

## Office of the Vice President for Finance

The [Office of the Vice President for Finance](#) (VPF) continued to focus on process optimization as a means of better serving the MIT community, helping to achieve control and compliance objectives, and supporting the MIT mission. Michael W. Howard succeeded Israel Ruiz as vice president for finance in December 2011. In spring 2012 VPF hired a new controller, Basil A. Stewart. Additional staffing changes over the course of the year led to the realignment of some functional areas. Amid these changes, efforts to enhance systems and processes continued, and VPF achieved greater efficiencies and improved service delivery across its functional areas.

In light of the Institute's expanding international activities, its MIT 2030 framework, and the increasing demand for sophisticated financial analysis, VPF in FY2012 prioritized the need to provide robust financial data and analysis to support MIT's senior management. VPF's Budget, Finance, and Treasury team made considerable progress in advancing this priority during the latter half of the fiscal year, and efforts to strengthen these capabilities will continue.

Achieving VPF's ambitions in process optimization, control and compliance, and service delivery will require continued leveraging of information technology. As a first, significant step toward these goals, VPF formulated plans toward the end of the fiscal year to develop a new systems and data team, headed by a director of financial systems, data, and process innovation.

The VPF leadership team in FY2012 took time to articulate a vision for the next five years or so and to set ambitious goals. Central to the vision and goals is the organization's commitment to its employees. VPF took strides in fulfilling this commitment in FY2012 with major advances in diversity and inclusion and continued investment in employee growth and development opportunities.

Following are detailed reports from each of the service areas within the Office of the Vice President for Finance.

### Human Resources

With the start of FY2012, Israel Ruiz began to transition from vice president for finance to his new role as the Institute's executive vice president and treasurer. VPF embarked on a comprehensive search for his successor; MIT alumnus Michael W. Howard was hired and started on December 5, 2011. The remainder of FY2012 focused on the successful inclusion of Vice President for Finance Howard, additional reorganization as a result of staffing changes, and other key hires, including the hiring of Basil A. Stewart as the Institute's new controller. Stewart began as controller on May 31, 2012.

VPF continued its emphasis on building and maintaining an increasingly diverse workforce. VPF hired more than 18 employees in FY2012, 10 of whom are considered to be members of under-represented minorities. Thirty percent of VPF staff belongs to under-represented minority groups, and the office maintains an atmosphere that is open and inclusive for all employees, regardless of race, age, or sexual orientation.

VPF also continued to encourage employees to participate in growth and development opportunities, both within and outside MIT. In FY2012, VPF employees participated in the Essentials for Managing and Managing for Excellence classes offered by central MIT Human Resources, the Administrative Assistant Program, and the Leader to Leader (L2L) Program. VPF also supported the participation of three employees in The Partnership Program, a Boston-based program designed for the professional development of under-represented minorities.

VPF maintained an active rewards and recognition program. More than 85 Spot Awards were distributed. Eight employees received a VPF Infinite Mile Award, and two VPF employees were honored with an MIT Excellence Award, in the categories of “Serving the Customer” and “Fostering Diversity and Inclusion.”

In light of a sharpened organizational focus and staffing changes, VPF Human Resources spearheaded the hiring of more than 30 employees in FY2012.

### **Budget, Finance, and Treasury**

Budget, Finance, and Treasury (BFT) is often called upon to help guide financial strategy and analysis to support MIT’s platform for education and research, as well as to participate in the preparation of financial reports and presentations made to the Institute’s Executive Committee and the MIT Corporation. The group also acts as an advisor to individuals and groups across the Institute. BFT prepares and monitors performance to the annual budget, has a major role in closing the Institute’s financial books, and is responsible for the strategic and operational deployment of MIT’s working capital.

Projects completed during FY2012 include the following:

MIT 2030 Financial Model Update: With the May 2011 \$750 million borrowing in place to finance the next phase of campus construction projects, BFT turned to the actual deployment of those funds as well as the acquisition of the remaining funding from Institute sources and fundraising. BFT collaborated with Facilities (Construction, Planning, Engineering and Construction), Resource Development, and others to revisit assumptions around building locations, project priorities, fundraising capabilities, and other parameters. The effort culminated in a well-received package of capital planning materials for the May 2012 Executive Committee meeting that reframed the discussion of MIT’s capital planning.

