewide employers in a coordinated manner.** MnSCU presently lacks the capacity to meet the training needs of large statewide corporations with a coordinated, consistent approach. These large corporations may have to deal with several separate MnSCU colleges and universities when assessing their training needs and designing solutions. MnSCU should coordinate its delivery of training services to these large employers.
 - ✓ **Valuing the role of non-credit open enrollment courses.** While much emphasis is placed on contracting with corporate clients, many small businesses cannot afford to contract for their training needs. Therefore, MnSCU colleges and universities should increase open enrollment courses offerings that are accessible to employees working at small businesses. Open enrollment courses are also effective methods for reaching trade and professional association members who work for multiple employers. Open enrollment courses managed as workforce training programs and receiving state support should be focused on employee skill development and occupations critical to the Minnesota economy, not on avocational subjects. Colleges and universities may choose to offer avocational courses for other reasons, e.g., community service or in support of K-12 educational programs. Those courses should not, however, benefit from state funds targeted to incumbent workforce training.
 - ✓ **Developing a competency-based credential for non-credit courses.** Despite the advantages of credit-based courses, there are many circumstances when non-credit courses will be preferred, e.g., insufficient time to develop credit-based courses, interest in only certain aspects of a credit-based course or interest in training on an employer's proprietary subject matter rather than generic topics. Value could be added to the non-credit courses, if MnSCU developed a method of granting competency-based credentials for them and maintained a record of credentials accumulated by students. Some industry-based certificates of this nature are beginning to emerge, e.g., Cisco and Novell, and are being granted by MnSCU colleges. There is, however, no generic method of tracking skills learned through non-credit courses.

- ✓ **Gaining the participation of state universities.** State universities could help tap a significant training market of professional and management level employees. It is difficult to measure the extent that state universities currently deliver programs to the incumbent workforce. They offer seminars through their departments and centers, and faculty members are encouraged to offer consulting to business and industry. State universities have not, however, captured information on their impact on incumbent workers. In some cases, state universities have created private non-profit centers to administer training programs targeted to the incumbent workforce. These centers, however, introduce the risk of universities forfeiting curriculum and its potential revenue raising capacity. The state universities dislike the “customized training” label; associating it to technical college activity.

- ✓ **Considering the need for regional or specialty structures.** Some regional frameworks have been developed to date, but have achieved limited successes. The Metro Consortium for Customized Training is the most advanced regional structure. It has provided a forum to exchange ideas and resulted in some program sharing. A regional framework recently formed in northwest Minnesota. An effort to establish a northeast Minnesota customized training framework has not had much success. These efforts to date have been too dependent on voluntary participation to be as successful as they might be. Regional frameworks must have authority and resources to be effective. In addition, there is an opportunity to create specialty networks to help meet the training needs of unique industries. The MnSCU Targeted Industries Partnership (TIP) initiative is an example of an effort to develop skilled workers for industries facing serious worker shortages, such as the health care and precision manufacturing industries. Potentially, efforts like TIP could be expanded to maintain the specialized skills of current employees.

System-wide Recommendations

- *Examine and balance system-wide, regional and local roles and responsibilities so that the incumbent workforce is best served by MnSCU colleges and universities.*

- *Explore the creation of a MnSCU identity for training programs targeted to the incumbent workforce. This effort should include reexamining the current terminology and identities used internally. For example, the term “customized training” is resisted by some institutions.*

- *Ensure that sufficient cross representation is garnered for leading system-wide incumbent workforce training efforts. Greater participation by academic leaders, presidents and state universities, in particular, must be sought.*

- *Broaden the scope of CTN services so that the needs of all Minnesota employers are included. The present focus of the CTN is limited to contract training with*

employers. This focus excludes the needs of small business that cannot afford a contract, many trade and professional associations, and employees who take the initiative to enhance their skills without the intervention of their employers.

- *Develop standards of operation to guide MnSCU colleges and universities in the delivery of training programs to the incumbent workforce. (See Chapter 4 for examples of specific operational areas.)*

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Chapter 3. Finance

Financial matters need much attention. An equitable method of distributing and targeting system-level funding must be found. In addition, greater accountability must be achieved for system-level funding. The concept of market pricing requires extensive study. Finally, financial reporting measures for these programs must be established to generate meaningful, consistent financial information.

When the MnSCU merger occurred, it was decided to retain two funding pools that had existed under the former technical college and community college systems. The technical colleges had targeted \$8.7 million each year on customized training programs and the community colleges had targeted just over \$1 million on continuing education programs. Collectively, the near \$10 million has represented funds set-aside each year by the MnSCU Board of Trustees and distributed to incumbent workforce training programs managed primarily by the two-year colleges. In fiscal year 2000, the Legislature appropriated an additional \$2.5 million that was targeted specifically to customized training programs. Tables 3-1 and 3-2 show how these funds were distributed to MnSCU colleges and universities in fiscal year 2000. About \$400,000 of the total funds available were retained by the system office to be spent on system-wide initiatives, specifically implementing the CTN strategic plan.

In addition to the MnSCU allocations, colleges and universities are expected to generate fees from employers and students and grant revenues to support their incumbent workforce training programs. In fiscal year 1999, colleges and universities reported that they generated about \$20 million in client fees and grant revenues from customized training programs. The system office also has not requested nor compiled information on amounts spent by colleges and universities on incumbent workforce training programs.

The CTN has a Funding action team that is reviewing opportunities to improve the existing funding model. It has identified the following weaknesses with the customized training allocations:

- Data integrity is suspect; the model's dependence on self-reporting must be addressed.
- Low performance standards, which may be set even lower at local discretion, do not indicate a commitment to continuous improvement.
- The model has not had a significant impact on funding at the local level, suggesting that it is not a good reflection of actual performance.

**Table 3-1: Customized Training and Continuing Education Allocations
Distributions to 2-Year Colleges
Fiscal Year 2000**

| College | Original FY00 CT Allocation | Additional FY00 CT- \$2.5 Million | Total FY00 CT Allocation | FY00 CE Allocation |
|-------------------------------|--|--|---|-------------------------------|
| Technical Colleges: | | | | |
| Alexandria | \$158,642 | \$84,542 | \$243,184 | N / A |
| Anoka-Hennepin | 785,278 | 27,482 | 812,760 | N / A |
| Dakota | 537,208 | 47,935 | 585,143 | N / A |
| Hennepin | 1,257,865 | 28,247 | 1,286,112 | N / A |
| MSC, Southeast | 254,844 | 44,597 | 299,441 | N / A |
| Northwest | 716,600 | 39,810 | 756,410 | N / A |
| Pine | 159,207 | 32,152 | 191,654 | N / A |
| St. Cloud | 311,157 | 34,853 | 346,010 | N / A |
| St. Paul | 611,538 | 26,210 | 637,748 | N / A |
| South Central | 288,467 | 37,511 | 325,978 | N / A |
| Consolidated Colleges: | | | | |
| Central Lakes | 225,431 | 47,510 | 272,941 | \$10,104 |
| Century | 566,990 | 24,584 | 591,584 | 182,615 |
| Hibbing | 280,369 | 58,723 | 339,092 | 8,356 |
| Lake Superior | 142,186 | 35,510 | 178,696 | 129,210 |
| Laurentian | 93,491 | 94,026 | 187,517 | 35,752 |
| Minneapolis | 225,085 | 134,638 | 359,723 | 71,243 |
| Minnesota West | 678,348 | 36,973 | 715,321 | 30,673 |
| Northland | 130,598 | 54,548 | 185,146 | 9,504 |
| Ridgewater | 398,173 | 48,903 | 447,076 | 24,011 |
| Riverland | 248,139 | 44,567 | 292,706 | 70,030 |
| Rochester | 205,031 | 64,376 | 269,407 | 126,487 |
| Community Colleges: | | | | |
| Anoka-Ramsey | 44,965 | 130,363 | 175,328 | 48,951 |
| Fergus Falls | 42,071 | 43,625 | 85,696 | 16,981 |
| Fond du Lac | 0 | 40,000 | 40,000 | 18,231 |
| Inver Hills | 74,415 | 138,502 | 212,917 | 32,907 |
| Itasca | 23,939 | 170,000 | 193,939 | 31,479 |
| Normandale | 70,663 | 50,233 | 120,896 | 51,436 |
| North Hennepin | 104,965 | 56,487 | 161,452 | 138,172 |
| Rainy River | 26,007 | 22,092 | 48,099 | 12,754 |
| Total 2-Year Colleges | \$8,661,967 | \$1,699,999 | \$10,361,966 | \$1,048,896 |

CT = Customized Training

CE = Continuing Education

Source: MnSCU System Office reports.

