An Overview:
Responsibility Center Management (RCM)

Treasurer’s Town Hall
December 15, 2014
## Common University Budget Models

<table>
<thead>
<tr>
<th>Model</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>EVERY TUB ON ITS OWN BOTTOM</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>INCREMENTAL</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>FORMULA-BASED</td>
<td>Budget model in which budget allocations are based on pre-determined formulas</td>
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<tr>
<td>RESPONSIBILITY CENTER MANAGEMENT</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
• The new RCM model will replace both the AFB flat overhead on revenues and UMD’s current allocation methodology with more nuanced assessments to allocate costs to schools based on metrics that mirror usage.
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?

<table>
<thead>
<tr>
<th>Academically Centered - “Academics over Economics”</th>
<th>Provides schools with better data, more control, and greater flexibility over resource decisions</th>
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<td>Increased accountability and transparency</td>
<td>RCM enables understanding of “ROI” and priority decisions given limited resources</td>
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<tr>
<td>Greater focus on long-range strategic planning</td>
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**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

1. General Administration
2. Academic and Student Support
3. Debt Service
4. Utilities
5. Operations and Maintenance
6. Information Technology
7. Libraries
8. 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

Concern ❌

• 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

Reality ✔
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
  - 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

<table>
<thead>
<tr>
<th>Unit (RC) (3)</th>
<th>Location (3)</th>
<th>Org (4)</th>
<th>Fund Type (3)</th>
<th>(Natural) Account (5)</th>
<th>Business Line (4)</th>
<th>Activity (4)</th>
<th>Future (5)</th>
</tr>
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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

- Relationship to RCM
- Hyperion Planning/Budgeting Project
- ERP Reimplementation Plans
- Questions
FIT/GAP PROJECT
FINANCIAL AND HUMAN RESOURCES
STUDENT INFORMATION/SERVICES
PROCESSES AND SYSTEMS

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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. Strategy forming based on Oracle applications for Finance/HR; interim plan for HR/Payroll to migrate RBHS employees. SIS selection RFP out shortly.

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
**SIS Project Considerations**

- Requirement-gathering for RBHS complete, adding to RU ones from 2012
- Requirements prioritized by student service leaders – report due on 11/19
- Requirements will roll into software RFP to assess Banner vs. Oracle vs. Workday in December, followed by an RFP for implementation assistance
- Significant risk in existing system for RU – age of legacy system and “unfriendly” nature of the services
- HIGHLY dependent on improved business processes
**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
  - Working with Oracle officials to determine “roadmap” – on which version would Rutgers go live?
    - Addition of critical functions like Project/Grants Accounting and Position Management
  - Cloud-based – reduces IT dependency, promotes standard practices,
    - Will Oracle be ready for its critical higher education functions?
  - Interim upgrades and applications?
    - Moving RBHS-Banner employees to a “vanilla” PeopleSoft platform as agreements with unions on standardizing payroll definitions are obtained
    - Financial Reporting and Budget/Planning (Hyperion suite)
    - Costing information (RFP on the street now)
  - “Marketplace” front-end for Procurement (SciQuest now in place for RBHS) and related technology
    - Could be implemented early, aligned with new expense management software
  - 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 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 planning underway
  • Financial Aid and other student service functions to commence soon

• Change management tasks are essential to achieve success
Next Steps

• **Recruit** a Project Executive and dedicated resources for: project management, communications, change management, and training

• **Continue and accelerate** organizational and business process reviews, particularly in HR/Payroll and Student Services functions.

• **Issue** RFP for Student Information System incorporating requirements from the Fit-Gap Project (incorporating RBHS needs), issue software RFP, make selection

• **Complete** the “versioning” exercise for needed modules in Finance/HR

• **Plan** the implementation project with realistic budgets, timelines, dependencies, impact of competing IT priorities, and staffing plans (internal and consulting).

• **Determine** projects for interim upgrades or transitions

• **Execute** IT infrastructure initiatives in advance of the HR/FIN implementation

• **Design** a comprehensive business intelligence and reporting strategy – including selecting reporting tools – *prior* to the start of HR/FIN project.
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

• Executive management must reinforce that the selection and 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?