

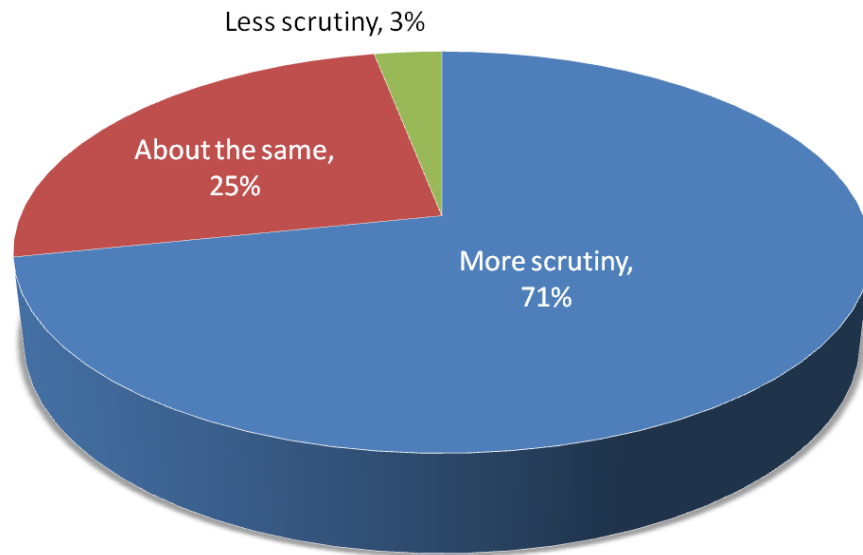
Budgeting Challenges Facing edu And How to Deal with Them

This paper was derived from extensive research in the edu segment and combines the results of a survey conducted by XLERANT of 100 budget directors at colleges and universities as well as interviews conducted with budget directors from the XLERANT customer base. These budget directors are Jeff Ginsberg from Bunker Hill Community College and Cheryl Warner from Northwood University, Howard Buxbaum from Drew University and Lucille Marottolo from Quinnipiac University. The participants were specifically chosen to highlight the budgeting needs of small to medium institutions.

Most colleges and universities are facing unparalleled financial scrutiny in this tough economy. Gone are the days when these institutions could simply pass expenses on to tuition hikes or count on public or private funding to cover increased costs.

Not all colleges and universities are alike. Some can thrive in a bad economy, but many do not. A common theme among them is that there is more scrutiny on the budgeting and planning process than ever before. This is supported by a recent survey conducted by XLERANT of financial professionals in colleges and universities. There were roughly 100 respondents to the survey from across the country. When asked if there was more scrutiny on the budget process than a few years ago, a whopping 71% agreed. . The response was the same whether the data was filtered with respect to small colleges or larger universities.

Chart 1. Are you seeing more budget scrutiny from your administration now than in the past?



The reasons for the added scrutiny are obvious.

- State funding is down
- Giving is down
- Enrollments are down
- Competition for students is higher
- Costs are up and you can't simply pass cost increases along to students
- Administration is searching for ways to cut costs and improve service
- Institutions are trying to achieve their strategic plan
- Cuts in administrative and financial staff
- Department heads are trying to be more self-sufficient and creative with funds
- Institutions are trying to be both more prudent and sensitive to departmental needs

Howard Buxbaum, Finance Manager at Drew University realized that the economic downturn was presenting a “new normal” and a very real challenge to the university’s economic sustainability. “We don’t have a lot of operating reserves,” he notes. “We needed to make clear choices between financial priorities and understand that we can’t do everything. Our environment was increasingly competitive. I didn’t feel we were defining our brand well against what our competitors were offering.” Buxbaum urged that leadership jumpstart a strategic planning process to better position the university for future realities. A big part of that was responsibility-centered management.

Jeff Ginsberg, Budget Director at Bunker Hill Community College (BHCC) and Cheryl Warner, Budget Director at Northwood University both agree. Jeff states that “we’re a public community college, so we rely heavily on state funding. And over the last few years, things have not been great. We’ve had our state funding cut. We did have some federal stimulus money the last couple years, but that’s dried up, so we have to figure out ways to compensate for that.”