**Table 3-2: Customized Training and Continuing Education Allocations
Distributions to 4-Year Universities
Fiscal Year 2000**

| University | Original FY00 CT Allocation | Additional FY00 CT- \$2.5 Million | Total FY00 CT Allocation | FY00 CE Allocation |
|-----------------|-----------------------------------|---|--------------------------------|-----------------------|
| Bemidji | 0 | 75,000 | 75,000 | N / A |
| Minnesota State | 18,383 | 56,617 | 75,000 | N / A |
| Metropolitan | 0 | 75,000 | 75,000 | N / A |
| Moorhead | 26,506 | 48,494 | 75,000 | N / A |
| St. Cloud | 0 | 75,000 | 75,000 | N / A |
| Southwest | 0 | 75,000 | 75,000 | N / A |
| Winona | 82,376 | (7,376) | 75,000 | N / A |
| Total | 127,265 | 397,735 | 525,000 | N / A |

CT = Customized Training
CE = Continuing Education

Source: MnSCU System Office reports.

The CTN Funding action team has decided that the funding of open enrollment non-credit instruction is outside of its immediate purview. Its draft funding plan, though, states:

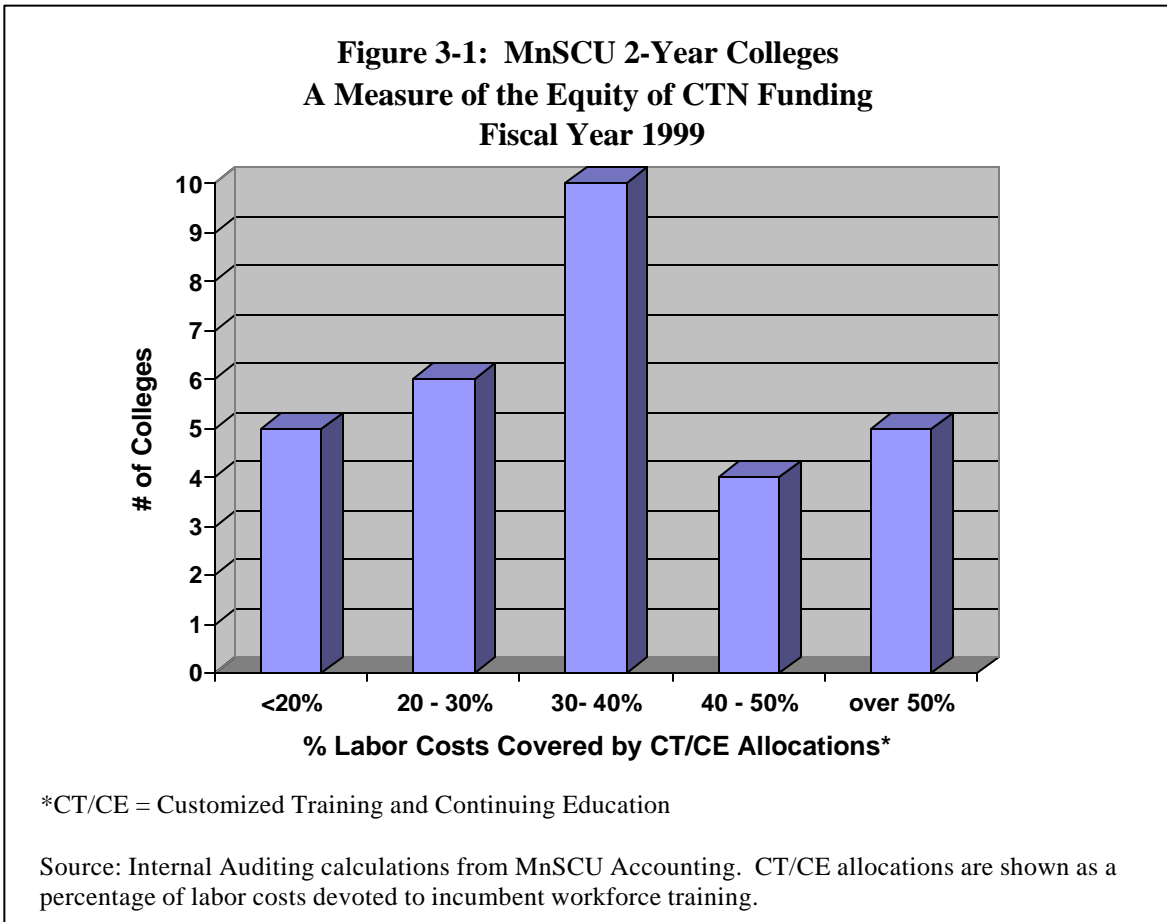
However, the team also agreed that open enrollment non-credit instruction needs to be systematically examined to determine each course’s relationship to targeted workforce skill development (within the state’s as yet undetermined overall workforce development goals). Once a process to complete this examination and determination has been developed and implemented, the team recommends that delivery of identified courses through open enrollment be seriously considered as an activity eligible for future CTN funding.

At the request of the CTN, the MnSCU Finance Division is presently considering a proposal to eliminate the existing continuing education set-aside funding by adding it to the base funding of community colleges and consolidated colleges.

2. The distribution of allocations targeted for customized training and continuing education has been inequitable among MnSCU colleges and universities and lacked sufficient accountability.

Figure 3-1 shows the percentages of incumbent workforce training programs’ labor costs that are covered by the system set-aside allocations for customized training and non-credit continuing education. This is only one of many possible measures of funding equity, but it illustrates the disparate impact of the current funding distribution. The funding distribution is based largely on historical formulas that no longer represent current levels of program participation. The CTN has been attempting to introduce

greater equity into the distribution and to move toward performance based funding, but progress has been slow.



The customized training allocation formula is based primarily on training patterns that existed in fiscal years 1990 - 1992. Between 1995 and 1999, it was modified to provide some funding to community colleges and state universities who chose to participate. Also, a “performance funding” aspect is incorporated into the formula (see Chapter 2 for a listing of the performance factors). The performance funding factors have not, however, had a dramatic effect on the funding distribution. Most colleges have readily attained their performance funding goals and, as a result, been able to preserve their historical funding level. In fiscal year 1999, base funding only changed by about 2% due to colleges and universities failing to meet their performance goals. The additional \$2.5 million appropriated by the Legislature allowed MnSCU to institute greater equity in the funding distribution. The effects of this distribution can be seen in Tables 3-1 and 3-2.

The CTN Funding action team is considering a proposal to establish more aggressive performance goals for the customized training allocation, but continue to preserve historical funding levels for colleges that meet their goals. The effect of the formula would be that additional funding would only become available if some colleges or

universities failed to meet their performance goals. The funds lost by those institutions could then be redistributed to other colleges and universities.

We realize that many colleges rely on their historical funding levels for delivering incumbent workforce training programs. However, we believe that the proposed funding model would be too slow to address the needs of chronically underfunded or emerging training programs. It preserves the weaknesses inherent in the existing funding formula. We believe that a transition away from the existing formula is needed. Some colleges have received sufficient funding to build extensive sales forces, high quality marketing literature, and impressive facilities. Other colleges and universities who have chosen to expand their programs significantly have been forced to run very lean operations or aggressively pursue other funding sources, such as grant monies. An effective funding formula should seek to invest adequately in emerging programs so that they become positioned to establish self-sustaining funding sources.

Furthermore, we are concerned that the existing practices have not held colleges and universities accountable for how these set-aside funds are spent. Without question, the funding has been used to build program capacity at many two-year colleges. The funding becomes vulnerable, however, unless MnSCU can explain to important stakeholders, such as the Legislature, how the monies were spent.

The time is now to begin a transition to redirect set-aside funding into priority initiatives and to achieve greater accountability. Examples of potential funding initiatives include:

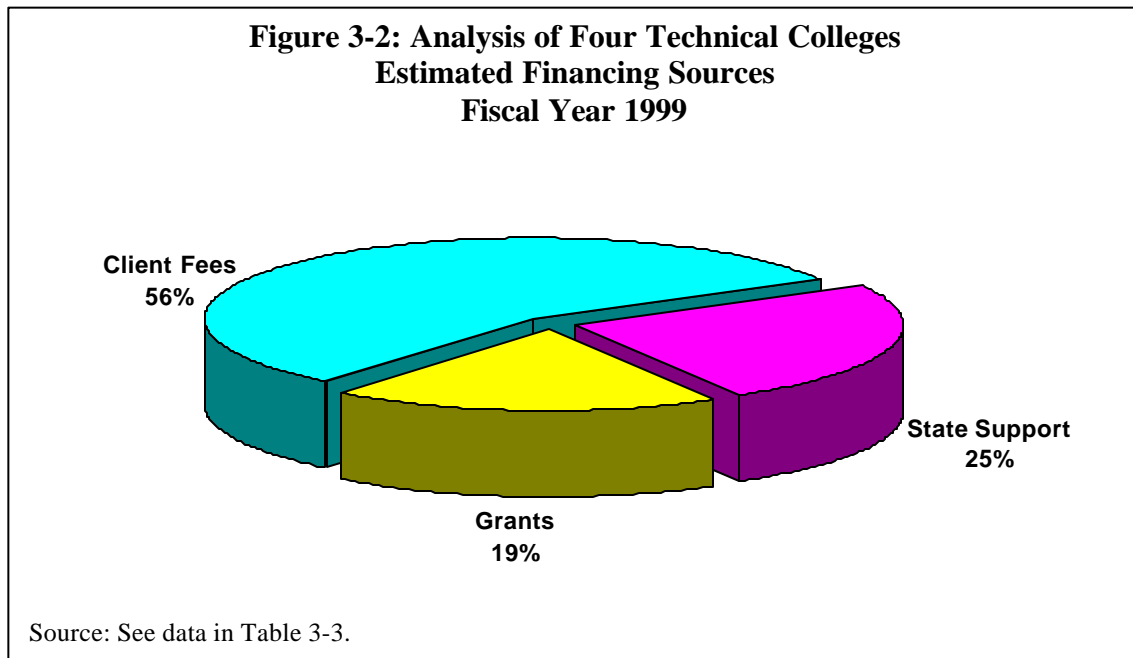
- ✓ Developing regional, specialty, and statewide capacity;
- ✓ Coordinating involvement of the state universities;
- ✓ Targeted research and development efforts;
- ✓ Developing on-line courses;
- ✓ Coordinated marketing efforts;
- ✓ Using corporate training needs assessments as a means to grow MnSCU markets. Although, many MnSCU colleges and universities currently offer assessment services, these activities are not identified as a public service available to Minnesota employers;
- ✓ Developing methods to recognize competency-based credentials; or
- ✓ Developing common shared information databases.

