Decentralization vs Centralization: Finance & Budget

University of Minnesota Board of Regents
Finance Committee
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Outline

• Finance & budget context
• Distribution of finance staff
• Factors and considerations, centralization vs decentralization
• Distribution of functions and activities
• Recent trends and examples
• Opportunities & next steps
Finance & Budget - Context

- 5 campuses, 21 research & outreach centers, 14 extension offices
- 68,400+ students
- 25,300+ employees
- 2.2 million sq ft research & lab space; 1.4 million sq ft classroom space
- Annual revenue budget = $3.3 billion
- 108,000+ budgeted accounts
- 8,000+ active sponsored projects
- Track over $750 million of sponsored research funds annually
- Track and bill $1.0 billion in student tuition and fees each year
- Process $490 million of federal financial aid annually
- Process 4.5 million yearly financial transactions
- Complete 150,000 purchase orders for supplies and services per year
- 103,000 unique financial reports process per month
- Manage $2.4 billion in investments
CFO/Treasurer Financial Oversight
Headcount Distribution
163

Fall 2012 Headcounts

- 16, 10%
- 66, 40%
- 81, 50%

Leadership & Directors
Financial Job Titles
All Other Job Titles

Notes: *Defined as all employees with institutional oversight responsibilities within CFO/Treasurer organization
Headcount Distribution
Financial Job Titles Only
971

Notes:
* Defined as financial employees with institutional oversight within CFO/Treasurer organization
** Defined as other central support unit employees with specialized institutional financial oversight
*** Defined as financial employees in all other academic and support units
Centralization of Finance Activities
Factors and Considerations

• Institutional finance functions
• Activities are complex and occur infrequently
• High risk activities requiring extensive controls
• Data integrity is critical
• Decision making needs to be fast
• Reduces duplication and processing costs
Decentralization Of Finance Activities
Factors and Considerations

• High levels of service needed
• Financial services are integral to local operations
• Geography is a barrier to central services
• Complex operating environment
• Technology efficiently enables decentralization
• Supports local oversight and accountability
Highly Centralized Finance Functions

- Strategic budget development
- Investments, cash management & banking
- Debt management
- Real estate management
- Institutional financial accounting
- Sponsored project billings, collections, reporting
- Risk management & insurance
Decentralized Finance Functions

• Budgeting and budget management
• Shopping (via e-Procurement)
• Purchasing
• Paying vendors, suppliers, contractors
• Travel bookings and employee reimbursements
• Selling goods and services
• Financial reporting and oversight
Distribution of Finance Functions

Staff Using EFS for Financial Functions

- Decentralized
- Regionalized via Clusters
- Restricted to RRCs and Designees
Recent Trends

• Clustered financial service model (Regionalization)
  – Limited distribution of complex, high risk services
  – Ensures distribution of some services outside of central
  – Reduce duplication, consolidate low-volume activities
  – Not a full-service model

• Shared service model
  – Full-service organization provides a range of administrative services to many units
  – Creates a critical mass of activities for developing staff proficiencies, cross-training for backup
  – “Single point of contact” for all services
Cluster Model Illustration

**Departments**
- Conduct sales activities
- Manage customer relations
- Make purchases
- Receive vendor invoices for payment

**49 Clusters**
- Input customer & billing data for invoice
- Input vendor invoices for payments

**Central Units**
- Create bills
- Cash collections
- Maintain A/R records and systems
- Generate & disburse accounts payable payments
- Maintain A/P records and systems
- Policies & procedures

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**Decentralized**

**Regionalized**

**Centralized**
Shared Services Example

Shared Services Cluster

Services Provided
• Payroll
• Budgeting
• Prof Services contracts
• Travel / employee expenses
• Purchasing cards
• General Accounting
• Reporting

Units Serviced:

- President’s Office
- Academic Affairs / Provost
- Student Affairs (portions)
- Equity & Diversity
- University Relations
- Undergraduate Education (portions)
- Human Resources

~13 FTEs provide services to ~630 FTEs and 400 student employees
Opportunities and Next Steps

• Huron administrative benchmarking study

• Refine and revise “dotted lines”
  – Clarify roles, improve coordination & communication
  – Promote consistency and best practices
  – Development of oversight tools, service agreements

• Refine and further deploy clusters, shared services models
  – Impact of e-procurement on transaction processing