An Overview: Responsibility Center Management (RCM)

Treasurer’s Town Hall
January 15, 2015
## Common University Budget Models

<table>
<thead>
<tr>
<th>Model Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EVERY TUB ON ITS OWN BOTTOM</strong></td>
<td>- Budget model in which each school acts as an independent entity responsible for its own management and funding with minimal concern about the university as a whole</td>
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<tr>
<td><strong>INCREMENTAL</strong></td>
<td>- Budget model in which budget allocations are based upon the funding levels of the previous year and possibly increased by a set percentage</td>
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<tr>
<td><strong>FORMULA-BASED</strong></td>
<td>- Budget model in which budget allocations are based on pre-determined formulas</td>
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<tr>
<td><strong>RESPONSIBILITY CENTER MANAGEMENT</strong></td>
<td>- Budget model in which each unit is financially responsible for activities and held accountable for direct and indirect expenditures with strategic investments by academic leadership to advance the university or local/regional as a whole</td>
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Similar Budget Issues At Other Universities

Source: University of Virginia – University Financial Model Presentation (6/24/2014)
Responsibility Center Management

• A budget model promoting financial responsibility at a unit level

• Works most effectively in an environment of transparency and accountability

• RCM is a tool – academic leaders have responsibility for using the system to advance the missions of the University
Current Budget Model

• All Funds Budgeting (AFB) was instituted at Rutgers in 2005
• AFB is a modified version of RCM where flat overhead on tuition and F&A is used to support the local/regional administration and system-wide administration costs not directly budgeted to the schools
• Legacy UMD units are on an RCM type model but different from AFB
How Does RCM Work?

Revenues are credited to the Responsibility Center that generates them.

Schools must then pay for their direct expenses as well as a share of the expenses to fund the Support Units.

REVENUE
- Tuition and Fees
- F&A Return
- Other Income

RESPONSIBILITY CENTERS
- Schools
- Research Centers
- Auxiliaries

DIRECT & INDIRECT COSTS
- Direct Expenses
- System-wide Support Units
- Local/Regional Support Units
Do Other Schools Use RCM?

- RCM was created at University of Pennsylvania in the early 1970’s as a response to a financial crisis

- In the 1980’s schools such as U of Southern California and the U of Toronto also developed RCM budget models

- Now many public and private universities have converted to RCM – Indiana U, Michigan, Iowa State, U of Minnesota, Syracuse, U of Florida, etc.
Why Switch to RCM?

Academically Centered - “Academics over Economics”

Provides schools with better data, more control, and greater flexibility over resource decisions

Greater focus on long-range strategic planning

Increased accountability and transparency

RCM enables understanding of “ROI” and priority decisions given limited resources
Allocation of Costs

System-wide
Costs that are incurred by system-wide support units providing services to all

Local/Regional
Costs that are incurred by support units providing services at the local/ regional or chancellor level
Allocation of Costs
System-wide Cost Pools

- General Administration
- Academic and Student Support
- Debt Service
- Utilities
- Operations and Maintenance
- Information Technology
- Libraries
- Research Support
Metrics for Allocation of Costs

- Once the cost pools have been developed, they need to be allocated to the schools using a metric that best measures the activity.

- The metrics used should be based on “best practices”, verifiable, easy to understand, and uniform.

- Our model includes the following metrics: Unit Expenditures; Net Assignable Square Footage; Enrollment & Tuition data; F&A Return data; and Faculty & Staff FTE.
RCM Concerns and Realities

- Those academic units that do not have enough revenues to cover their direct and indirect costs will be eliminated

- One of the benefits of RCM is that it highlights the full costs to operate schools and allows for informed discussions as to the level of subvention given above and beyond earned revenues
RCM Project Committee Structure

**RCM Steering Committee**
- Chancellors
- SVP for Finance
- SVP for Administration

**RCM Advisory Committee**
- Faculty
- Deans
- Vice Presidents
- University Senate representatives

**RCM Technical Committee**
- Key unit administrators from across the university
Time Frame

**DESIGN (FY13)**
- Read available RCM literature and researched RCM models at other universities
- Determined indirect cost pools and developed methodologies to allocate these costs to the revenue generating responsibility centers