System-wide Recommendation

- *MnSCU must reexamine the funding formulas for customized training and continuing education. It must attempt to distribute funds that allow colleges and universities to build sufficient program capacity; to achieve specific, tangible results; and to be accountable for how funds are spent.*

- 3. Market pricing of courses requires significant study and collaboration. Quite often MnSCU colleges and universities have a significant influence on course prices that the market will bear. Yet, MnSCU colleges and universities usually are not able to generate sufficient revenues to cover direct program costs.**

Although current financial information is quite poor, it typically indicates that self-generated revenues (fees paid by clients and students) do not cover the costs that colleges and universities incur to run these programs. We attempted to analyze the financial activity using information from four sample technical colleges. The results are shown in Figure 3-2 and Table 3-3.



Our analysis revealed that client fees covered about 56% of direct costs; while MnSCU support was needed for 25% of the direct costs. To make informed decisions, colleges and universities must capture full cost information (direct and indirect costs of the activity) and match those costs against the revenues they generate. The apparent losses in these programs could be remedied either through increased revenues or improved cost control. In other cases, it may be a wise investment to offer state support for some employer training costs. For example, it may be necessary to boost the regional economy. Although, colleges and universities may decide to support the cost of employer training programs, it should be a deliberate, informed decision and not one resulting from poor financial information.

The Board of Trustees has delegated the authority to presidents to charge “market prices” for customized training courses and open enrollment non-credit courses. We recognize that there are regional differences in training markets and pricing must be adjusted locally. We believe that it is necessary for colleges and universities to review their practices for pricing courses (open enrollment non-credit and contract courses). Usually,

colleges and universities determine a baseline for course costs by adding a percentage mark-up to estimated direct variable costs. Presumably, the mark-up percentage is an effort to recover direct fixed costs. The mark-ups ranged from 16% to 55%, but there was no evidence that these percentages were based on any extensive financial analysis. Furthermore, mark-up percentages usually showed no consideration of the indirect costs associated with these programs.

**Table 3-3: Analysis of Four Technical Colleges
Combined Customized Training Financial Activity
For Fiscal Year 1999**

| | | <u>% of Direct Costs</u> |
|--|-------------------------|------------------------------|
| Direct Costs | \$9,389,481 | |
| Operating Revenue: | | |
| Client Fees | 5,264,906 | 56% |
| Direct Costs in Excess of Operating Revenues | <u>\$4,124,575</u> | |
| Non-Operating Revenue | | |
| State Grants (Primarily MJSP*) | \$1,194,489 | |
| State Paid Firefighting Training | 485,081 | |
| Other | <u>115,089</u> | |
| Total Non-Operating Revenue | <u>\$1,794,659</u> | 19% |
| Direct Costs in Excess of Total Revenues | <u>\$2,329,916</u> | 25% |
| State Support: | | |
| MnSCU & Customized Training Allocation | \$2,922,944 | |
| Additional Funds Allocated by Presidents | <u>384,108</u> | |
| Total State Support | <u>\$3,307,052</u> | |
| Remaining Balance before Indirect Costs | <u>\$977,136</u> | |
| Indirect Costs Charged (1) | <u>480,423</u> | |
| Year End Balance | <u><u>\$496,713</u></u> | |

*MJSP = Minnesota Job Skills Partnership Program

(1) Most colleges did not charge indirect costs to these programs. Thus, this amount is significantly understated.

Source: Internal Auditing analysis of MnSCU Accounting data for four technical colleges.

Most colleges and universities recognized that the market value of courses is distinct from the cost of producing and delivering them. As a result, directors told us that they were willing to deviate from their mark-up percentages if dictated by the market. The market price is essentially whatever a customer is willing to pay. We are concerned,

however, that there has not been sufficient consideration of the following factors affecting market pricing:

- How do MnSCU course prices compare to prices offered by private sector training organizations and other public sector entities that offer training? We simply did not find that MnSCU colleges and universities had a good sense of the pricing practices of other organizations offering training courses. One of the recommendations of the CTN Communication/Marketing action team was to “build a process for continually monitoring trends (e.g., technology, emerging industries, skills shortages) that not only provides marketers with information about what is occurring in the marketplace, but also helps CT understand how it compares.” Part of this environmental scanning process could concentrate on course pricing trends in the marketplace.
- To what extent, has MnSCU affected the market for these courses? Do existing tuition rates charged for open-enrollment credit courses (which receive a legislative subsidy of over 60%) influence customers’ perceptions of the market value of customized offerings? Does public knowledge that the legislature funds MnSCU training programs cause customers to believe that these funds are available to subsidize their corporate training programs? Does the competition between MnSCU colleges and universities on the open market drive down prices? Have the historical pricing practices in a region created customer expectations that cannot be overcome? We often heard that a ceiling had been established on course prices that the market would bear. We believe that in many cases, though, MnSCU practices may have a significant influence on these perceived market ceilings. Individual colleges and universities are not able to address this issue, however. It will require a collective resolution that includes the cooperation of all MnSCU colleges and universities.

The other opportunity for increasing revenues would be through increased volume in the number of courses and students. This opportunity would be particularly attractive if there were limited incremental costs associated with adding courses or students. On the other hand, efforts to add courses may often result in additional losses. For example, a new course may not be able to attract enough students to cover its direct variable costs. Also, some courses are offered at a set fee irrespective of the number of students attending. Nonetheless, colleges and universities must continue to explore options for increasing their volume.

Cost control is the other side of the equation that could resolve program losses. Training directors indicated a commitment to holding down course costs. For example, courses were often held at a corporate site to avoid space rental costs. Also, the directors were resolved to keep instructor costs reasonable. Some training representatives chose to teach courses themselves to forgo the cost of hiring an instructor. It is important, however, to recognize the opportunity cost of the representatives teaching courses. If the representatives are teaching courses, fewer courses are being sold because the representatives are diverted from their sales role.

Although, directors showed concern for direct variable costs (space rental and instructors), the same regard is not as easily extended to direct fixed costs, such as salaries of directors and representatives and equipment costs. Direct variable costs may be evaluated on a course by course basis, whereas direct fixed costs must be evaluated over a period of time. Because many colleges and universities did not prepare profit and loss statements at periodic intervals (monthly or quarterly), they would experience great difficulty in controlling direct fixed costs.

Only a few programs measured any kind of indirect costs. Incumbent workforce training programs though, often are very heavy users of central administrative services, such as fiscal and human services. Some programs had their own fiscal and human resources support staffs and recognized those salaries as a direct cost. Most programs, however, relied on existing administrative services, without measuring the value of those services. Not measuring indirect costs limits the ability to analyze operations for efficiency.

As discussed later in this chapter, financial reporting practices must be improved for these programs. Financial reports would provide managers with invaluable internal information for making decisions about pricing and cost control. Comprehensive financial information would allow colleges and universities to make deliberate, informed decisions on program profits or losses. If revenues are not projected to cover costs, presidents must decide if they choose to supplement the shortage. A perception that public funds are subsidizing corporate training costs can be problematic, particularly if some corporations are extended this benefit, and others are not. On the other hand, a temporary operating loss may be viewed as a wise investment in research or future program development.

System-wide Recommendation

- *A system-wide analysis is needed of market pricing practices of incumbent workforce training programs. A comprehensive understanding of market forces will facilitate establishing course prices that are fair and competitive while maximizing the recovery of program costs.*

4. Prepare meaningful financial statements to monitor financial results and permit informed decision-making.

For decision-makers to understand the fiscal impact of their programs, it is necessary to measure financial results properly. For programs which depend heavily on self-generated revenues, such as incumbent workforce training programs, financial statements should be similar to management reports used by commercial enterprises. Governmental accounting principles will not provide an effective measure for monitoring economic performance.