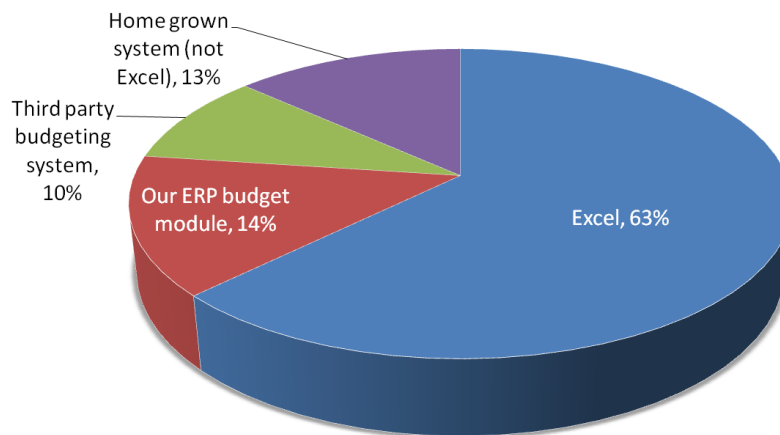
Cheryl says “we are a private institution, so enrollment is critical to us. We are definitely enrollment-driven. And we implemented a new strategic plan at about the same time the economy started to tank, and we were trying to improve the profile of our students. And we switched from terms to semesters at the same time, so we’ve suffered some enrollment hits. We’re struggling to make our enrollment because of these changes, which we intended, to a large part. So that is a pressure point. And the president keeps preaching the word ‘nimble’. We need to find creative ways to be nimble. The budget is critical and when we can track some changes in enrollment, we need to be nimble enough to change the budget. So that is really important to us.”

As part of the survey of 100 college and university budget managers, XLerant asked the participants if they thought that the budgeting process was considered “mission critical” to the institution and should be treated with the same level of respect as the general ledger system. Not a single person disagreed with the fact that budgeting was “mission critical” to their organization.

Cheryl Warner agrees stating “Absolutely budgeting is mission critical. When 90% of your revenue is enrollment-driven, and enrollments are not necessarily known, budgeting, producing accurate and variable budgets is critical.

Yet, in spite of the fact that the budget was getting more scrutiny than before and that the process was considered “mission critical”, 63% of respondents to the survey stated that they used Excel to build this “mission critical” application. They had become both the programmer of the application and also manually managed the data and the process of budgeting for their institutions. This seemed incredible.

Chart 2. What do you use as your primary budgeting application today?



First, Excel is a simple two-dimensional spreadsheet. It is neither a serious software development environment nor is it a database application. All “budget intelligence” requirements need to be programmed into Excel. For instance, Excel does not know what an account is, or an unit or an organizational structure or a time period or a version, or a driver. It has no idea how to do salary and benefit planning, how to calculate FICA or health care costs. It has no idea how to depreciate assets. In addition to the lack of “budget intelligence” it is not a database. Therefore templates need to be sent out to all department heads where the data resides in the budget templates. When templates come back, the financial staff needs to check to make sure that no one changed the templates; they need to manually manage these templates for each department for each version of the budget submitted. They need to consolidate the templates, often under multiple organizational structures. Then they need to parse the data or link the data into other templates for reporting and analytical purposes. Ouch.