**PREPARATION (FY14)**
- Advisory committees formed to discuss preliminary RCM budget model
- Develop preliminary budget model
- RCM budget model is continually refined and fine tuned based on committee feedback

**TRAINING & TRIAL RUN (FY15)**
- Training will be provided through information sessions, small focus groups, hands on computer labs, and documentation
- A trial run of RCM will be implemented on paper and run parallel to AFB
- Assumptions will be tested and “tweaks” made

**FULL IMPLEMENTATION (FY16)**
- RCM will be fully integrated into the general ledger
Hyperion Financial Management (HFM) and Reporting Project

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Hyperion Financial Management (HFM) Project Goals

Standardize reporting across the University System including RCM Reporting

- Consolidate external and management reports from BOTH systems
  - Feed data from Banner and RIAS (Oracle) into HFM to produce consolidated enterprise-wide reports as well as unit-based management reports
- Define a new consolidated chart of accounts (all segments & values)
  - Initially, to be used within HFM to consolidate Oracle and Banner financial results
  - In the future, to be used University-wide as part of the ERP re-implementation
- Develop the crosswalk between the existing general ledgers and the new COA
- Align monthly financial closing processes for consistency

Reduce or eliminate the need for existing shadow systems
Account Code Combination

- Unit (RC) (3)
- Location (3)
- Org (4)
- Fund Type (3)
- (Natural) Account (5)
- Business Line (4)
- Activity (4)
- Future (5)

Project 123
Definitions

- **Unit (Responsibility Center Groupings):** School, Institution, Center and/or Central Unit
- **Location:** The physical area where the revenue and/or costs were incurred including on-site, off-site, online, and foreign locations
- **Organization (Department):** A business area which owns people and space.
- **Fund Type:** The funding source used to acquire goods and services
- **Account:** Revenue and expenditure types that are the equivalent of our current natural accounts (i.e. tuition, salaries, supplies, etc.)
Definitions

• **Business Line:** To identify the specific line of business (or mission) being offered. Examples of high level values are:
  - Instructional (undergraduate, graduate, professional, etc.)
  - Research
  - Healthcare
  - Public Service
  - Other

• **Activity:** To identify total activity of high-level, *interdisciplinary* and strategic initiatives that span across multiple responsibility centers/units
Next Steps

- Timing of Reporting and Relationship to RCM
- Hyperion Planning/Budgeting Project
- “Systems Refresh” – Single Set of New Administrative and Student Information Systems
SYSTEMS REFRESH PROJECT
ADMINISTRATIVE &
STUDENT INFORMATION SYSTEMS &
PROCESSES

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**Purposes:**

- The merger with UMDNJ necessitates a migration to a single Enterprise Resource Planning (ERP) platform.

- University-wide efficient, effective, and responsive business practices and systems is a foundational element of the Rutgers Strategic Plan and a way to provide real savings for strategic initiatives.

- The University’s move to a Responsibility Center Management budgeting approach that requires changes to budget processes and supporting infrastructure.

- The University must provide reliable and accessible information to our academic and administrative leadership.
**Project Steps:**

1. **Project Kickoff** – Confirm objectives, scope, timeline, and milestones of project ✓

2. **Transformation Strategy Development** – Develop set of transformation guiding principles; identify high-level change inhibitors (*change readiness*) that must be addressed; develop project communication plan; appoint working committee ✓

3. **Vision Focused Requirements Development** – Conduct stakeholder workshops, surveys and interviews to gather information on business processes and needs assessments for the future state. Approach from a process viewpoint, not a systems viewpoint. *[Additional interview sessions were required due to demand]* ✓

4. **Develop Gap Analysis** – Compare future state needs with functionality available in RU and UMDNJ systems; draft gap analysis and gap fulfillment recommendations and cost estimates. Question: “Do we really need this?” ✓

5. **Develop Strategy for Future State ERP Solution** – Data migration and conversions, interfaces, timeline, and resource requirements; must be actionable and cost effective. ✓

   Roadmap follows for Finance, HR/Payroll, and related systems. Selection required for SIS package (RFP to go out soon); reporting strategy required in next 60 days.