System office guidance on reporting financial information has been very limited to date. The CTN has asked colleges and universities to self-report only financial information on revenues generated. No information on program expenditures has been requested or

compiled at the system level. Each college and university has had to determine its own financial reporting measurements for these programs. Furthermore, the CTN instructions for reporting revenues do not promote uniform measurement principles. The instructions state, "An institution may use cash, accrual, or its own hybrid accounting method when including financial data, as long as the method is consistently followed."

When the new Integrated Statewide Record System module is available for customized training and continuing education, the system office will no longer have to rely on self-reported information. However, it will still be necessary to develop guidance so that data will be recorded on ISRS in a consistent manner for both revenues and expenditures.

As a first step for measuring financial results, each college or university must measure gross margin by matching direct costs against the direct revenues they generate. Direct costs are incurred in order to produce the programs. Examples of direct costs include instructor salaries, facility rentals, advertising and marketing costs, production of instructional materials, and direct administrative salaries. Direct program revenues generated by these costs typically would include client fees, whether paid by employers or students, and third party payments such as grants. When a potential mismatch occurs between direct revenues and costs, accounting adjustments may be necessary. For example, if part of a position is assigned to non-program activities, then the salary should be prorated between the activities.

Measurements are further complicated when expenses generate other financing sources, such as additional state support associated with credit-based courses. Many training directors believe that their programs should be credited with this additional state support when they sell credit-based courses. However, that state support is intended to cover both direct and indirect program costs. Despite these difficulties, colleges and universities must attempt to compare costs to their related revenues with reasonable accuracy.

Most colleges have not charged indirect costs to their customized training and non-credit open enrollment courses. The issue of measuring and charging indirect costs is a controversial topic. It must be recognized, however, that measuring indirect costs would not necessarily require that they be charged to training programs. The advantage of measuring indirect costs is that presidents and other key decision-makers are provided with full information. Therefore, a president could make an informed decision about whether to provide supplemental funding to cover indirect costs. Also, the measurement process would set the stage for analyzing the cost efficiency of support activities. The major disadvantage of measuring indirect costs is the expense associated with preparing comprehensive cost accounting analyses. An effective indirect cost allocation analysis should include all college or university activities and not be confined to programs targeted to serving the incumbent workforce. To reduce the expense of these analyses, it is possible to conduct periodic cost studies every few years and to generate simple formulas to use as a basis for estimating indirect costs. The measurement of indirect costs becomes meaningless, however, if the information will not be used for any critical decisions, e.g., pricing, level of supplemental funding, or analyzing the efficiency of support operations. The system office is drafting procedures that will provide further

guidance on calculating indirect costs. In the meantime, colleges and universities must be aware of how program costs are currently being measured and the impact of the measurement method on decisions, such as resource allocation and course pricing.

System-wide Recommendation

- *The system office must complete procedures for measuring indirect costs and provide other guidelines to colleges and universities on measuring the financial results of their incumbent workforce training programs.*

College & University Recommendation

- *Colleges and universities must prepare financial reports that match incumbent workforce training costs to the revenues they generate.*

5. MnSCU must address legislative language that treats customized training revenues as a dedicated source of funding.

The 1999 Legislature enacted language in an appropriation rider that requires that the “excess revenues” from customized training programs be spent only on customized training programs. It offers no definition for calculating “excess revenues” or establishing the parameters of customized training. As a result, MnSCU has significant discretion in determining how to implement the legislative language. The system office is in the process of establishing standard definitions and implementation guidelines. If interpreted in the truest accounting sense, the language has little impact. In accounting terms, “revenues” would be limited to direct charges to clients and other self-generated monies and would not include appropriated funds. Our analysis shows that few, if any, colleges generated revenues that exceeded their direct program costs. If indirect costs are also taken into account, then none of the colleges or universities would show excess revenues for their customized training programs.

MnSCU should seek a solution that addresses legislative interest in this rider language. Generally, there are more disadvantages than advantages when dedicating revenue sources. It creates the potential for internal conflict between programs and limits the discretion of college and university presidents. The language indicates, however, that the legislature is interested in preserving the vitality of the traditional MnSCU customized training programs. Therefore, MnSCU should pursue alternatives that will permit these programs to garner sufficient funds to afford research, course development, and other investments that may benefit multiple fiscal years, such as acquisition of capital facilities or equipment.

System-wide Recommendation

- *MnSCU should address the 1999 legislative language regarding “excess revenues” from customized training programs.*

6. Strive to lessen the administrative burden of the Minnesota Job Skills Partnership Program (MJSP).

The MJSP has been another significant source of funding for delivering training to the state's incumbent workforce. The program is administered through the Minnesota Department of Trade and Economic Development, but over 90% of its services are delivered through MnSCU colleges and universities. According to our analysis of fiscal year 1999 data from the state's accounting system, the Minnesota Department of Trade and Economic Development disbursed almost \$3.6 million for the MJSP. Twenty-five MnSCU colleges and universities received over \$3.3 million of those grant funds. The state pays a heavy price for the administrative overhead of one state agency distributing funds to another state agency. Grant writing costs are expensive, financial reporting requirements are burdensome, and the auditing requirement is outdated. Also, these programs are operated on a reimbursement basis, meaning that colleges and universities cannot receive funding until after they have already incurred expenses. As a result, colleges and universities must seek other sources to temporarily fund the costs of these programs.

System-wide Recommendation

- *MnSCU should work with the Department of Trade and Economic Development to suggest streamlining the administration of this program.*

Chapter 4: Operations

MnSCU should explore system-wide opportunities to improve operations for incumbent workforce training programs. If structural changes are made, as discussed in Chapter 2, MnSCU could leverage its collective resources and talents to present its colleges and universities as a preeminent source of training for Minnesota employers and their workers. Collective efforts will also allow the colleges and universities to achieve operational efficiencies. Furthermore, there are numerous opportunities for college and university program managers to improve their operations by learning from the best practices developed by other MnSCU colleges and universities.

Incumbent workforce training operations run the gamut from developing courses, hiring instructors, securing training facilities and marketing programs to managing information. Because individual colleges and universities deliver training, it is essential that each college and university implement effective operating procedures and processes. Fortunately, MnSCU colleges and universities have many talented employees that are responsible for managing incumbent workforce training programs. Many of these managers have extensive business experience with marketing and delivering programs and services. These managers understand the challenges of operating in a competitive marketplace and have helped build excellent program capacity for their colleges and universities.

We conducted extensive interviews at each MnSCU college and university and identified nearly 200 best or alternative practices that have been instituted by incumbent workforce training managers. We also identified about 200 opportunities to improve program operations at various colleges and universities. We communicated any relevant program information to college and university presidents. Also, Appendix B shows a list of additional supporting information available from the MnSCU Internal Auditing web site.

In this chapter, we also identify opportunities for system-wide initiatives to achieve efficiencies or to build a more effective statewide incumbent workforce training operation for MnSCU.

7. Course development processes should be reviewed to establish optimal value and quality for incumbent workforce training programs.

Most colleges and universities view their incumbent workforce training programs as a quick response mechanism for developing and delivering training courses that meet the needs of Minnesota employers. Courses that are popular and have an established market may be offered periodically on a non-credit open enrollment basis. Several colleges also cited examples of courses that had been developed on a contract non-credit basis, but have evolved to become part of the college credit-based curriculum. Table 4-1 shows examples of credit courses that were developed in incumbent workforce training programs.

Table 4-1: Examples of Credit-Based Courses Developed in Incumbent Workforce Training Programs

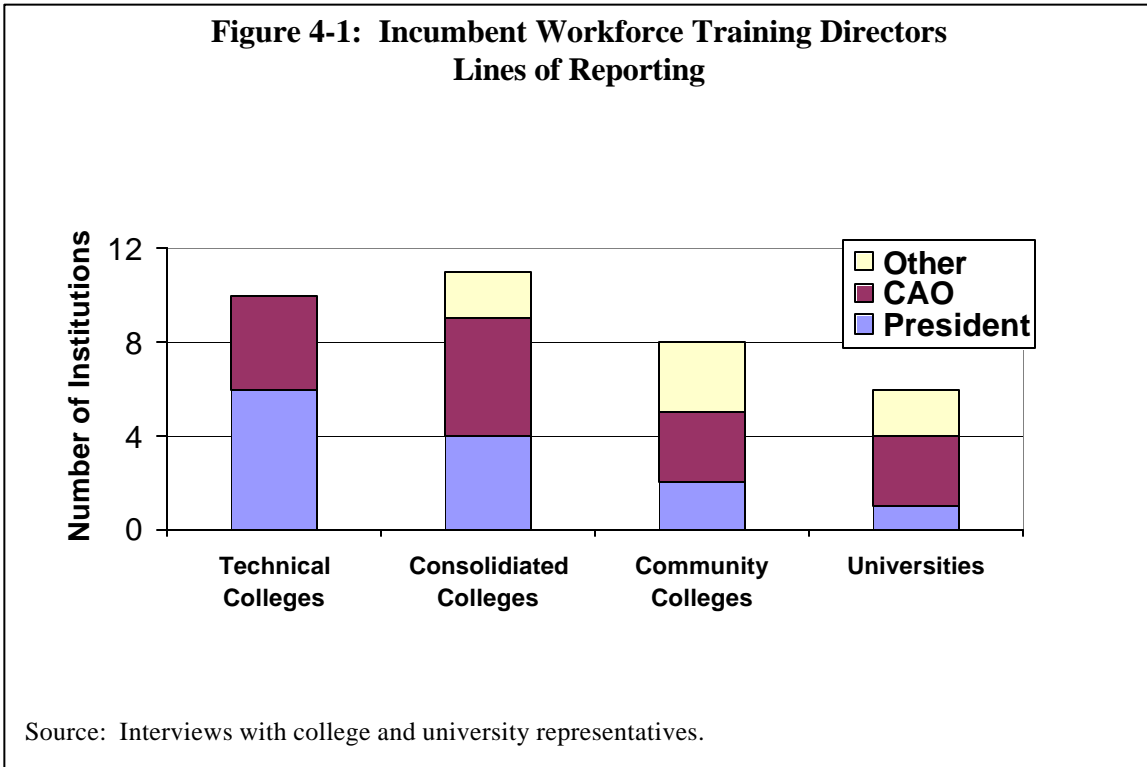
- | | |
|--|-------------------------------|
| • Medical Terminology | • Computer Support Technician |
| • Biomedical Technician | • Technology Degree |
| • Home Health Aide | • Supervisory Management |
| • Geographic Information Systems | • Data Entry/coding |
| • Nursing Assistant | • Wireless Program |
| • Supervisory Leadership | • Agricultural Processing |
| • Refrigeration Transport | • Truck Driving |
| • Masonry | • American Sign Language |
| • Business Technology | • Manufacturing Engineering |
| • Human Development/Child Care Education | Technology |