MIT Financial Trends: BFT prepared materials for the February 2012 Executive Committee meeting describing how MIT’s finances have evolved over the past decade and how MIT might finance needs over the next decade. The team has expanded the scope of the historical review to describe changes over the past 50 years. This material on the MIT Model will be used to support future planning efforts.

BFT continued to support the reporting needs of the Institute by providing weekly performance dashboards to senior leadership, updating the budget flexibility model that has helped guide MIT’s budgetary response to the financial crisis, and monitoring the Institute’s performance to the approved budget. BFT reports these insights to the Budget and Finance Steering Group; it also and meets other modeling, analytical, and reporting needs across the Institute, including:

- Enrollment Management Group: BFT participated on a team that investigated the effects and sustainability of enrollment, tuition pricing, and financial aid policies.
- Endowment Distribution Rate Modeling: Finance provided the analysis that supported the choice of the annual distribution rate per unit, including adjusting the formula to more closely follow recent inflation rates. The September 2011 Executive Committee presentation included projections of distribution rates over the next 10 years under different market return scenarios. Finance continues to analyze alternative approaches to endowment distribution that may better align with operational needs during times of rapidly changing market conditions.
- Financial Close and Net Assets Reporting: BFT continued to work closely with Accounting Services to streamline the closing process. The initial efforts in this area were evident in the vastly improved process supporting the FY2011 financial close.
- Expanding Child Care Offerings on Campus: BFT worked with the MIT Work-Life Center to review the operations of the existing campus child care centers and analyze the financial impact of various expansion options, including leasing space near campus, renovating existing space in campus buildings, and constructing a new facility. The analyses helped support the decision to locate a new center on Vassar Street, using modular construction.
- Streamlining Treasury: BFT simplified the daily treasury operations, working with MIT Investment Management Company (MITIMCo), Bank of America, and others to cut steps from the process and provide more robust treasury support. BFT also developed a model to help guide the investment of the proceeds from last year's century bond issue to maximize the return on unspent funds while ensuring availability of liquidity to support impending projects. BFT also manages MIT's relationship with MIT's operating bank (currently Bank of America) and administers the related online banking system access to promote smooth but secure daily treasury operations.
- Streamlining Budget Reporting: Budget continued to automate the standard budget reports and provide added data availability, such as making budget transactions available to the units in the data warehouse and creating tools that allow units to generate their own budget authorizations. Budget also worked with the Industrial Liaison Program (ILP) to implement a net contribution model for the ILP operation, a win-win for ILP and MIT.

### **Controller and Accounting Services**

The Controller and Accounting Services area, comprising General Ledger Accounting and Reporting, Sponsored Accounting, Property Management, Accounts Receivable and Cash Receipts, and Tax Services, is focused on providing a high level of customer service within VPF and to the MIT community. To that end, implementing financial processes that emphasize operating effectiveness and efficiency is the primary objective. The following summarizes FY2012 accomplishments.

### ***General Ledger Accounting and Reporting***

The General Ledger Accounting and Reporting (GL) team is dedicated to delivering high-quality customer service by providing reliable, timely, and accurate financial information to the MIT community and senior management. The team oversees the Institute's general ledger accounting support and manages the year-end closing of the Institute's books. The team also works to maintain compliance with federal regulations and accounting standards, as well as to serve as a resource for training and collaboration with the MIT community for continued improvement in business processes and procedures.

Staff members support the Systems Applications and Products (SAP) accounting systems and the journal voucher process, provide accounting guidance to an array of MIT initiatives, and collaborate with MITIMCo, the Office of the Recording Secretary, and many others in advancing best practices in accounting at the Institute. The team also provides accounting services related to the Institute's increasing international initiatives and serves the Institute's external reporting needs, including the preparation of the report of the treasurer.

Key activities for the GL team in FY2012 included:

- Replacing paper forms with a new web-based form for new cost object requests or changes to existing cost objects.
- Collaborating with the Office of the General Counsel, the Office of Major Agreements, the Office of Sponsored Programs, and Tax Services, via the newly formed International Coordinating Committee, to strengthen support for international activities.
- Continuing to provide accounting support for the Singapore–MIT Alliance for Research and Technology and to assist the alliance's finance team in improving its reporting and business processes.
- Providing accounting and financial services to the Massachusetts Green High Performance Computing Center management team, including financial statement and budgetary support.
- Initiating quarterly meetings with key business units to facilitate knowledge sharing and continued collaboration related to cross-functional projects and process improvements.
- Continuing to streamline the MIT fiscal year-end closing process to support timely financial analysis for MIT's senior leadership.
- Participating in initiatives to improve reporting and forecasting at the Institute using the new Cognos and RAFT tools.

