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Performance Summary

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BUSINESS AND FINANCE STRATEGIC PLAN

We will enable our university community to excel by being great stewards and providing a great place to work, live, and discover.

We will approach the following goals with tenacity and passion:



SAY YES



BE A GREAT PLACE TO WORK



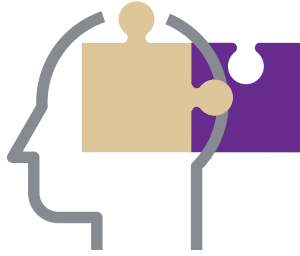
PROMOTE LEADERSHIP



PROVIDE GREAT STEWARDSHIP



BUSINESS & FINANCE
UNIVERSITY OF MICHIGAN



FY 2016 FINANCE STRATEGIC INITIATIVES

Strategic sourcing/procurement processes

- Explore ways to create additional synergies and efficiencies among procurement operations across the university

Guidance for venture start-ups

- Develop guidelines for evaluating potential venture projects
- Develop a charter that details impact on U-M's mission, funding sources, reporting needs as well as organizational and governance options

Facilities maintenance supply chain project— next steps

- Provide excess/obsolete materials to asset recovery supplier for South Campus Region
- Provide excess/obsolete materials to asset recovery supplier for North Campus Region
- Begin setup of a region warehouse for a second region, including establishment of reorder quantities in FMS (Facilities Management System)
- Develop and deploy additional inventory and ordering functionalities within FMS inventory module

Explore the use of university assets to increase efficiency and optimize use

(includes public-private partnerships, space utilization, land holdings, and U-M leasing)

- Understand and assess public-private partnerships and recommend when use of this method benefits the university

Health System VMI initiative

- Provide support to the VMI (Value Margin Improvement) initiative in the Health System



FINANCE DEPARTMENTS

Financial Analysis supports both the Business and Finance (B&F) and university-wide budget development processes. The department also provides analytical support to Finance, with quarterly employment data and other reports.

Financial Operations encompasses the university's central accounting, fiscal management, and financial reporting functions, including investment accounting, fund accounting, external and management reporting, cost reimbursement activities, billing, and collection activities for student accounts and loans, and payroll services.

Fleming Shared Services provides a number of U-M executive offices—located at the Fleming Administration Building—with a variety of administrative services, ranging from annual budget preparation to PO and invoice management.

Internal Controls is responsible for coordinating the university's annual unit internal controls certification program. The office works with campus units as well as the health system to help improve the control environment and increase awareness of control responsibilities. Internal Controls also follows up on audits conducted by the Office of University Audits to help units take corrective action for control weaknesses and to support implementation of process improvements.

Procurement Services includes purchasing and contracting. The technology team, reporting team, and administrative staff provide expertise to support daily activities and oversee a variety of ongoing initiatives. The travel and expense

reporting area provides oversight for the university's travel and hosting policy and Concur. Auxiliary Operations within Procurement Services provides the university community with key business services, including Print/Copy/Mail, Property Disposition, and Property Control/Space Analysis.

Sponsored Programs manages the post-award activities of the University of Michigan's research enterprise and other sponsored activities to ensure compliance with applicable federal, state, and local laws as well as sponsor regulations. The university receives over \$1 billion in revenues annually from various government agencies and private sources for sponsored programs. The Sponsored Programs Department includes three areas: Customer Service, Reporting, and Contract Administration.

Tax Compliance and Planning is the university's center for expertise on tax-related issues for all federal, state, and local reporting. The Tax Department advises campus units and the health system on issues related to compliance and the impact of tax law on business transactions.

The Treasurer's Office is responsible for the management and coordination of the University of Michigan's banking relationships, treasury services, debt issuance and compliance, as well as insurance and disability management programs. Central management of these services allows more consistency in service application and disaster recovery, and provides opportunities for improving controls. The Treasurer's Office also works to decrease the university's banking costs by monitoring and leveraging its large volume of transactions.