6. **Design Infrastructure Improvements** – Address key issues in networking, administrative computing environments, and desktop applications/management

   Work underway on networking; other areas in planning or early execution stages (follows)
Project Perspectives

1. Multiple-Year Effort

2. Guided by Business Process Improvement and Organizational Review Projects (such as the current Research Administration project)

3. Consistent “best practices” for all units

4. Focus on management reporting and analytical needs

5. Alignment with the Responsibility Center Management budget model

6. Emphases on Change Management, Communications, and Training


**Phases in Summary**

- **Phase 0** – Financial Reporting, Research pre-award, Roadmap, Business Requirements (Fit/Gap), Reporting Strategy

- **Phase 1** – Financials in the Cloud, RBHS Employees on PeopleSoft HR/Payroll, SIS selection, HR/Payroll Business Process Reengineering, Email Initiative, Budget Tools, Financial Reporting deployment, Virtualization of Servers

- **Phase 2** – HCM (HR) in the Cloud, Platform as a Service (PaaS) for custom requirements, HR/Payroll Reporting deployment, Student Services Business Process Reengineering, Network & Wireless Refresh, Data Center

- **Phase 3** – Payroll in the Cloud, Student Services 1\textsuperscript{st} Round Implementation, Desktop Management, Active Directory

- **Phase 4** – Student Services 2\textsuperscript{nd} Round Implementation
**SIS Project Considerations**

- Requirement-gathering for RBHS complete, adding to RU ones from 2012
- Requirements prioritized by student service leaders – report completed in December
- Requirements will roll into software RFP to assess Banner vs. Oracle vs. Workday in January, followed by an RFP for implementation assistance – selection likely by summer
- Significant risk in existing system for RU – age of legacy system and “unfriendly” nature of the services
- HIGHLY dependent on improved business processes
  - First of Student Services Business Process/Organizational Reviews (financial aid) will commence in 1st quarter of 2015, followed by admissions, registration, student finance, advising, etc.
  - To be completed BEFORE implementation of software
Fit/Gap Project Conclusions

**Finance/HR:** Standardize on Oracle’s Finance/HR Solutions + Select Best-of-Breed for Certain Functions

- No significant “gaps” in required or desired functionality
- Worked with Oracle officials to determine “roadmap” – on which version would Rutgers go live?
  - Addition of critical functions like Project/Grants Accounting, Accounts Receivable and Position Management
- Cloud-based – reduces IT dependency, promotes standard practices,
  - Oracle should be ready for its critical higher education functions
- Interim upgrades and applications
  - Moving RBHS-Banner employees to the PeopleSoft
  - Financial Reporting and Budget/Planning (Hyperion suite)
  - Costing information (proposals being evaluated)
- “Marketplace” front-end for Procurement (SciQuest now in place for RBHS) aligned with new expense management software (*replacing* TABERS)
  - Could be implemented early
- Best-of-breed package for Sponsored Projects Pre-award functions
  - In implementation now – aligning with Sponsored Projects process review
Organizational Design and Business Process Review

In order for the consolidated Rutgers to benefit from this project:

• Administrative business processes need to be reviewed and updated to reflect the “right practices” suggested by the “vanilla” configurations of the Oracle and other applications

• New organizational designs for service functions are critical to eliminate duplicative efforts (departments, schools, central), improve quality, reduce “.touches”, and enhance customer service

• Improved business processes not dependent on technology must go into effect asap.

• Org Design and Business Process Review:
  • Procurement recommendations – reorganizations and RFPs for strategic sourcing, technology, and procurement options
  • Sponsored Projects review began last month
  • HR/Payroll process review project planning underway
  • Financial Aid and other student service functions to commence soon

• Change management, communication, and training are essential to achieve success
Final Thoughts

– Rutgers can pursue fixed scope / fixed cost implementation projects and anticipate success if it:
  • Creates a tight control of project scope;
  • Redesigns and implements key business processes and organizational structures; and
  • Deploys a strong and dedicated Project Office and team

– Reporting MUST have the highest priority and be planned UP FRONT

– Executive management must reinforce that the implementation of new HR/FIN and Student Information systems will have:
  • The full support of management for the project and for the organizational and business process changes;
  • Appropriate levels of funding (including on-going post-live operations), support, and resources to match the original intent; and
  • Dedicated change management, reporting, and training efforts
Questions?