BUSINESS OFFICER

NACUBO
NOVEMBER
2011

ONWARD BOUND

If careening markets seem like a walk on the wild side, an investment consultant might help guide you through endowment management territory.

BUSINESS OFFICER®

14 INSIGHTS: Ochoa Explains All-Fronts ED Effort

The United States must dramatically raise the college participation level for all categories of students, particularly nontraditional learners, says Eduardo Ochoa. The Department of Education's assistant secretary for postsecondary education, Ochoa urges higher education leaders to collectively make a compelling case for supporting public institutions.

By John Walda

18 Onward Bound

If careening markets seem like a walk on the wild side, an investment consultant might help guide you through endowment management territory.

By Kenneth E. Redd

23 Risky Terrain Ahead

Double-dip recession risks are on the rise, says Mark Zandi, chief economist for Moody's Analytics. However, policy makers may be able to skirt the sinkholes and establish better traction—with at least modest endowment returns for higher education.

By Judith H. Van Gorden

29 Self-Service Budgeting

At Drew University, a new software application offers easy-to-use options for deans and department heads to calculate their respective budgets. When people enter their own figures, errors and confusion are lower and ownership begins to take hold.

By Howard Buxbaum

35 NACUBO 2011 Financial Statements

Self-Service BUDGETING

At Drew University, a new software application offers easy-to-use options for deans and department heads to calculate their respective budgets. When people select criteria and enter their own figures, errors and confusion are lower and ownership begins to take hold.

By Howard Buxbaum

Why can't administrative computing look and feel like TurboTax?

That simple question kept popping into my head, especially when budgeting began each year at Drew University. TurboTax, a popular software package, uses plain-English selections and prompts to guide the user through the process of preparing a tax return. Tax preparation is a financial process that is inherently complex, intimidates nonfinancial people, and generates a lot of stress and frustration.

Sounds a little like budgeting, doesn't it?

So, for years, I wondered why someone couldn't do for budgeting what TurboTax did for tax preparation—make it an understandable, easy-to-use, self-service process. Eventually somebody did develop the technology to reflect that vision, as I discovered when I attended an EACUBO event in 2009. One of the presenters was Lawrence Serven, president of XLerant Inc., a firm specializing in budgeting and planning applications that take a plain-English approach to guiding users through the process.

The Business Case for Change

At the time, with the economy experiencing the worst recession since the Great Depression, Drew University—like so many other colleges and universities—needed to get better control over spending. We weren't doing a bad job, but we knew we had to tighten it up. And, obviously, one way to exert control was to get the people who spend the money to budget their spending.

Christopher Van Wyk ran the budget process for Drew, a private university in Madison, New Jersey, with 2,700 students and approximately 600 faculty and staff. Van Wyk has an unusual background for someone managing the budget process—and not simply because he has a PhD. in computer science from Stanford. Before becoming associate vice president for finance, he had been a professor in Drew's mathematics department and associate dean in its undergraduate college.

So Van Wyk brought a dual perspective to budgeting. He not only understood the challenges of orchestrating and managing the budget process but also knew how difficult it can be for an academician—whose daily life revolves around the lecture hall—to pivot and engage in developing financial budgets. To use the vernacular, Van Wyk had a lot of "street cred."

"Before we moved to self-service budgeting, the whole budget process was managed in 3-inch binders," recalls Van Wyk, now controller for Peddie School, a private school in Hightstown, New Jersey. Finance department staff keyed in most people's budgets for them—and then keyed in all the corrections and changes that inevitably followed.

"People would phone me, leave sticky notes on my door, or send e-mails to let me know what they wanted in their budgets or the changes they wanted to make," he continues. "The more sophisticated ones would send me spreadsheets, but I'd have to check for errors. I could never say with 100 percent confidence there wasn't an error somewhere in the roll-ups."

As Van Wyk's boss, I knew he was doing a great job with the process we had. But given its numerous opportunities for miscommunication or misinterpretation, the system led too often to people saying during budget review sessions, "That's not my number" or "I never agreed to that." Because we could not track budget approvals electronically, ambiguity ruled in terms of what was approved—and by whom—and what wasn't.

A review of our budget process revealed other issues as well:

■ **Lack of supporting documentation.** We didn't have a reliable way to capture and communicate the rationale behind the budget. This generated confusion (and a lot of calls and e-mails that often went unanswered by deans and department heads). In addition, budgeting for events, marketing campaigns, strategic initiatives, IT projects, and so forth, required spreadsheets and linked formulas that were difficult to create and validate for accuracy. So they often weren't done, missing an opportunity for us to gain insight into the rationale driving important budgets.

■ **Cumbersome salary planning.** Because we did our salary planning in a centralized fashion, most people resorted to slipping notes under the budget director's door or leaving voicemails about planned departures, requests for new hires, raises, and so forth. We had also gotten into the habit of transferring lines between departments, so our budget director essentially became an archeologist, tracking who left, who arrived, and who had transferred to which department.