AUDITS AND COMPLIANCE

Recharge Rates

Sponsored Assets Process Improvement

Revised Department of Education Cash Management Rules

Federal Perkins Loan Program Extension Act

Facilities and Administrative Rate Proposal

Implement Governmental Accounting
Standards Board Statement No. 72

Prepare for Implementation of Governmental Accounting
Standards Board Statement No. 75

Security Access Review to Strengthen Internal Controls

Supplemental Pay

Annual Certification Program

Top 10 Financial-Related Audit Issues

Property Control System Analysis

Preventing Unfair Tax Law

PCI Infrastructure Project



Recharge Rates

Finance is responsible for reviewing and approving university recharge rates for approximately 300 departments. The goal is to ensure recharge units stay in compliance with university guidelines and federal uniform guidance regulations. Over 200 rate requests covering hundreds of individual rates are reviewed and approved on an annual basis. Finance performed annual reviews of U-M internal service vendor IDs, terminated rates, and recharge revenues to further mitigate compliance risk to the university.

Sponsored Assets Process Improvement

A team of Finance staff collaborated with the Office of Research and Sponsored Projects (ORSP) and research administration representatives from the units to identify and begin implementing improvements to the procurement, tracking, and disposal of assets that are owned or funded by sponsors. The team is focusing on streamlining activities, strengthening compliance, and improving customer service. It has completed process reviews, identified and prioritized key focus areas, and began implementing initial improvements. In FY 2017, the team will focus on additional enhancements, including updates to systems, business processes, and documentation, as well as updated information and training resources.

Revised Department of Education Cash Management Rules

The Department of Education published the final version of its *Program Integrity and Improvement* regulations on October 30, 2015 to establish tougher standards and greater transparency surrounding agreements between post-secondary institutions and companies in the college financial products marketplace. These new regulations revise cash management rules, with a particular impact on universities that offer bank accounts to students through agreements with financial institutions. The regulations, with a few exceptions, are effective July 1, 2016.

Finance coordinated with the Office of Student Financial Aid, the Office of the Vice President and General Counsel, and Information and Technology Services, to achieve compliance with these new regulations. We determined that the university has a Tier 2 arrangement with a financial institution as defined in the regulations, and revised disclosures and processes to ensure that student options for receiving credit balance refunds are offered in accordance with the regulations.

Federal Perkins Loan Program Extension Act

Congress passed the Federal Perkins Loan Program Extension Act of 2015 in December 2015, extending the Perkins program that had expired on September 30, 2015 and eliminating the wind-down provisions that the Department of Education had previously issued. In February 2016, the Department of Education published guidance to institutions on implementing the Extension Act, which established new eligibility provisions for current and new undergraduate borrowers to receive new Perkins Loans through September 2017 and a shorter window for continued lending. In addition to the disclosures institutions already must provide, the Extension Act requires universities to share additional notices and explanations with each Perkins borrower before the initial disbursement.

Finance collaborated with the Office of Student Financial Aid (SFA) to review the guidance issued to date and implement program changes. We also worked closely with SFA to provide comprehensive projections of available Perkins funds to enable them to most effectively award the remaining Perkins loans funds.

In the coming year, it is expected that the Department of Education will publish guidance regarding the disposition of institutions' revolving Perkins funds.





Facilities and Administrative Rate Proposal

A facilities and administrative (indirect cost) rate for reimbursement is negotiated with the Department of Health and Human Services (DHHS)—Division of Cost Allocation based upon submission of a comprehensive Facilities and Administrative (F&A) Rate Proposal. DHHS is the university's "cognizant agency" that establishes predetermined, multi-year F&A rates for all on-campus research and other federally sponsored activities. The university received \$242 million in facilities and administrative cost recoveries from grants in FY 2015. Based on the current volume of research, each percentage point of the university's F&A rate generates approximately \$14 million.

The university's current rates extend through June 30, 2016, and a rate proposal utilizing FY 2015 as a base year was prepared and submitted to DHHS in March 2016. This proposal will be used to establish rates for our next predetermined fixed rate period, which commences in FY 2017.

As part of the proposal preparation, Finance thoroughly reviewed all cost allocation methods with an independent consultant and considered the impact of the recently issued Uniform Guidance. We also met with key stakeholders throughout the university to advise of anticipated proposal submission and negotiation process and timeline.

In preparing this proposal, Finance implemented process enhancements to improve efficiency, increase clarity, and reduce risk of error, including eliminating the use of FoxPro and text files. Batch update and batch reporting features were used instead, which significantly streamlined the reconciliation of the Comprehensive Rate Information System data to the consolidated financial statements. In connection with the proposal submission, we are also updating the university's cost accounting disclosure statement (DS-2).