Source: Interviews with college and university representatives.

There are several advantages for offering courses on a credit-basis, rather than as non-credit courses. The course will appear on an official transcript so students can provide evidence of their achievements. Also, an evaluative process is required in credit courses, thus producing evidence that students comprehended the subject matter. Therefore, we believe that colleges and universities should encourage students to take credit-based courses whenever possible.

It is often necessary, however, to offer incumbent workforce training programs as non-credit courses. Employers may seek training courses that have not yet matured as credit-based offerings. In other cases, employers may want training programs that are so specialized or condensed that they would not qualify for credit. Value could be added to non-credit courses, though, if MnSCU developed a method of granting competency-based credentials for them and maintained a record of credentials accumulated by students. Some industry-based certificates of this nature are beginning to emerge, e.g., Cisco and Novell, and are being granted by MnSCU colleges. There is, however, no generic method of tracking skills learned through non-credit courses.

Incumbent workforce training managers should establish effective working relationships with their academic affairs departments. We found, however, that there were strained relationships between incumbent workforce training programs and academic affairs departments at several colleges and universities. Figure 4-1 shows the lines of reporting that have been established for training managers at MnSCU colleges and universities.



Non-credit courses generally are not subject to the review process or quality assurance processes that govern traditional credit-based courses. Because non-credit courses often must be developed quickly, they cannot afford the deliberate curriculum development standards used for credit courses. Therefore, alternative quality assurance techniques must be implemented to ensure that new courses will meet students’ and employers’ needs and uphold the college or university reputation for excellence.

Most colleges and universities had effective quality assurance processes for their non-credit courses. These processes often relied on having employers review proposed course content before courses were offered. A sample of other quality assurance practices used by colleges and universities is shown in Table 4-2. Some basic standards of quality assurance would help promote the ability to share non-credit courses throughout the system.

There is no comprehensive data on MnSCU courses available to serve the incumbent workforce. The Minnesota Virtual University (MnVU) website offers course information on credit-based courses available from all public and private higher education institutions in Minnesota. Non-credit course information also will be available eventually for all institutions. MnVU is developing a module that will serve employers attempting to meet the training needs of their workforces. This module will be designed to allow employers to search for and seek proposals from institutions that purport to have training expertise in areas of interest to employers.

Table 4-2: Sample Quality Assurance Practices for Non-credit Courses

| College or University | Quality Assurance Practice |
|---|---|
| Alexandria Technical College | <ul style="list-style-type: none"> • If instructors have no prior teaching experience, the college requires them to take Train the Trainer or Elements of Instruction class. |
| Northwest Technical College | <ul style="list-style-type: none"> • Currently going through the formal ISO 9001 certification process which includes being audited by an outside registrar. |
| St. Paul Technical College | <ul style="list-style-type: none"> • New instructors have to give a standup presentation before they teach a course. |
| Minneapolis Community & Technical College | <ul style="list-style-type: none"> • College representatives will interview business representatives to see how employees change when they return to work after training. |
| Normandale Community College | <ul style="list-style-type: none"> • College representatives try to attend the first class of new instructors. |

Source: Interviews with college and university representatives.

We interviewed college and university representatives and searched their marketing information in an attempt to identify training topics available to the incumbent workforce. Computer training courses appear to be the most prominent subject matter offered. The 32 colleges and universities with active incumbent workforce training programs in fiscal year 1999 offered a variety of courses in computer technology topics. Most colleges and universities also offered courses in business, supervision, and manufacturing topics. Several colleges also offer continuing education courses targeted to specific occupations and professions such as law enforcement, firefighting, health care and real estate.

Fourteen colleges and universities offered some form of avocational courses, e.g., courses focused on hobbies or personal enrichment topics. Examples of avocational courses include basket weaving, ballroom dancing, and aerobics. These institutions should review the decision to offer avocational courses carefully. These courses may fulfill a community service role for the college or university or allow it to generate revenue from unused capacity. The courses may not, however, deliver economic development benefits. Accordingly, avocational courses should not benefit from state support provided through either the MnSCU customized training or continuing education allocations. To be justified, these courses either should generate financial resources for the college or provide an indirect benefit, such as positive marketing exposure.

Finally, MnSCU institutions increasingly are developing interactive on-line courses. Ten colleges and universities told us that they had developed on-line courses targeted to the incumbent workforce. The MnSCU Office of Instructional Technology website maintains a complete list of on-line courses available at MnSCU institutions. Also, MnSCU is exploring the creation of an equity investment initiative that would seek private funding to expedite the development and marketing of on-line courses.

System-wide Recommendations

- *MnSCU should explore establishing basic standards of quality assurance that would help promote the ability to share non-credit courses throughout the system.*
- *MnSCU should establish incentives for offering incumbent workforce training programs on a for-credit basis and consider a method of granting competency-based credentials for non-credit courses.*
- *MnSCU should work toward establishing a common database of incumbent workforce training courses and topics available throughout the system.*
- *MnSCU should continue to explore options for developing on-line courses.*

College & University Recommendations

- *Colleges and universities should work to establish productive working relationships between incumbent workforce training programs and academic affairs departments.*
- *Colleges and universities should consider using quality assurance best practices that have been implemented by other MnSCU institutions.*

8. Several aspects of human resources and personnel practices related to incumbent workforce training programs must be reconsidered.

Colleges and universities encounter unique personnel challenges when managing incumbent workforce training programs. Institutions often must be able to acquire specific instructional skills quickly. Colleges and universities will usually look to their existing faculty as a first source for teaching these programs. However, existing faculty members usually do not have time available to develop and teach these courses or may not have the specialized expertise to meet the training needs requested by employers. As shown in Table 4-3, two-year colleges spent about \$2.1 million in using 532 existing faculty members to deliver customized training and non-credit open enrollment courses. In addition, two-year colleges had 30 full-time and 57 part-time faculty members assigned exclusively to workforce training programs, costing \$2.1 million. The vast majority of instructors were hired as non-represented employees or hired under contract. In fiscal year 1999, two-year colleges paid 3,200 non-represented or contract employees to deliver workforce training programs. These instructional resources cost about \$7.4 million in fiscal year 1999, but resulted in an average compensation of less than \$3,000 per instructor.

**Table 4-3: MnSCU 2-Year Colleges – Incumbent Workforce Training Programs
Instructional Labor Costs
Fiscal Year 1999**

| Source of Instructors | Number of Employees | Labor Costs |
|--|---------------------|---------------------|
| Faculty Shared with other College Programs: | | |
| Full-time Employees | 387 | \$1,641,314 |
| Part-time Employees | 144 | 501,676 |
| Faculty Devoted Exclusively to Workforce Training: | | |
| Full-time Employees | 30 | 1,721,019 |
| Part-time Employees | 57 | 437,640 |
| Non-represented Instructors | 2,018 | 3,644,214 |
| Contract Vendors | 1,182 | 3,746,344 |
| Total Instructors (1) | 3,818 | \$11,692,197 |

- (1) Customized Training representatives also frequently serve as instructors. We could not, however, estimate the portion of their salaries devoted to instructional activities, so this table does not include them in either the employee count or the labor cost totals.

Source: Internal Auditing data extracted from MnSCU Accounting and compiled based on interviews with college and university representatives.

We identified several personnel related issues related to hiring non-represented and contract instructors.