■ **Incomplete picture of personnel costs.** Deans could not see who was being paid from what account, nor could they see fully loaded benefits. This lack of linked information generated confusion and led to time wasted answering questions that should have been available at a click.

■ **Daunting budget templates.** We didn't have an easy way to customize budget templates to present the few accounts pertinent to a particular department. Faced with the full chart of accounts, faculty and staff could easily become overwhelmed and not know how to proceed.

■ **Timing variances.** Drew created an annual budget and then divided it by 12 to arrive at a monthly budget. This approach did not reflect the seasonality of some costs. Faculty, for example, are paid on a 9-month basis while staff are paid on a 12-month basis. We had to generate complex tables to analyze the differences between "Actual Results" and "Budgeted Results," which distracted us from meaningful variance analysis.

■ **Problems with reporting.** People could see budgets and reports for either an individual department or for the fully aggregated Drew University budget, which includes links to dozens of spreadsheets. Producing interim roll-ups for the deans and vice presidents proved nearly impossible—and it's hard to hold deans accountable if they can't easily see a roll-up of the numbers in their particular areas. We did all headcount or salary reports in Excel, a system that was prone to human error. Comparisons of the budget to other benchmarks (such as last year's budget or actual spending) were time-consuming to produce—and we didn't have 100 percent confidence in the results.
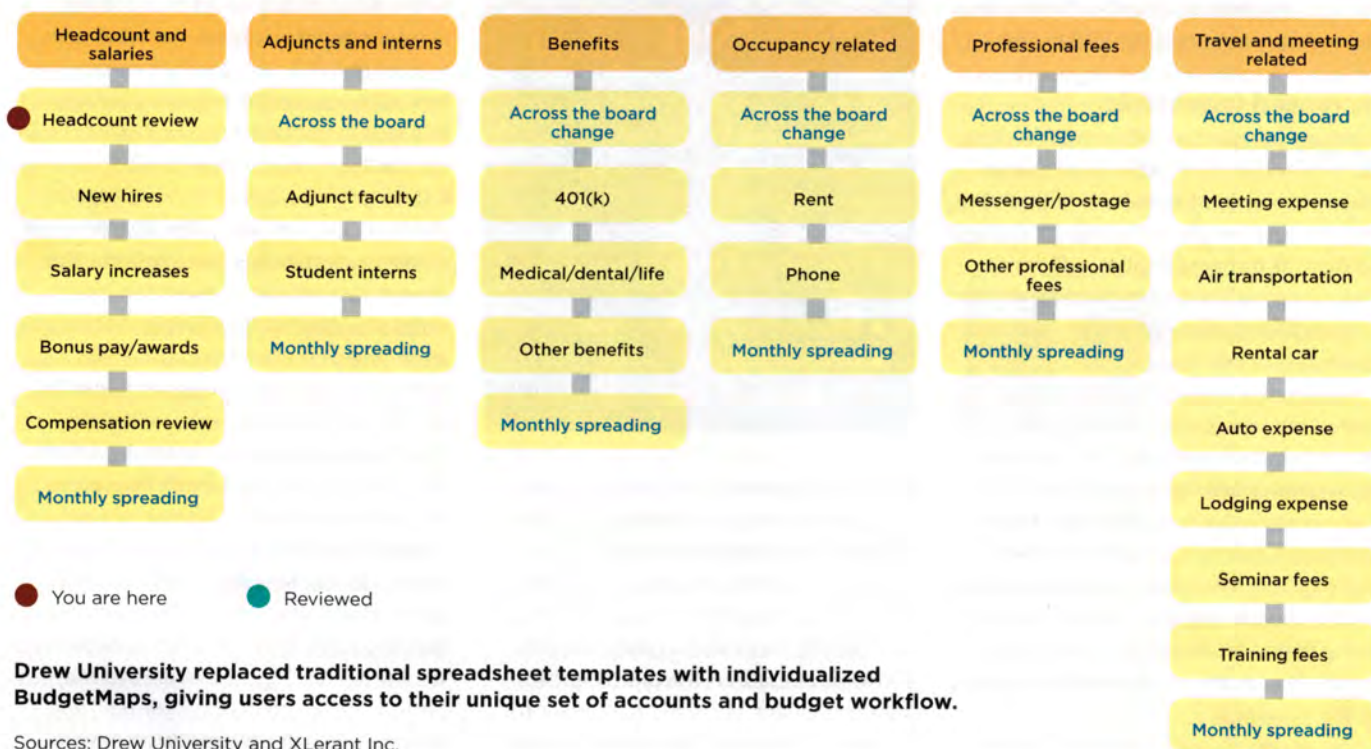
We didn't complete a fearless and searching inventory like this to beat ourselves up about our budget process. We wanted to build a compelling business case for change. Perhaps none of these issues, taken in isolation, was cause for change. But

The Benefits of Do-It-Yourself Budgeting

By shifting many of the budget responsibilities to the individuals responsible for particular departments and cost centers, Drew University's financial division saw a number of positive changes. Not only did budget holders key in their own numbers to the budget templates—resulting in increased ownership—but they noted the following improvements:

■ The capturing of the rationale behind a budget.
■ A better grip on salaries.
■ An end to the debate on budget approvals.
■ Elimination of linked spreadsheets for reporting.

