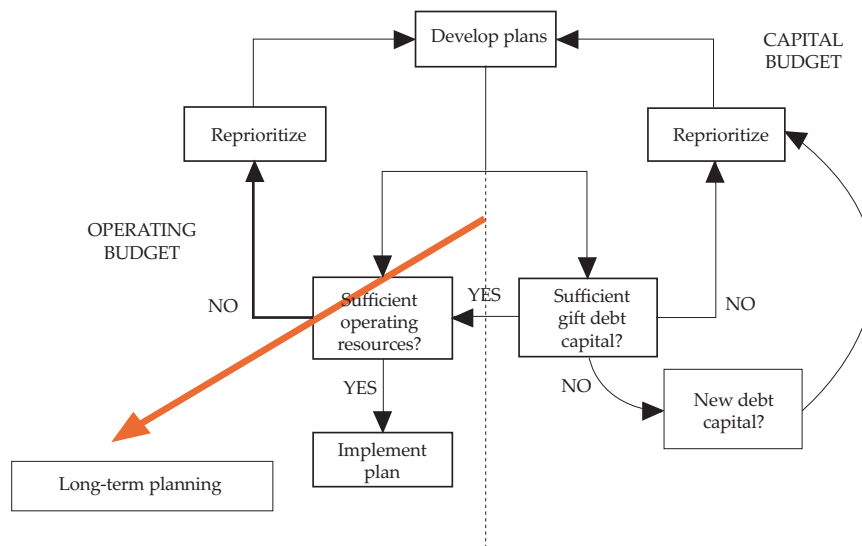


Office of Budget and Financial Planning

The Office of Budget and Financial Planning (OBFP) is a professional service organization for financial planning and resource allocation and management. Our mission is to deliver value-added planning and budgeting services at both the Institute and local levels, including the provision of a foundation for financial strategy through vision, analysis, and access to tools and information. At the Institute level, the office develops the long-range plan, the annual operating budget, and capital allocation models. The figure below illustrates the dynamic interaction between planning, budgeting, and capital allocation.

Dynamic Interactions between Planning, Budgeting, and Capital



Source: Adapted from College and University Business Administration, chapter 4: Budgeting, John Curry and Greg Banni, NACUBO.

the Institute and Corporation, and departments, labs, centers (DLCs), and administrative areas in support of their resource planning and management responsibilities.

The long-range plan, the current version of which was adopted by the Institute's Executive Committee in April 2005, covers the period through 2017 and is a dynamic, stochastic model that provides a framework for resource planning and allocation decisions.

The FY2005 operating budget totaled \$1.9 billion in revenues and expenses across all categories of funds, including the General Institute Budget, sponsored research, auxiliary activities, and designated funds, the latter primarily controlled by local operating units. Direct and indirect costs of sponsored research accounted for over half of this total.

The OBFP team is committed to continuous improvement in planning and budgeting, both in processes and tools, to ensure the excellence of its products, support a diverse client base, and contribute to the vitality of MIT.

Current Goals and Objectives

The Office of Budget and Financial Planning pursued major long-range initiatives to leverage technology in support of Institute goals and clients.

Enhancing Unit Budgeting and Planning

OBFP, in collaboration with Administrative Computing in Information Services & Technology (IS&T), designed a budget submission and prototype budget management system to replace aging software. It is anticipated that the new system, of which this was the first phase, ultimately will include tools that will aid units in longer-range planning and forecasting and provide the ability to perform budget transactions locally. Longer-range goals include linking the system to the position budgeting initiative in administrative areas and all resources budgeting in academic areas.

The system, which was developed with the assistance of an active Community Resource Team, was originally planned for implementation in Systems, Applications, and Products in Data Processing (SAP), the Institute's enterprise system. Subsequent events have given us the opportunity to evaluate alternative technical solutions, and we are currently investigating both SAP and Hyperion, the two systems most commonly used for resource planning and management in higher education. To that end, we have begun "benchmarking" processes and systems with our peer institutions and will participate in Institute initiatives to evaluate the Hyperion tool.

In the interim, a low-cost program to stabilize the current budget system and align it with new MIT technology will enable us to serve clients until the new system is live to support future budget cycles.