Implement Governmental Accounting Standards Board Statement No. 72

During the past year, Finance prepared for implementation of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. This new standard was issued in February 2015 and was effective for FY 2016. It established a formal definition for fair value and a hierarchy of inputs to valuation techniques used to measure fair value and expanded footnote disclosure requirements, particularly for the university's investments, in its audited financial statements. The statement also required additional analysis of fair value if the volume or level of activity for an asset or liability significantly decreased.

The statement's hierarchy of inputs defines three levels in addition, to a NAV (net asset value) practical expedient, which must be disclosed in the financial statements. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, such as management's





assumption of the default rate among underlying mortgages of a mortgage-backed security. NAV (practical expedient) is for nonmarketable alternative investments. The statement also requires expanded disclosures about liquidity of all investments.

Prepare for Implementation of Governmental Accounting Standards Board Statement No. 75

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement, which will be effective for the university's FY 2018 financial statements, made substantial changes to the existing requirements for accounting and reporting for these benefits that were established by GASB Statement No. 45. Implementation of GASB Statement No. 75 will significantly increase the relative size and volatility of the actuarially-determined liability and related expense in the university's financial statements. The statement also expands disclosure requirements.

During 2016, Finance worked with the Benefits Office, UMHS, and the university's actuaries to review and document the impact and options associated with this new statement, and proactively identify and address implementation issues. In preparation for this significant implementation, Finance worked closely with the Benefits Office to issue an RFP for actuarial services and evaluate submitted proposals.

Security Access Review to Strengthen Internal Controls

The security access review is an internal control function performed to verify that employees only have roles that are necessary for their current position. There are times when it is appropriate to give campus units higher-level access, which includes additional time to post journals. In some cases, units were posting entries beyond the allotted

time frame. As a result, a comprehensive review of journal roles was performed. In addition, Finance asked units which additional-access features were being used and adjusted the applicable roles.

As part of this review, Finance discovered that many employees had more access than they were using. The main role that provides greater access than needed for processing journals was reduced by 95 individuals, with 31 moved to journal entry access to the third business day after the end of the month. A new role was created for departments that had a business purpose for greater access, but did not utilize all parts of the initial role. Twenty four of the 95 individuals were moved to the new role and 15 of these users also were moved to the journal role that provided access to the third business day after the end of the month. In addition, 25 individuals were either moved to the generic journal entry role or the role was removed.

These changes strengthened internal controls by providing employees with only the system access to the functionalities that are needed to perform their duties. In particular, these changes provided additional control over the processing of transaction activity during the month-end and year-end closes.

Supplemental Pay

Finance implemented several enhancements to the Supplemental Pay Process in FY 2016, including:

- A review process for new time reporting codes and earnings codes entered into M-Pathways, to ensure the accuracy of the data entry.
- Designed a PeopleSoft query that is used to download information into the earnings code spreadsheet on the Payroll website. This will ensure that the reference document matches data in M-Pathways.





- Created several new *Additional Pay Earnings Codes/Definitions* reference documents and posted to the Payroll website. These documents only reference the 66 codes available via the additional pay PAR process, so units won't need to review all 331 codes on the earnings codes spreadsheet.
- Reviewed and updated the definitions for all 331 earnings codes on the earnings code definitions document on the Payroll website.

Annual Certification Program

The Office of Internal Controls completed the 11th year of its annual certification program in FY 2015, receiving 96 percent overall compliant representation responses from 46 different units across campus. In FY 2015, 24 units adopted sub-certification, two more than in FY 2014, and more units are doing so utilizing the online functionality. In conjunction with the annual certification, Internal Controls provided the university community an annual reminder to promote the Compliance Hotline, ensuring that unit heads distribute a communication and that Compliance Hotline posters are prominently displayed. Internal Controls continues to provide annual status updates as well as unit certification results to the Finance, Audit, and Investment (FAI) Committee of the Board of Regents.

Top 10 Financial-Related Audit Issues

Internal Controls developed a summary of the top 10 financial-related audit issues by analyzing the two most recent years of audit findings. This analysis was shared with campus units as well as the Regents' FAI Committee. The office is revising the FY 2016 certification form as a result of one of the top audit findings—conflict of interest. Internal Controls also completed a risk assessment review for nine financial related processes, working with business process owners, and continued to distribute the key internal control metrics package to campus on a quarterly basis.

Property Control System Analysis

The Office of Naval Research (ONR) conducted a Property Control System Analysis (PCSA) in FY 2016. During the audit, 70 pieces of sponsor-titled equipment were selected for field inspection. All items were found in place, and in good working order. No findings were recorded in the audit.