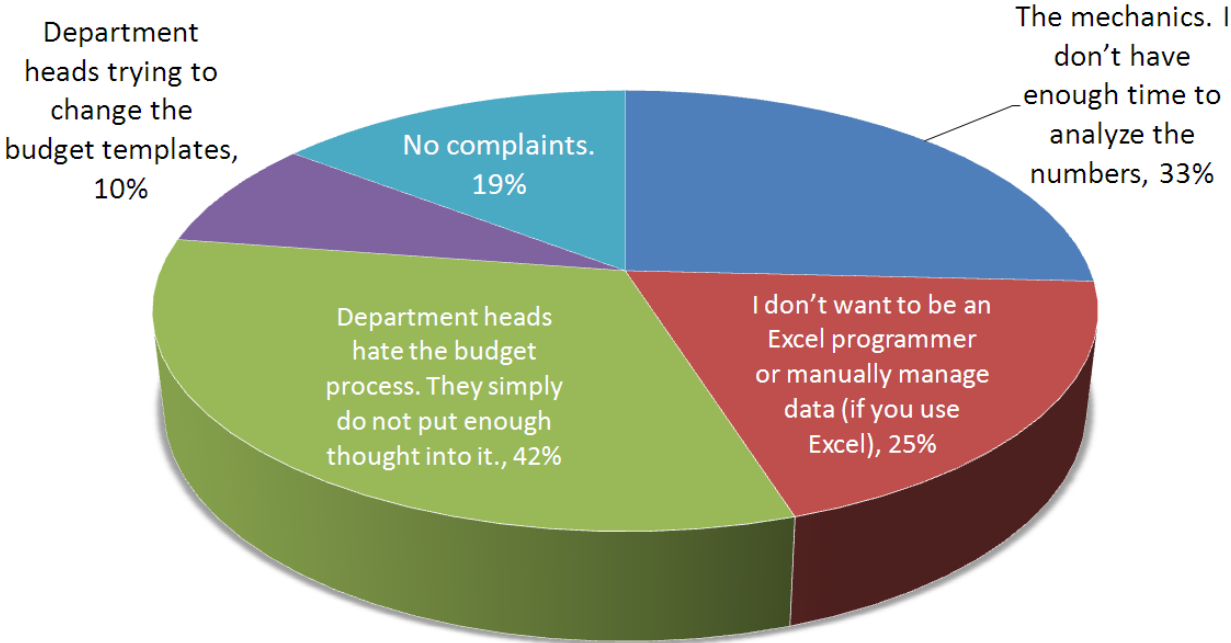
Second, financial people are not programmers nor do they want to be. They went to school to learn finance and analysis not system building. And finally, non-financial people do not love Excel the way financial people do. So, we have a complex, mission critical application built by people who are not trained to build systems in a two-dimensional spreadsheet that is not a software development environment or database for users who do not like it. Great scenario, huh?

So, why do so many organizations do this? The answer is that the practical choices for budgeting are limited. While every general ledger system or ERP system has a budgeting add-on, they are not designed for user flexibility. These products are built by organizations that understand transactional systems. But budgeting is not transactional, it is account balance oriented. So the builders do not fundamentally understand the needs of non-

financial people who do not want to deal with transactions. Sometimes, slicing and dicing management reporting vendors also offer a budgeting “add-on”. These products are fairly immature in their overall functionality and are offered more for the vendor to say that they have a “complete suite” of product offerings.

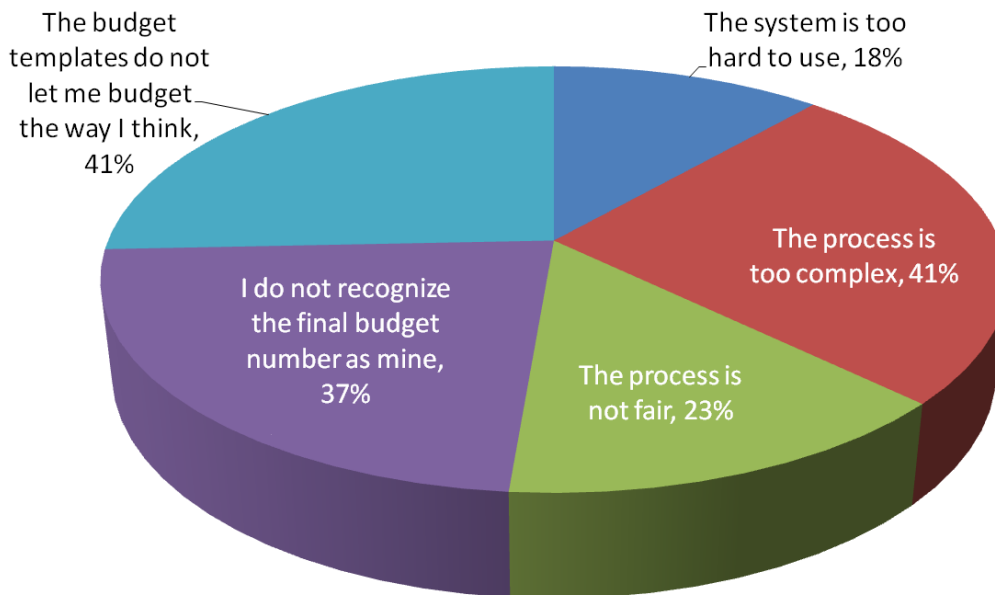
Now it turns out that neither financial professionals nor the department heads who have to prepare the budgets like Excel or other solutions. When asked about their top complaints about the budgeting process, financial professionals answered that they thought that based on the system, that department heads hated the process and did not put enough effort into it (42%). They also complained that the manual mechanics of the process were too difficult (35%) and that they really did not want to be programmers (28%).