Capital Planning and Budgeting

The ongoing level of new construction and the numerous renovation and renewal projects have continued to place increased pressure on the capital planning and budgeting processes, necessitating the development of a more structured set of tools. Consequently, the Office of Budget and Financial Planning began a collaborative initiative with the Department of Facilities on a system interfacing Facilities-specific data with budget and centrally maintained data. The result of this collaboration was the Hyperion/Edgewater Capital Pilot project. The Hyperion system gathers information now distributed among several stakeholders, including the Committee for the Review of Space Planning, the Department of Facilities, the Office of Sponsored Programs, assistant deans, the Office of Budget Operations, and the Office of Finance into one central location, meeting the needs of diverse clients, and reduces errors common to manual entry or reentry processes. The objectives ultimately addressed by the Hyperion-based system include the following:

- Consolidation of project funding and expense data in one place
- Providing a comprehensive financial view of construction projects
- Timely and active financial monitoring of construction projects
- Delivery of information to the user community

The Hyperion Capital Pilot project was implemented to facilitate the translation of MIT/Access data structures into Hyperion's structures, develop standard and customized views of data sets, and test the deployment of the system in the MIT environment.

Financial Planning and Analysis

The financial planning and analysis team has continued to work on a major overhaul of the long-range financial model. The model—our planning tool for estimating the long-range financial impact of strategic decisions and economic conditions on the Institute's operating statement and balance sheet—has evolved since its original foundations in 1997. Following is a brief history of milestones:

- 1997–1999: The first foundations of both a Financial and Capital Plan using spreadsheet-based technology
- 2000: The “April 2000 Plan” implemented using spreadsheet-based technology
- 2001: The first Financial Model using Access database technology
- 2002: The first Dashboard implemented using Access database technology
- 2005: The “March 2005 Plan” Financial Model II using Access; Hyperion Capital Pilot project

Accomplishments

The office continued to advance its understanding of clients' businesses with the goals of improving business models, developing information for strategic purposes, providing clarity and transparency in resource allocation and management, and developing better tools at the Institute and local levels. The department worked in several specific areas.

Medical Department Task Force

OBFP began a major long-range study of the Medical Department and its offerings, undertaken in collaboration with the Medical Department and the Controller's Accounting Office. The delivery of medical service is complex organizationally and financially, and changing national health care trends and other dynamics have increased pressure on the ability to carry out a medical mission. With this in mind, the president appointed the Task Force on Medical Care for the MIT Community in the fall of 2004. The task force has been working to review, assess, and articulate a vision for the future of health care for the MIT community. The task force was charged to study the following issues:

- The goals of MIT's programs to provide health care and health insurance to the MIT community
- The performance of the current arrangement of providing health care to the MIT community
- How other leading research universities provide health care and health insurance to their students, employees, and retirees
- The quality and cost of health care services provided by the Medical Department and the methods used to set the prices for health insurance
- Alternative health care models and methods for establishing health insurance prices
- Seeking input from the MIT community

- Formulating a set of specific recommendations for advancing high-quality health care in a cost-effective manner for the MIT community

In sum, a high level of effort on the part of the Office of Finance has been required to staff the task force's analytical requests appropriately. A report from the task force is expected to be issued in the fall of 2005.

Position Budgeting

In support of the "truth in salary principle," a concept articulated by the executive vice president that requires that salary budgets represent actual expected salary costs for a given fiscal year, OBFP developed a position budget system for use in administrative units. This system, developed with the assistance of the administrative community, links to the Human Resources Position Administration Database, establishes a baseline roster for each unit, and integrates baseline-approved salary budgets with approved FTE levels. It involves regular monitoring of salary and FTE budgets and allows variances to be explained on a position-by-position basis. The system helps ensure that unexpected compensation growth does not burden the budgets of future fiscal years and lead to potential structural problems.

Systems Development

The Office of Budget and Financial Planning progressed in its long-term goal to leverage technology, creating tools for information and analysis. We developed a prototype web-based budget submission module, which was designed in collaboration with a community resource team and demonstrated in formal and informal community forums for usability and client reaction. The prototype was well received, enabling us to begin evaluating appropriate technical platforms.

We also developed the Hyperion/Edgewater Capital Pilot scheme to address the growth in capital project activity, the wider use of available funding sources, and the need for analysis and forecasting tools. The pilot project was successfully installed at MIT and a Hyperion data mart established.