### ***Sponsored Accounting***

The Sponsored Accounting team is responsible for financial reporting to MIT's sponsors for all federal and non-federal awards on campus, with total annual research expenditures of approximately \$650 million. The group also is responsible for handling billing and receivables for sponsored programs.

Timely financial reporting for all sponsored awards is an issue of vital importance to MIT, and one where VPF continues to devote considerable resources and effort to bring the Institute into full compliance. The following interrelated efforts have contributed to recent performance improvements in this area.

VPF is now able to provide pre-audit information to all operating units 90 days in advance of award expiration. Notification and pre-audit reports are made available to department, laboratory, and center (DLC) administrators through a custom report template in the Cognos reporting tool. The goal is to continue to raise awareness of the importance of timely financial reporting and give MIT administrators the opportunity to address issues well in advance of award expiration, facilitating timely closeout and reporting.

VPF continues to analyze root causes to correct underlying deficiencies that lead to untimely financial reports. An increased focus on staff training and transparent goal setting within Sponsored Accounting has helped the team raise completion rates. As a result of these efforts, timeliness of reporting improved steadily throughout the year, and the monthly balance of awards awaiting review shrank on a year-over-year basis by an average of 30% in the first seven months of calendar year 2012. These efforts will continue in the coming year.

Sponsored Accounting continues to work with the Research Administration Coordinating Committee (RACC) to address the root causes of reporting and other financial compliance issues. Effective management of cost-sharing obligations is the top priority of this collaboration. A cost-sharing team was convened during the past year and was able to provide numerous recommendations for improvement. RACC is now working to formulate a cost sharing implementation team to act upon these recommendations in the coming year.

Over the past year, Sponsored Accounting has continued to strengthen the billing and collection process to better manage sponsored receivables. Monthly reporting for DLC administrators gives visibility to unpaid balances and inspires cooperation between VPF and its DLC partners. As a result of these efforts, MIT reduced its level of at-risk sponsored accounts receivable by 50% during fiscal year 2012.

### **Property**

The Property team is responsible for the accounting and management of all on- and off-campus equipment and capital assets, which are valued at more than \$2.5 billion. Property also conducts an ongoing inventory of all on-campus equipment and maintains depreciation schedules for MIT buildings and equipment.

Property has continued to modernize and update processes in order to better serve the Institute. In FY2012 Property updated its eProp property database, increased the number of users that have access to equipment data using Brio Query, and began receiving an automated feed from Information Services and Technology (IS&T) with information regarding computers deployed to the administrative areas of MIT.

Property also completed a digitization project that led to 95% of government awards records now being maintained electronically and began working with IS&T to develop an application that will allow deactivation of equipment in the field with a direct update of eProp. Initial testing of the application has begun and it should be ready by fall 2012.

The Property team collaborates with the grant committee of the Independent Residence Development Fund (IRDF) to manage grants and loans to fraternities, sororities, and independent living groups for improvements to the houses. In FY2012, IRDF issued 51 new grants, totaling \$885,145. During the six-year period of FY2007–FY2012, IRDF issued 260 new grants, totaling \$5,554,437, as well as 11 new loans amounting to \$1,420,175. Property manages more than \$8 million in outstanding IRDF loans.

### ***Cashier***

The Cashier's area continues to track metrics and work with DLCs to meet their needs for cash and check deposits and to assist them with a new process to manage and replenish petty cash funds. More than 90 DLCs have transitioned to making deposits directly with the bank. The Cashier's function will continue to provide high-quality back-office operations and excellent customer service to DLCs complemented by electronic payment and reimbursement tools and banking locations across campus.

### ***Merchant Services***

Merchant Services implemented wireless solutions for both point-of-sale devices and laptops in FY2012, enhancing services available to MIT merchants. To support Payment Card Industry (PCI) compliance rules, Merchant Services rolled out eLearning for both business owners and non-business owners in February 2012. In May 2012, Merchant Services contracted with PE Systems to assess on an ongoing basis MIT's monthly merchant processing statements with the goal of uncovering and fixing issues related to credit card processing fees. It is estimated that MIT will save approximately \$66,000 in fees the first year.