Chart 3. What are your top complaints?



When they were asked what the top complaints were from department heads , they responded that department heads complained that the budget templates did not allow them to budget their business the way that they thought about it and were too inflexible for them to use (43%). Department heads also complained that the whole process was too complex (38%). But, in the end, the number one complaint from department heads was that they did not have a sense of ownership of the numbers (48%). Therefore you hear “Hey, that’s not my number”.

Chart 4. What are the most frequently heard complaints from department heads?



This whole Excel budgeting complexity issue is supported by Jeff Ginsberg from BHCC who states “When I got here we used Excel for budgeting. It was cumbersome, painful and awful. Department heads are afraid of Excel.”

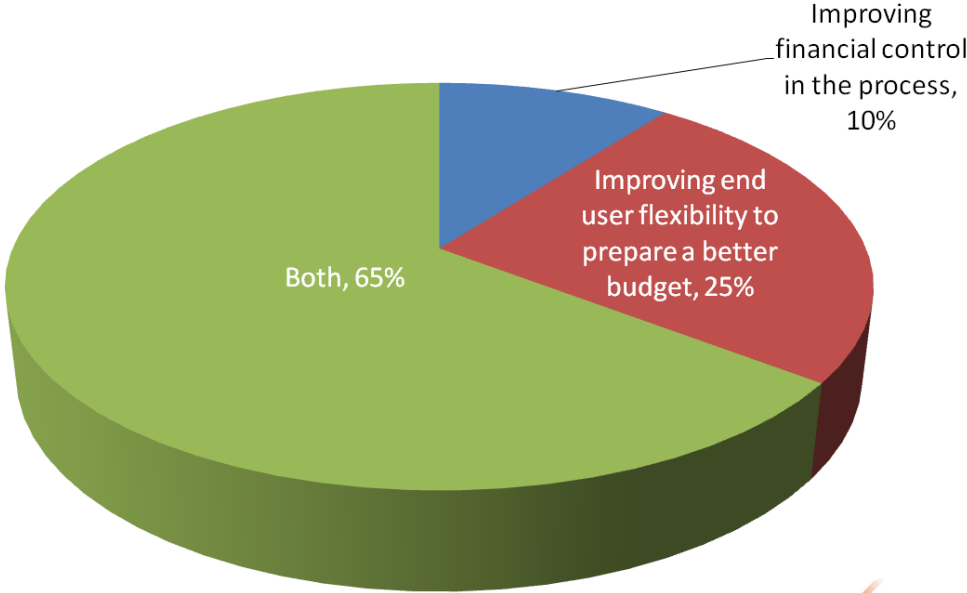
But equal to the challenge of using Excel for budgeting, financial professionals in colleges and universities have serious challenges as well. Their top challenges include:

- Line managers hate the budget process and don't spend much time on it
- There is a lack of funds to deal with this and competing priorities
- Finance people do not know how to get initiatives approved
- There is a desire to improve both the efficiency and the effectiveness of the budget process

The budgeting process was getting unwieldy, according to Lucille Marottolo, Associate Vice President of Finance at Quinnipiac University. “My philosophy is to keep things simple for budget users,” she notes. “But we had too many budgeting areas, too many pieces of paper in too many places. We needed to pull it into one system where we could find everything. Two hundred spreadsheets are way too many.”