- The processes for hiring and setting pay rates for non-represented and contract instructors could be improved at 25 colleges and universities. An effective hiring process must identify and screen potential candidates and establish reasonable parameters to guide pay rates. It also must be cost-effective and preserve the flexibility needed for filling these positions quickly. When possible, the college or university's human resources department should be used to take advantage of existing personnel management expertise. Also, MnSCU should consider developing an inventory of available instructors. An instructor inventory would allow the sharing of instructional resources and serve as a basis for ensuring reasonable pay rates.
- Cost effective orientation programs are needed at 22 colleges and universities to convey behavioral expectations to non-represented and contract instructors, particularly instructors that have no prior experience with the college or university. These instructors present a risk due to their lack of familiarity with the institution's expectations for ethical and cultural conduct. A further risk is that the instructors will engage in self-promotion, particularly if they have a consulting practice. Conversely, these instructors represent an opportunity to market other college and university programs to potential students. It is not practical to provide these instructors with as extensive of an orientation program as provided to full-time instructors. Therefore it is essential to work with the college or university's human resources and academic

affairs departments to identify the critical information that must be provided to part-time instructors.

- Intellectual property rights are an area of potential concern, particularly when instructors are being hired to deliver courses developed by MnSCU colleges or universities. The risk of losing intellectual property rights becomes even more acute with on-line courses. The system office is developing a policy to govern intellectual property rights. It should be reviewed carefully to ensure that it adequately protects the interests of incumbent workforce training programs.
- Internal Revenue Service (IRS) regulations on hiring independent contractors present a risk of substantial penalties if they are not followed. The distinction between treating faculty as independent contractors and part-time employees was not always clear. At least one institution appeared to routinely write contracts for instructors and training representatives. Colleges and universities must be familiar with IRS regulations on hiring independent contractors and take reasonable measures to ensure compliance.

MnSCU faculty labor contracts contain various provisions related to incumbent workforce training programs. The technical college faculty contract has explicit language on “customized training”, while the community college and state university faculty contracts make only brief references to non-credit instructional programs. Key provisions in each contract are as follows:

- The bargaining agreement with the United Technical College Educators for fiscal years 2000 and 2001 contains specific provisions pertaining to incumbent workforce training programs. In Chapter 13, Section 1, the agreement defines “customized training” as, “(1) All hour-based instruction not offered for or directly transferable to college credit; or (2) College credit courses offered under contract to a specific customer.” In Chapter 13, Section 2, the agreement further stipulates that “Customized training faculty will be hired so long as they do not exceed 800 hours of work in a fiscal year.” Chapter 13, Section 3 allows, under fairly limited circumstances (contract training courses offering two or more credits), college faculty (on layoff from or working less than full-time at the college) the right to interview for teaching customized training courses. To be eligible for an interview, faculty members must have “recent relevant work experience or expertise in the specific content area to be covered in the customized training”. The agreement requires available customized training teaching opportunities to be posted for at least five working days. Although a faculty member may interview for a customized training course, “the customer or its designee has the right to make the final decision about who shall teach the course and is not required to accept the interviewee.” Finally, Article 15, Section 5 of the agreement allows flexibility in setting compensation rates for customized training instructors. It states, “The compensation for customized training faculty, as defined in Article 13, Section 1, shall be determined by the College President or designee.”

- MnSCU Labor Relations has reported that the bargaining unit certification issued by the Bureau of Mediation Services excludes non-credit instructors from the community college faculty bargaining unit. The MCCFA agreement permits community college faculty to teach non-credit courses. Article 10, Section 1 contains the formula for calculating non-credit assignments taught by community college faculty, “When non-credit instruction is assigned as part of an instructor’s load up to a full-time load, one (1) CEU shall count as two-thirds (2/3) credit for the purpose of load computation.” Article 11, Section 11B of the agreement contains the following limitation for overload assignments, “The total payment for non-credit teaching, summer school teaching, overload, and extra days shall not exceed thirty percent (30%) of the faculty member’s schedule salary...” Finally, there is a provision under Article 6, Section 5, Subd. 4 that requires “faculty proposals to discontinue a non-credit course” as a matter that shall be discussed with local Meet and Confer Committees.
- The Inter Faculty Organization bargaining agreement that governs state university faculty for fiscal years 2000 and 2001 provides in Article 10, Section A, Subd. 6 that, “Non-credit generating workshop instruction may be compensated at overload rate as provided in Article 12, Section B.” Article 12, Section B, Subd. 1. States, “Overload compensation shall be granted to faculty members for approved assignments involving the teaching of courses, workshops, seminars and institutes in addition to the workload as defined in Article 10 and in Article 13, Section A. Such overload compensation shall be at the rate of two and one quarter percent (2.25%) of the faculty member’s nine (9) month base salary, but not less than the minimum adjunct rate set forth in Article 11 for each semester credit hour [\$955 in fiscal year 2000 and \$1,000 in fiscal year 2001]. However, pro rata reductions in this rate of compensation may be implemented by the President/designee when there is less than full student enrollment in a self-supporting course, workshop, seminar, or institute.” Finally, in Article 10, Section J, Subd. 3c, the agreement sets some compensation minimums for Metropolitan State University community faculty that teach workshops [\$15 per student for workshops of 3-5 hours, \$22 per student for workshops of over 5 hours].

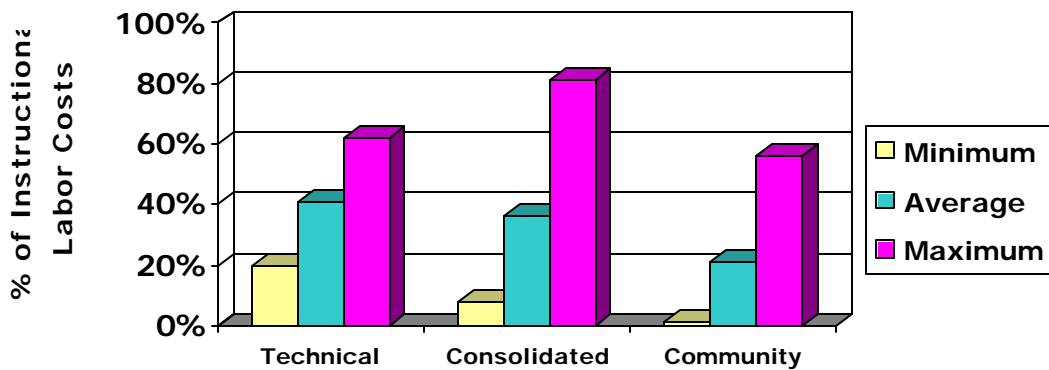
In the two-year colleges, about 500 faculty members are shared with existing academic programs and fewer than 100 faculty members are devoted exclusively to teaching incumbent workforce training programs. Collectively, these faculty members account for about 37% of the instructional labor costs incurred by incumbent workforce training programs. As shown in Figure 4-2, the extent to which colleges use faculty to teach incumbent workforce training varies by college type. At technical colleges, faculty salaries account for an average of 41% of the instructional labor costs for these programs. Faculty salaries average only 21% of the instructional labor costs for workforce training programs at community colleges. Technical colleges have a longer history with these programs than community colleges which may have allowed them to make greater use of their college faculty.

Some colleges expressed concern about the language contained in these various bargaining agreements. These colleges believed that the contract language should be non-restrictive so that the programs could have the flexibility needed to be successful.

MnSCU Labor Relations should work with the colleges and universities to ensure that bargaining agreement language is workable for incumbent workforce training programs.

Another human resources aspect of these programs is the unique challenge of managing a sales force. Collectively, colleges and universities employ about 200 training representatives who are primarily responsible for selling courses to employers. Most sales personnel are accustomed to working on an incentive basis. The Minnesota Association of Professional Employees contract does allow for paying bonuses to customized training representatives, but only eleven colleges have taken advantage of this provision. These bonus programs, however, are tied to performances at individual colleges and do not offer incentives for marketing programs on a system-wide basis. As a result, the bonuses, as currently structured, may create disincentives for training representatives to share information and resources with other MnSCU colleges and universities.

**Figure 4-2: College Faculty Teaching Incumbent Workforce Training Programs
MnSCU Two-Year Colleges by College Type
Fiscal Year 1999**



Source: Internal Auditing calculations of faculty salary costs devoted to workforce training programs divided into total instructional labor costs for workforce training.

System-wide Recommendations

- *MnSCU Labor Relations should work with colleges and universities to ensure that bargaining agreement language is workable for incumbent workforce training programs.*
- *MnSCU should assist colleges and universities in developing an inventory of available instructors.*

- *The system office should complete its work on the intellectual property policy and train colleges and universities in its implementation.*

College & University Recommendations

- *Colleges and universities should evaluate their practices for hiring non-represented and contract instructors.*
- *Colleges and universities should consider the sufficiency of their orientation programs for new instructors.*
- *Colleges and universities should ensure compliance with IRS regulations on independent contractors.*
- *Colleges and universities should be aware of bonuses being paid by other institutions and consider the impact on their sales personnel.*

9. Opportunities to coordinate and improve efforts for marketing incumbent workforce training programs should be explored.