Preventing Unfair Tax Law

The Tax Compliance and Planning Department worked closely with U-M's Federal Relations Office to address tax issues raised by congress to prevent or preclude unfair or 'bad' tax law. In FY 2016, legislative proposals ranged from mandatory distributions from the university's endowment income streams to increasing the reporting requirements of student tuition.

In addition, with much pressure from the manufacturing industry, nonprofit entities were able to convince Congress to place a two-year moratorium on the medical device excise tax (MDET).

The department also managed relations with the Internal Revenue Service (IRS) and other taxing agencies to minimize tax liabilities and maximize savings. This year, with audits of large educational institutions on the rise, a number of federal, state and local notices, inquiries, and exams were addressed, resulting, in each case, in a favorable outcome for U-M. A few examples appear below:

- Worked closely with National Association of College and University Business Officers (NACUBO) and the National Taxpayer's Advocate office to release certain refunds withheld inadvertently by the IRS that belong to students who were classified as nonresident aliens.
- Obtained our refund claim of \$3.3 million from 2008 income taxes, which had been under review for several years by the Congressional Joint Committee on Taxation.





Tax also worked with compliance offices across campus to ensure a consistent and aligned approach to regulatory enforcement. The department held tax committees meetings and met regularly with attorneys across the university. In addition, Tax worked closely with the UMHS Compliance Office and University Audits staff on issues of risk to U-M. Tax reported its findings to executive managers and kept the at-risk units informed of any developments that may impact their operations.

PCI Infrastructure Project

Finance worked alongside Information & Infrastructure Assurance (IIA) and Information and Technology Services (ITS) in developing a business case and then receiving approval to create a secure Payment Card Industry (PCI) network infrastructure for university merchants. Once in place, this infrastructure will allow merchants who are dependent on ITS services to securely process credit card payments. The secure network will also reduce attestation of PCI compliance efforts for university merchants that use ITS services.

The implementation of a university-wide secure network as a solution to more efficiently meet PCI compliance was recommended by an external PCI auditor, a Qualified Security Assessor, or QSA, who was hired by Finance and IIA during FY 2015 to meet with the university's highest risk merchants to review their credit card processing environments and determine if they align with the latest PCI requirements. The PCI infrastructure project is currently in progress and on schedule to migrate the highest risk university merchants to this secure environment by early FY 2017.





CONSULTING/COLLABORATION

Collaboration on Energy-Related Projects
Employee Full Time Equivalent Analysis
FY 2016 ITS Financial Review Project Results
Developed Revised B&F Management Reports
Electronic U-M Budget Books
Partnering with UMHS to Develop Employees
Cash Handling Business Processes for Student Organizations
Collection Activities for UM-Dearborn
Streamlined and Enhanced Monthly Student Accounts Reports
Ross School Real Estate Investment Fund Operating Procedures
Monroe-Brown Seed Fund Operating Procedures
Support Victors for Michigan Campaign Activities
Internally Funded Research
Development of Research Administration Training for Faculty and Staff
Working with Intercollegiate Athletics
Health System Value Margin Improvement (VMI) Initiative
A Broad Array of Collaboration
Migration to Exadata
Enhanced Merchant Support for Fireside Café
University-wide 10-Year Capital Plan
Capital Project Financing Letter Tracking System



Collaboration on Energy-Related Projects

Finance, along with the Office of Budget and Planning and Facilities and Operations, partnered on the following initiatives:

1. Recommended the purchase of natural gas futures for the next two years. By doing so, the university will lock in savings with lower natural gas prices and will provide budget certainty for the next two years.
2. Recommended the approval of the capital project for the Central Power Plant Expansion Combustion Turbine. This multi-year project will improve reliability, provide flexibility, and addresses deferred maintenance and capital renewal. Overall, the project will improve efficiency with combined heat and power options while reducing the carbon footprint.
3. Reviewed a proposed energy project to contract the purchase of pipeline-quality renewable natural gas from the local Woodland Meadows Landfill. At this time, the project is on hold because the per-unit gas price was substantially higher than our current pricing model.

- Provided reports to help establish an ongoing business process for employee position control.
- Continued to advise and evaluate ongoing costing methodology and rate setting.

Developed Revised B&F Management Reports

A new, consolidated monthly report package provides an overview of the organization and highlights units with large variances. In addition, monthly A3 reports were produced, which are utilized in conjunction with the monthly reporting package. Financial reports for other B&F units such as ITS and the Shared Services Center, as well as other units like the Division of Public Safety and Security were created to meet their specific ongoing reporting needs.