Other Accomplishments

OBFP continued incremental improvement of major reports and presentations for Institute senior management and its Executive Committee and completed several significant models and analyses at the Institute and local levels:

- The format of the *Budget Book*, the official record of the annual General Institute Budget, was redesigned to present information in a more readily accessible manner to the Executive Committee of the Corporation and MIT's senior management.
- An enhanced and more formal Quarterly Budget Report was developed in collaboration with the Controller's Accounting Office to present quarterly actual results and analyze budget performance in the current fiscal year.
- Several significant capital planning and financing analyses were completed for constituent clients, including studies for the MIT Press, Housing, Libraries, Student Financial Aid, and debt-related initiatives.

- Development of client-based reports in support of our continuous process improvement continued, including a prototype of a budget-change management report, primarily for academic areas.

Administrative Initiatives

The Office of Budget and Financial Planning was reorganized into two offices effective July 1, 2005: the Office of Budget Operations and the Office of Finance. Although the offices will continue their close collaboration in areas of integrated planning and budgeting, each office has its own director (see Personnel Information, below). Accordingly, plans were initiated to divide the current work space into two offices; in addition, the director of finance will have a separate office in the main group to facilitate interaction with senior management there.

The Audit Division and the Budget Office continued their successful sharing of resources. The two groups share an administrative assistant and a joint office/reception area and have expanded the effort to include sharing IS&T support.

By its very nature, the Office of Budget and Financial Planning worked in close partnership with client units, as illustrated in the projects discussed above. Further examples of partnerships in the financial planning area included their role in restructuring the funding of deferred maintenance, endowment distribution policies, and the newly developed faculty housing program.

Other examples more specific to the budget area included the assessment of the Sloan School of Management General Institute Budget revenue and tuition-sharing model, in collaboration with Sloan and the Office of the Provost, and the ongoing development of a resource management report in collaboration with the Dean's Office in the School of Science.

Future Plans

Many projects currently under way in the former Office of Budget and Financial Planning are long term and will be continued by the two new offices.

The Office of Finance will continue to integrate the different financial aspects of MIT in support of senior management and the Executive Committee. In particular, the office will concentrate its efforts on improving the funding and planning frameworks, as well as financial strategies to support a growing number of Institution activities. Among all areas, the office will dedicate special attention to the Capital Budgeting and Financial Planning activities to support strategic initiatives across MIT.

In order to do this work effectively, the office will leverage the partnerships established while working with other departments and units to better integrate financial decision making. As always, we will continue to benefit from a very productive and close working relationship with the Office of Budget Operations to continue to build on a solid record of accomplishments.

In our undivided commitment to excellence, the ambitious goals listed above will necessitate commensurate increases in personnel over time. As part of the organizational change, two new positions were approved to allow us to take on the new and expanded roles with excitement and confidence.

By its nature, *operations* implies a focus on ongoing procedures; however, the Office of Budget Operations is dedicated to continuous improvement in both tools and process. The office will pursue the two major technology initiatives previously discussed: preparing the current budget system for the FY2007 cycle and designing an enhanced system that integrates budgeting and local planning and forecasting, including position budgeting and local budget reallocation, as appropriate, to serve clients in the future. Part of this effort will include enhancing the current budget web site.

The Office of Budget Operations will expand its efforts in position budgeting in administrative units to enable better management at both the local and senior management levels, leveraging information that will become available with the new HR/Payroll system to develop a tool that could also prove helpful to academic areas.

Finally, building on service-focused relationships developed over a number of years, the Office of Budget Operations will expand its partnerships with clients, continue incremental improvement in its report and analysis products, and work toward clarity in budget processes and understanding.

Personnel Information

Mr. Israel Ruiz was promoted to director of finance, managing the newly created Office of Finance. Ms. Margaret Warner was promoted to director of budget operations, responsible for the new Office of Budget Operations.

Mr. Israel Ruiz received an MIT Excellent Award in March of 2005 for going above and beyond in providing exceptional client service.

Mr. Ruiz continues to serve on the board of the MIT Press, and Ms. Warner continues to serve on the advisory committee of the MIT Museum.

Israel Ruiz, Director of Finance

Margaret Warner, Director of Budget Operations