College and university incumbent workforce training programs have combined innovative marketing approaches with one-to-one sales calls to develop quite effective strategies for selling these programs. These efforts could benefit substantially if there were a coordinated statewide approach to complement local sales activities. The CTN seized this opportunity for coordination and created the Communication/Marketing action team. The team recognized the need to respect local efforts and the time and cost associated with a statewide marketing effort. It identified the following possible barriers to its success:

- Communication/marketing is an area that may be high in cost during the start-up phase but could show a tremendous return as well as diminishing maintenance costs in years to come. Therefore, it was discussed that a substantial portion of CTN strategic planning funds should be invested in the development of communication/marketing initiatives.
- In an undertaking of this magnitude, it will be important to set realistic timelines for accomplishing objectives. The amount of work to be accomplished could be seen as overwhelming and project management skills will be critical in achieving results.
- A potential obstacle is the tension between system-level initiatives and the need for local independence. The challenge for the Leadership Team in this initiative will be to balance advocacy for a systemic approach to network communication and marketing needs, while continuing to recognize and support local/regional identity. The team's recommendations focus on leveraging statewide resources to provide cost-effective tools and technical assistance for local/regional operations.

The team developed several recommendations focused on internal and external communications and marketing efforts. Among its key recommendations are the following features:

- Build processes to collect and share customer success stories and operational best practices.
- Develop standard communication vehicles, such as an annual report, statewide web site, an intranet site for information sharing, and a communication toolkit for local use.
- Complete a comprehensive MnSCU marketing plan which would include, an organizational name, logo and/or defining tagline, and guidelines for creating a standard look and image.
- Build a process for continually monitoring market trends.
- Make communication effectiveness a standard part of its ongoing continuous improvement process.
- Differentiate the roles and responsibilities of local operations from the statewide network.

The action team has demonstrated outstanding vision in its plan. It is intending to accomplish many of its objectives during fiscal year 2001. The plan is ambitious, but touches on several critical initiatives. For example, the need to establish a statewide identity for MnSCU workforce training cannot be overemphasized. Current programs are identified by a wide variety of names, e.g., custom training services, continuing education, center for lifelong learning, center for research and innovation, etc. The lack of a standard identity for MnSCU programs must be extremely confusing to potential customers.

One area that the action team did not identify is the need to develop a statewide mechanism to market incumbent workforce training programs to large, statewide companies. These large employers are not well served by a fragmented approach that comes from 36 different colleges and universities. They would benefit immensely if MnSCU training efforts could be coordinated and packaged, drawing from several local programs, to meet their unique needs.

There also is a tremendous potential for colleges and universities to learn from best practices developed by their colleagues. Table 4-4 shows some examples of exceptional marketing strategies used by existing programs.

Table 4-4: Sample Marketing Best Practices

| College or University | Quality Assurance Practice |
|---|--|
| Hennepin Technical College | <ul style="list-style-type: none"> Developed the Comprehensive Learning Assessment Instrument for evaluating corporate training needs. |
| Century College | <ul style="list-style-type: none"> In February 2000 hired the Learning Resource Network to develop a marketing plan. An exceptional product. |
| Northwest Technical College | <ul style="list-style-type: none"> Has a new product development process that researches the market and analyzes industry trends to develop products before companies request them. |
| Bemidji State University | <ul style="list-style-type: none"> Partners with the local school district to include training offerings in its continuing education brochure. |
| Minneapolis Community & Technical College | <ul style="list-style-type: none"> Uses mass mailings to send its training guide to 120,000 households three times per year. |
| North Hennepin Community College | <ul style="list-style-type: none"> A tele-marketer prospects organizations and then a training representative visits prospective new clients. |
| St. Paul Technical College | <ul style="list-style-type: none"> Hired an outside consultant to conduct extensive market research of the metro area. |

Source: Interviews with college and university Representatives.

Two aspects of local marketing efforts deserve particular mention:

- Hennepin Technical College has developed an outstanding model for conducting training assessments for businesses. The CTN has supported the college in sharing this tool across the state. It provides a valuable public service to Minnesota employers as well as a viable marketing strategy for MnSCU training programs. Consideration should be given to offering corporate assessments statewide, possibly without charge or at nominal charge to the customer.
- Local web sites showed mixed results. We found 14 web sites that had some attractive features and delivered an effective message to potential customers. Another 21 web sites, though, needed improvement. At those sites, information was either difficult to locate or incomplete. Also, there is great potential to connect these web sites so it is easy for customers to have their needs addressed. A model similar to the one used by the Minnesota Management Education programs should be considered (www.mgt.org). That model connects users interested in MnSCU Farm Business Management and Small Business Management programs to the MnSCU institution that best matches their needs.

Finally, a controversial step that must be taken, in our opinion, is for institutions to share client lists and client contact information. This will require the development of an additional database, but would set the stage for coordinating sales efforts statewide. For client information to be shared successfully, however, colleges and universities must agree to respect and enhance personal long-standing relationships that currently exist with customers. In the long run, we believe that sharing information on clients will make local operations stronger and diminish unnecessary competition between MnSCU training programs.

System-wide Recommendations

- *MnSCU should work toward implementing the recommendations of the CTN Communication/Marketing action team.*
- *MnSCU should develop a mechanism for addressing the training needs of large, statewide employers in a coordinated manner.*
- *MnSCU should develop a shared database of clients and client contact information.*

College & University Recommendations

- *Colleges and universities should consider the best practices used by their colleagues and implement ideas as appropriate.*
- *Colleges and universities should evaluate their web sites to ensure that incumbent workforce training information is up-to-date and easily obtainable.*

10. MnSCU should continue efforts to implement a centralized information system that meets the information needs of incumbent workforce training programs.

The information system and data requirements for incumbent workforce training programs have some similarities to more traditional college and university programs. For example, both programs need to register students, collect tuition, and account for revenues and expenditures. However, incumbent workforce training programs also have many unique requirements, including the need for:

- Tracking industries served.
- Tracking specific costs for training contracts.
- Invoicing employers for training conducted.
- Accounting for non-instructional services offered via income contract, such as consulting services.
- Adapting to meet the immediate training needs of employers.

The current Integrated Statewide Record System (ISRS) was not developed to support the unique requirements of incumbent workforce training programs. Consequently, colleges

and universities have had to implement their own systems to administer these training programs. This, in essence, has resulted in MnSCU having 36 different ways to track and administer incumbent workforce training activity. Some of the different systems include:

- Approximately one third of MnSCU institutions have purchased a software package from ACEware Systems, Inc. The software vendor states that the application meets the unique environment of non-credit course programs. MnSCU institutions use this application to varying degrees.
- Other institutions have developed their own applications using Microsoft Access, Paradox, or spreadsheet applications.
- A few institutions manually track workforce training activity.

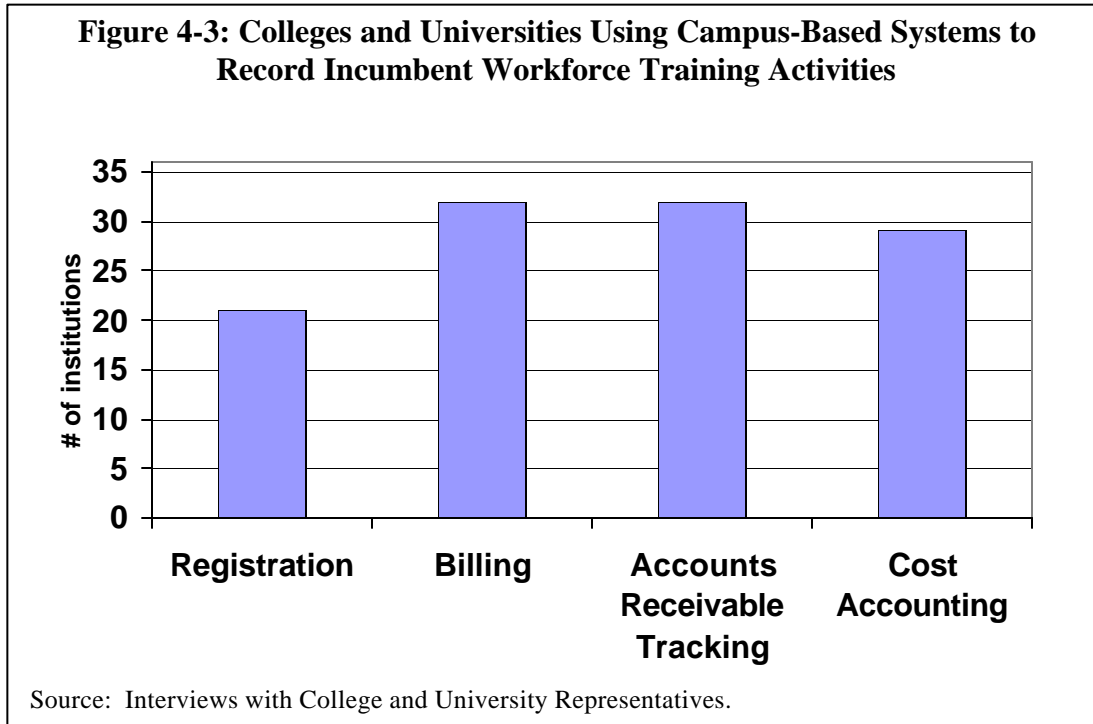
Figure 4-3 shows the number of institutions using campus-based systems for selected non-credit activities.