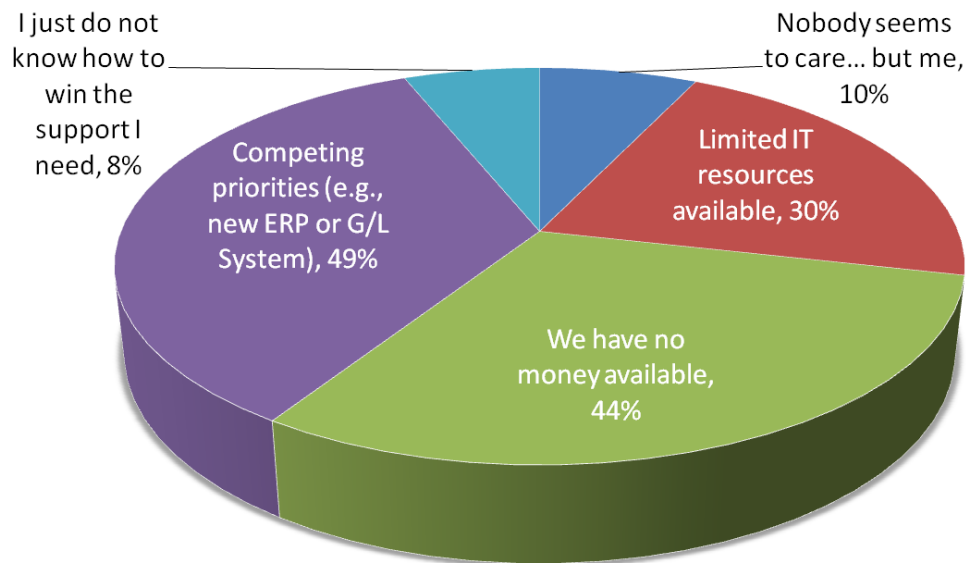
We know that finance people want to both improve financial controls and user flexibility and these two are competing priorities. When they were surveyed about which was more important to them, improving financial controls in the budget process or increasing user flexibility in the budget process, (or both), 66% responded that both were critical, 26% stated that improving user flexibility was more important and only 8% responded that improving financial controls was most important.

Chart 4. What's more important in your situation?



But solving this challenge is a challenge in itself. We asked these financial people what the top obstacles were to improving the budget process (allowing for multiple answers). Of the respondents, 50% said that competing priorities got in the way of solving the budget issue. Competing priorities could be implementing a new general ledger system or other type of system . 44% of the respondents complained that they had no funding available and another 33% complained that IT resource shortages were an obstacle.

Chart 6. What's the biggest road block for making progress?



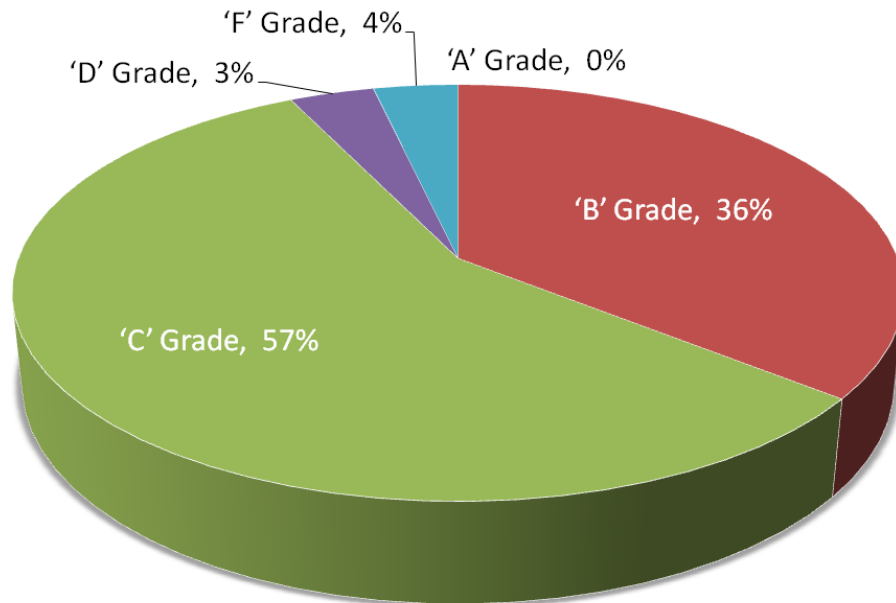
So, in summary, what we learned is:

- There is more scrutiny today on the budget process than even a few years ago due to the difficult economic times.
- Colleges and Universities are carefully looking at their budgeting process and trying to seek ways to improve department head participation in and ownership of the budget and the numbers.
- There is a desire for greater accuracy and better thinking in the budget process.
- Administration wants documentation and supporting detail attached to all expense items.
- Administration wants to understand the budget from the perspective of specific actions or initiatives.
- There is a greater emphasis on salaries and positions.
- Administration wants a faster budget cycle with more iterations and more scenarios to choose from.
- Administration wants zero errors.
- Administration wants the tools like the big companies use but without the expense.

Of the respondents to the survey who said that they use Excel for budgeting, more than half are looking to replace Excel in the next 6 months and the rest say they will do so eventually. When asked what grade they would give their budget process, 36% gave themselves a “B” grade and 57% said that they felt that they were no better or worse than anyone else, and

graded themselves a “C”. 7% of respondents graded their process a “D” or “F”.

Chart 7. Please grade your current process, Excel Users



Suggestions

Jeff Ginsberg of BHCC says the main issue when replacing the budget system is to get users involved in the process. Jeff adds “I didn’t want to purchase a product and throw it at them and say ‘OK, here you go’”.

Cheryl Warner from Northwood University agrees stating “Well, obviously, we’ve got all kinds of budget managers around here from coaches to librarians to academicians, so we had different levels of knowledge . And because we had used both Excel and Colleague for our budgeting tool, I wasn’t concerned with how I was going to get the budget together. I knew I would do it no matter what tool we were using. So my focus was the end user, knowing that they avoided doing the budgets.”

Cheryl adds “Do your homework. Know the reference stories of others who have had success with this.” This means seeking help from others on how to get your management team enthused about the initiative and bought into the funding of it. Many financial people at other colleges and universities have done this before and can offer suggestions and also relevant experiences that will be useful as you try to get this done. Most organizations have gone from Excel to a specialized budgeting application. Ask them how they went about getting this approved, sold, implemented and how successful they have been. Ask if your CFO can speak with their CFO.

What Can You Expect?

Expect a lot. Expect to get more control over the budget process while providing more end user flexibility (they'll love you for that). Expect to replace a flat, two dimensional spreadsheet system with a purpose built budgeting application that has budget intelligence woven throughout. Expect that you'll stop hearing "That's not my number" from your department heads. Expect to spend more time on value added analysis and way less time on mechanics. Expect to eliminate timing variances as your budget reflects the reality of actual spreading. Expect to get more control and visibility into your headcount and personnel planning.

And finally, expect to hear "thank you" from people who appreciate you looking out for them, and implementing a budgeting system that they find as easy to use as you do.

XLerant is a software solutions company that builds and implements innovative, practical and incredibly powerful corporate budget preparation software for mid-sized and large colleges and universities helping to create a "Culture of Budget Accountability" with department heads. The company has college and university customers of all size and in multiple geographies. Four of these colleges and universities are referenced in this article. They have moved their process to XLerant's BudgetPak. To learn more about how these institutions use XLerant's BudgetPak, please visit <http://www.xlerant.com/testimonials/>

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