### ***General Accounts Receivable***

In FY2012, General Accounts Receivable produced approximately 15,383 invoices, while continuing its focus on customer service. Accounts Receivable added a new dunning area to start invoicing for the Professional Institute, and, moving forward, will also be invoicing Broad Institute employees for their medical expenses.

### ***Tax Services***

In FY2010, MIT was audited as part of a national Internal Revenue Service (IRS) review of institutions of higher education. The IRS focused its audit on the Institute's executive compensation, unrelated business income, and controlled entities. The IRS concluded its audit in July 2011 and requested that the Institute make some methodological adjustments to unrelated business income. The IRS did not propose any other significant changes to the Institute's tax returns and did not assess any fines, penalties, or adjustments. The IRS concluded that the Institute continues to be properly organized and operated as a tax-exempt charitable organization under Internal Revenue Code section 501(c)(3).

Consistent with the Institute's compliance objectives, Tax Services continued to increase the number of states in which unrelated business income tax returns are filed. Filings were made with 22 states for the Institute and with 18 states for the retirement plan.

During FY2012, Tax Services provided the tax research and assistance required to support the Institute's increasing international activities. Tax Services continued its collaboration with the Office of the General Counsel, the Office of Major Agreements, and the Office of Sponsored Programs in reviewing agreements with international sponsors. Specifically, Tax Services assisted with proposed collaborations and agreements in Brazil, India, Russia, and Singapore, and worked closely with the Office of Sponsored Programs on tax language for agreements with US sponsors. Tax Services participated on the Institute's newly formed International Coordinating Committee, which reviews proposed international collaborations and agreements. Tax Services assisted MITIMCo with international research for its contemplated international investments.

With support and guidance from BFT and others, Tax Services filed IRS Form 990 on behalf of the Institute in FY2012.

### **Financial Operations**

Financial Operations serves the MIT community in the areas of Buy-to-Pay (Accounts Payable and Sourcing and Procurement), Travel, and HR/Payroll by providing guidance and training, reporting to inform strategic decision-making, supporting overall Institute compliance, and facilitating the processing of transactions. By emphasizing seamless and intuitive processes, customer service, and cohesive controls, the team fills an important role in enabling faculty, students, and staff to work toward the MIT mission.

In support of VPF's ongoing efforts to optimize processes, systems, and services, Financial Operations completed the following projects in FY2012:

#### ***Buy to Pay***

Accounts Payable:

- Implemented a new presumed receipts threshold for purchase orders, decreasing manual processing of low-dollar invoices.
- Laid the groundwork for greater use of paperless invoicing technology to expedite invoice processing and payments. In FY2013, VPF is targeting 38,000 paper invoices for automated processing.

Sourcing and Procurement:

- Continued to streamline processes and systems to provide a more efficient and intuitive user experience.
- Implemented new system enhancements that allow members of the MIT community to attach supporting documentation directly to their purchase requisitions. This new functionality has dramatically expedited the processing of these requisitions.

**HR/Payroll**

- Implemented an attachments capability for the electronic appointment process, eliminating paper-based, manual processing. As part of the ongoing Appointment Process Redesign (APR) project, HR/Payroll in the coming year will make available an edit capability.
- Automated the Hourly Student Appointment process, removing some 7,000 pieces of paper annually from this important Institute process.
- Supported an effort to provide MIT employees with a calculation of total compensation—one that reflects the overall value of MIT pay and benefits.
- Implemented the third-party Glacier tax treaty system to assist MIT's non-resident aliens with payroll tax compliance.
- Adopted a new system feature that enables employees to differentiate their payment preferences for payroll and reimbursements (requests for payment, and travel).

**Travel**

- Completed the rollout of the Concur travel expense reporting and booking system to the entire MIT community.
- Continued extensive training and outreach to assist the MIT community in adopting the Concur system.

In the coming year, Financial Operations will continue to enhance its systems and processes, improve the customer experience, and make metric-based strategic decisions to support community needs and control and compliance objectives.

Two major projects, already under way in FY2012, are ongoing priorities: the centralization of the I-9 collection process and a new process for managing the segregation of duties across VPF and IS&T. Central collection of I-9 forms, confirming employment eligibility for U.S. citizens, will make the process more efficient and ensure MIT's compliance.

Supporting critical Institute control and compliance objectives, the segregation-of-duties project will establish segregated roles within SAP, develop and document procedures for managing acceptable risks, and implement a standard operating model for maintaining SAP authorizations.

**Michael W. Howard**  
**Vice President for Finance**