FIGURE A Typical BudgetMap

Headcount and salaries	Adjuncts and interns	Benefits	Occupancy related	Professional fees	Travel and meeting related
Headcount review ●	Across the board	Across the board change	Across the board change	Across the board change	Across the board change
New hires	Adjunct faculty	401(k)	Rent	Messenger/postage	Meeting expense
Salary increases	Student interns	Medical/dental/life	Phone	Other professional fees	Air transportation
Bonus pay/awards	Monthly spreading	Other benefits	Monthly spreading	Monthly spreading	Rental car
Compensation review		Monthly spreading			Auto expense
Monthly spreading					Lodging expense
					Seminar fees
					Training fees
					Monthly spreading

● You are here   ● Reviewed

Drew University replaced traditional spreadsheet templates with individualized BudgetMaps, giving users access to their unique set of accounts and budget workflow.

Sources: Drew University and XLerant Inc.

viewed in the aggregate, they compounded one another, magnifying their impact on the overall process. Chris Van Wyk describes the situation in these simple terms: "I just knew there had to be a better way."

In a meeting with Drew University's president, we not only reviewed the points outlined here but also talked about the higher-level issue of accountability, of getting department heads to really understand—and own—their budgets. We discussed the importance of "willing participants"—department heads who truly engaged in and thought about their resource requirements as they went through the budget process.

At the end of the meeting, the president looked me in the eye and asked, "Do we really need this?" It was a moment of truth.

I had walked into the meeting fully confident that I had a firm grasp of the challenges we faced. I also knew that our president responds to straight talk. So when he asked me that question, I looked right back at him and responded, "We damn well need it. We do a poor job

of budgeting today, and that needs to change." And with that, I won his support.

The Search for Options

While contemplating changes to our budget process, we had begun looking for a new enterprise resource planning (ERP) system. We figured that the right vendor could provide, among other things, a way to solve our budgeting issues. So, initially, we tied together our searches for a budgeting solution and an ERP vendor.

XLerant's EACUBO presentation had provided me with a set of requirements to use when evaluating ERP vendors' capabilities to enable self-service budgeting. In the midst of interviewing various companies, we asked XLerant to demonstrate its BudgetPak software. We invited a dozen or so department heads, including the deans of Drew's academic units, the head librarian, and the head of athletics. The software needed to draw an enthusiastic response from those people, who would be using the product to work through the budget themselves—and it did.

Ultimately, we selected SunGard's Banner for our ERP system and XLerant's BudgetPak to enable self-service budgeting. First we implemented the budgeting product, because it could be done faster and we wanted the immediate benefit. That decision turned out to be an unintentional stroke of genius.

One core concept when implementing the ERP system we chose is "organization." I had heard that colleges can spend weeks exploring alternatives and deciding on the most appropriate organization structure to anchor their ERP system. In fact, we hadn't given much thought to our organization or roll-up structure; it was essentially flat. But Drew had a ready-to-go organization structure, thanks to XLerant's product, which offers a graphical drag-and-drop tool that resembles an organization chart. You can see your organization and all levels of roll-up right on the screen, making it easy to decide which department roll-ups are assigned to a particular dean or vice president. To make changes, you simply redraw the organization tree on the screen. ➤

Because we already knew how we wanted Drew's organization to look, we had a head start on implementing the ERP system.

Increased Ownership

From my perspective, self-service budgeting means that the finance department steps out of its traditional role of inputting budgets into templates on behalf of budget holders. As its name implies, self-service means the budget holders themselves take responsibility for budget input—and own the results of that input.

Based on my more than 25 years of budgeting experience, I can truthfully say that it matters a great deal just who does the actual budget input. And that's not just my personal opinion. Study after study has shown a direct correlation between participation and sense of ownership. The greater the participation—the ultimate being hands-on-the-keyboard involvement—the greater the sense of ownership of the outcome.

So, above all, self-service budgeting at Drew had to be easy to use—for everyone. We had some experienced users who knew exactly what they were doing. I didn't worry about them; they'd be able to use any budgeting system we selected. But I did worry about the people who—no matter how bright and capable they are—didn't understand budgeting. If I gave them something that looked like an Excel spreadsheet and told them to have at it, I knew we'd all be in trouble. Self-service budgeting required a system with built-in

> **Now, the people who must live by that budget actually put their hands on the keyboard to develop it.**

power and sophistication for advanced users, while being easy enough for less-sophisticated budget holders to master.