Some institutions have chosen to use the ISRS system for some functions, including registering students and tracking accounts receivable. However, these institutions have found the ISRS system cumbersome and labor intensive. For example, institutions using ISRS to register students need to ensure that the student is in the institution's database. If not, the employee must go to the admissions module within ISRS to enter general student data, such as name, address, and phone number.

Currently, an ISRS customized training module is in development. It was hoped that the new module would be ready for system-wide implementation by July 2000. Implementation for system level reporting has been delayed, however, until the module has been proven to meet the needs of users. Colleges and universities have been encouraged, however, to adopt the module locally to become familiar with its capabilities as soon as possible. The decision to delay implementation of the module is noteworthy. Other ISRS modules have been forced into production prematurely out of the necessity of meeting tight schedules. The customized training module marks the first time that quality assurance has prevailed over scheduled implementation. The decision indicates that MnSCU information system development processes are maturing. It will be important, however, to construct a revised plan for requiring implementation of the new module when it has achieved full production within the next fiscal year.

There were three primary objectives for the development of the new module:

- Easing the reporting requirements to the system office by having all data in common databases.
- Having a common application that establishes best practices for incumbent workforce training programs.
- Eliminating the dual data entry being completed by institutions using campus-based systems.



The new module, however, falls short of meeting the full information needs of incumbent training programs. It does not allow data sharing between colleges and universities. Also, it has not been designed to capture some common data, such as information on clients and sales contacts with potential clients. Each institution has access to data contained only in its own database. With this approach, institutions are limited in their ability to coordinate and share data and information with each other. Many opportunities would exist if MnSCU incumbent workforce training programs had the capacity to share information. Access to shared information would give institutions the capacity to respond to the needs of common clients, share faculty resources, and meet consortium and partnership goals.

System-wide Recommendations

- *MnSCU must explore opportunities to allow data sharing between institutions.*
- *The Customized Training Network must pursue opportunities to capture other data of common interest between incumbent workforce training programs, such as client information, course listings, instructors expertise and pay rates, and facilities available.*

11. Inventory available facilities to promote sharing among institutions.

Many incumbent workforce training programs have made arrangements to either obtain dedicated classrooms on campus or lease space off-campus. Courses also are often offered at employers' work sites in order to hold down costs. Some programs find it

necessary to rent space in local hotels or conference centers. The MnSCU Facilities Division conducted a space utilization study in 1999. It inventoried academic space owned by colleges and universities and analyzed the extent of use. The study did not capture information on leased or rented facilities, however. Also, comprehensive data was not readily available on uses by incumbent workforce training programs.

Incumbent workforce training programs could potentially benefit by sharing information on facilities available at other colleges or universities.

System-wide Recommendations

- *The MnSCU Facilities Division should expand the space utilization study to ensure incumbent workforce training usage of owned facilities is adequately addressed.*
- *The MnSCU Facilities and Information Technology Divisions should develop procedures to inventory leased and rental space used by their programs, apply utilization protocols to such usage, and make this information available system-wide.*

12. Engage the college and university chief financial officers in capturing the financial information and establishing financial controls needed to manage these programs effectively.

Incumbent workforce training programs need expert financial assistance to manage their operations. A few colleges have assigned accounting staff to meet the needs of their program managers. In most cases, however, program managers and sales personnel are left to perform many accounting and finance functions. Colleges and universities should review their accounting and finance operations and attempt to assist incumbent workforce training managers with the following activities.

- **Measuring net income.** Managers of these programs need periodic profit and loss statements to analyze their business activity. This issue was discussed in more depth in Chapter 3.
- **Performing cost accounting.** As previously discussed, full cost accounting would provide decision-makers with useful information on these programs. It would help reveal the sufficiency of course pricing strategies, the extent to which program costs are being subsidized, and provide other necessary management information, such as whether sales personnel were meeting performance goals.
- **Establishing effective internal controls.** Since FY 1996, the Legislative Auditor has issued over 40 audit findings that cite inadequate financial controls over customized training and continuing education programs. These programs offer unique challenges that require innovative control designs. At 22 colleges and universities, for examples, problems were cited with tuition and 3rd party payments collected by the customized

training departments. Three colleges occasionally delayed deposits and held customer payment to see if a sufficient number of students would enroll in order to offer a non-credit class.

College & University Recommendation

- *College and university chief financial officers should support incumbent workforce training programs in obtaining meaningful financial reports, performing cost accounting analysis, and establishing effective internal controls.*

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Appendix A

MnSCU Office of Internal Auditing Audit Proposal

The MnSCU Board of Trustees Audit Committee reviewed the Internal Auditing proposal to study customized training and continuing education on July 21, 1999. The proposal cited the following objectives and study methodology.

OBJECTIVES

1. Compile Useful Information

- ✓ Determine the extent of customized training and continuing education courses offered by each MnSCU institution; How does each institution define the parameters of these programs?
- ✓ Determine how the accounting is maintained for customized training and continuing education; do colleges and universities use other systems to supplement MnSCU accounting?

2. Analyze Goals & Objectives

- ✓ Are customized training and continuing education programs consistent with institutions' missions, goals and objectives?
- ✓ To what extent do these programs interact with traditional college credit curriculums, e.g., do they generate full-time equivalent student counts for institutions?
- ✓ Have colleges and universities maintained effective relationships with private providers of training and continuing education?

3. Review Operations

- ✓ Do institutions have effective methods for determining competitive market prices for their courses?
- ✓ Have colleges been able to generate sufficient capital to fund new program development?
- ✓ Are operating results for courses monitored closely to determine whether costs are covered?
- ✓ What best practices have colleges and universities developed for marketing and promoting these programs?
- ✓ Have colleges and universities effectively used existing faculty to deliver these programs or largely hired project-specific instructors?

4. Analyze Financial Information

- ✓ Is financial information on customized training and continuing education recorded consistently on MnSCU accounting?
- ✓ Do colleges and universities charge direct costs, such as salaries of instructors and customized training representatives and incremental classroom rentals, to these programs?

- ✓ Do colleges and universities allocate overhead costs (including administrative salaries, heat, rent, lights, security, insurance, etc.) to these programs?

5. Test Legal Compliance

- ✓ Have colleges and universities complied with any board policies that apply to these programs, e.g. any parts of the policies on tuition and fees that may apply?
- ✓ Has the Customized Training Network been an effective means of funding cooperative service delivery?
- ✓ Do colleges and universities have policies and procedures in place to ensure that any special funding or grants is used properly for customized training and continuing education programs?

METHODS

To obtain an inventory of customized training and continuing education programs, we would begin by extracting accounting data and analyzing all income generated from educational activities. These activities would be reviewed with chief academic officers to determine those that are considered customized training or continuing education programs. We also would interview the college and university customized training and continuing education program directors.

We would analyze business practices for pricing and marketing programs by interviewing customized training representatives and reviewing program documentation. We would examine the methods used for accounting for programs, including how revenues are controlled and costs allocated. If possible, we would compare MnSCU business practices to those of private sector competitors.

We would analyze information submitted to the MnSCU Customized Training/Continuing Education Division and test it for completeness and accuracy. We would test for compliance with statutory and policy provisions that apply to these programs.

Appendix B

**MnSCU Office of Internal Auditing
Additional Information Schedules for Incumbent Workforce Programs Report**

- Schedule 1-1 Incumbent Workforce Training Sample Course Offerings
- Schedule 1-2 Total Labor Costs
- Schedule 1-3 Faculty/Instructional Labor Costs
- Schedule 2-1 Customized Training Network Strategic Planning
- Schedule 2-2 MnSCU Customized Training Network Leadership Structure Design
- Schedule 2-3 Organizational Structure at Institutions
- Schedule 2-4 Participants in Regional Consortia
- Schedule 2-5 Non-Profit Centers Created by Institutions
- Schedule 3-1 Revenue Reported and Clients Served
- Schedule 3-2 Minnesota Job Skills Partnership Grants
- Schedule 3-3 Customized Training Network Semi-Annual Performance Report Form
- Schedule 3-4 Customized Training Network FY 99 Funding Summary for FY 98 Activity
- Schedule 3-5 Customized Training Network FY 00 Funding Summary for FY 99 Activity
- Schedule 3-6 FY00 Distribution Plan for \$2.5 Million Appropriated for Customized Training by the 1999 Legislature
- Schedule 3-7 Distribution of FY00 \$2.5 Million in New Funds for Customized Training
- Schedule 3-8 FY00 Funded Continuing Education Units Allocation Based on FY98 Activity
- Schedule 4-1 Institution and System Office Contacts
- Schedule 4-2 On-line Courses Offered at MnSCU Institutions
- Schedule 4-3 Orientation Process Best Practices
- Schedule 4-4 Customized Training MAPE Bonuses
- Schedule 4-5 MnSCU Standard Course Fees Charged

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