One key to user-friendliness is the BudgetMap feature (see figure, "A Typical BudgetMap") included in the BudgetPak software. In essence, it replaces spreadsheet templates as the main interface for budgeting. A BudgetMap presents each budget holder with a map of his or her budget, for a customized workflow. In my department, for example, we use accounts such as Debt Service, Legal Expenses, and Depreciation. Academic departments wouldn't necessarily see those accounts in their budgets; they'd more likely see a BudgetMap showing categories such as Travel, Supplies, and Equipment.

Before using BudgetPak the first time, about two dozen budget holders attended a 45-minute training session. We introduced self-service budgeting at the dean level for academic units and with department heads in administrative units. Someday it might reach down to other levels as well, emphasizing accountability throughout the entire organization.

The New World

By far, the biggest change between the "old world" of budgets entered by the finance staff, and our new system, is in the individuals who actually develop the budget. Now, the people who must live by that budget actually put their hands on the keyboard to develop it. Other important changes include Drew University's newfound abilities to:

- **Capture the rationale behind a budget.** Rather than existing on scribbled sticky notes, captured in e-mails—or residing in someone's head—supporting information now accompanies the relevant numbers. Self-service budgeting makes it easy to build up a budget with line-item detail.
- **Get a grip on salaries.** We've automated the interview process used to develop a compensation budget. Just like TurboTax, the software asks department heads a series of questions; they simply click the appropriate answers. For example: Do you know of anyone leaving permanently for any reason? Do you know of anyone planning a sabbatical or parental leave? Do you plan on replacing them? When does that new person start? This type of plain English, question-and-answer workflow process enables the deans to see all the pieces of compensation, including benefits, and the affected accounts. It also helps them track the percentage of a salary that may be covered by a grant or endowment and the time when the university will have to assume all the salary costs.
- **End the debate on budget approvals.** In the past, all budgets were submitted around the same time; while some had been scrutinized and well-scrubbed by a dean, others arrived in the finance department with little operational review. Now, self-service budgeting requires the deans to formally (and electronically) approve the budgets they manage before those budgets flow up to the respective vice presidents and, ultimately, the president. With electronic sign-off approval and status tracking, we can see where everyone is in the budget process—whether, for example, they have completed the budget but not signed off or haven't even started yet.
- **Eliminate linked spreadsheets for reporting.** With BudgetPak, the budget holders (with the appropriate security privileges) can easily access their budget reports and year-to-year comparisons via a library of reports. Rather than calling the finance department, they can choose the reports they want, whenever they'd like.

In addition, Drew's new approach enables budget holders to reflect real-world

seasonality; they can spread their budgets across the year based on last year's actual spending. In fact, we made this approach the default option, so even department heads who ignored or overlooked this aspect of their budgets could still hand us meaningful monthly spreads.

More to Come

Now that Drew has a solid budget process in place—and recently used the software to make midyear revisions—we plan to train users on how to analyze their budgets. Then they'll be in a better position to understand the projection variance analysis.

We'd also like to turn our attention to self-service forecasting. Much of our revenue is driven by student enrollment, which does not change every month but is still seasonal. We may directly incorporate those assumptions into our budget to drive some account values. This process, however, can't become too automatic because we want people to own the results: Our vision is self-service, not autopilot.

With regard to future work with Drew University, XLerant's Lawrence Serven says, "We look forward to a continued partnership with Drew that will get us even closer to fulfilling our shared vision of an efficient, transparent budgeting process that will benefit decision making and resource allocation. The Drew team exhibits the type of leadership that makes for effective implementation: involving department heads right up front, even during the vendor-selection process; regularly communicating status updates along the way; and offering multiple time slots for ongoing training."

As I look at our revised budget process, I see Drew aiming for progress, not perfection. If we waited for perfection, we'd still be posting sticky notes on the budget director's door.

The finance department staff and I are not the only ones who see such positive movement in our budgeting practices. Christopher Biehn, Drew's vice president of university advancement, recently noted, "BudgetPak enables us to more efficiently and effectively plan and allocate expenses. It's also a great tool for reviewing and making reallocations to better generate revenue. BudgetPak rocks!"

HOWARD BUXBAUM (left) is vice president for finance and business affairs at Drew University, Madison, New Jersey. Contributing to this article is **LAWRENCE SERVEN**, president and cofounder of XLerant Inc. and author of *Value Planning: The New Approach to Building Value Every Day* (John Wiley & Sons, 2001). **hbuxbaum@drew.edu** **lawrence@xlerant.com**