Electronic U-M Budget Books

In FY 2016, easy-to-use and interactive electronic budget books were developed. To support the university's sustainability efforts, future budget books will be produced and distributed in the same manner to further reduce the number of printed copies.

Partnering with UMHS to Develop Employees

In order to create new development opportunities for finance professionals, Finance is partnering with UMHS to offer a rotation program between the two organizations. In FY 2016, the Treasurer's Office hosted a financial analyst from UMHS for six months to work on the capital budgeting process. The analyst was familiar with the capital budgeting process at UMHS and the opportunity in Finance was designed to build upon that experience and provide a different perspective on this critical function. Finance also provided exposure to the other key finance functions and services in an effort to broaden the analyst's comprehension of the Finance Division and to provide the employee with a network of resources to leverage at UMHS. Finance plans to host another UMHS analyst in January 2017 and is evaluating potential candidates from Finance to rotate into UMHS.

Employee Full Time Equivalent Analysis

During FY 2016, Finance developed FTE reporting for both ITS and the Shared Services Center. These reports compare compensation budgets to actual employee appointments and open positions to determine budget to actual variances for employee cost. These reports are done monthly and assist the units with budget and employee position control.

FY 2016 ITS Financial Review Project Results

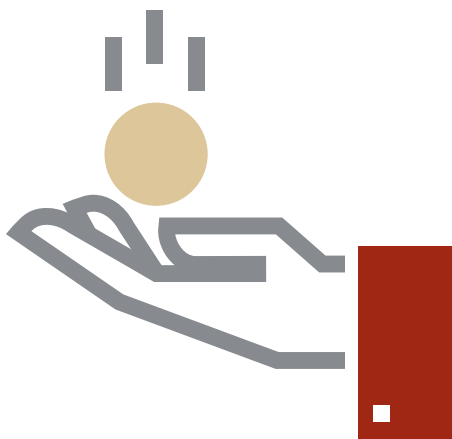
- Documented and assessed the current state of activities and delivered a variety of specific recommendations for improvements.
- Eliminated more than 85 program chart fields and remapped 90 short codes.
- Developed, as a direct result of reviewing the reporting structure, new financial reports based on the revised structure, including a monthly detail report package, an executive director monthly summary report, and department group summary and detail packages.





Cash Handling Business Processes for Student Organizations

In May 2016, Finance completed its first year of performing cash handling duties for the Office of Student Organizations, which included processing student organization deposits and filling campus change orders. Transferring these business processes to Finance leveraged the competencies of its Teller Services area and resulted in a seamless transition, which created efficiencies and cost savings for the Office of Student Organizations.



Upon assumption of these transactions in May 2015, Finance began processing the transactions using the same forms and processes as had been used previously. As it got more familiar with the volume and type of transactions during the year, Finance was also able to streamline the forms and business processes previously utilized. Process enhancements included combining two forms into one. Finance processed approximately 2,000 separate transactions for student organizations this past year. Streamlining the process and forms utilized has been beneficial for both Teller Services staff and Student Organizations customers.

Collection Activities for UM-Dearborn

Finance completed its first year of assuming collection activities for UM-Dearborn (UM-D) past due accounts. This business process change successfully leveraged the student collections functional specialty and infrastructure established within Financial Operations, including its billing

system and collection agency partners. This change also enabled UM-D to focus their efforts on their currently enrolled students. As UM-D uses a separate student system, uploads were built to facilitate the transfer of accounts into the Finance collections system.

Finance is currently servicing approximately 2,000 UM-D past-due accounts within its collections system, with a larger number of new accounts added at the end of each semester. Finance uses in-house collectors to work accounts for nine months before they are sent to an outside agency. Having in-house collectors work accounts first benefits UM-D students, saving them collection fees of approximately 25 percent of the outstanding balance if they pay within the in-house collection time period. Previously, UM-D would send past due accounts directly to a collection agency. This business process change saved UM-D students with past due balances approximately \$58,000 in collection costs for the first 10 months of FY 2016. Finance also added two of the collection agencies that UM-D previously used to its rotation for their accounts.

In addition, Finance has also provided UM-D with a more robust analyses of its student receivables, including aging detail and a more comprehensive allowance for doubtful collection assessment. These analyses could not be generated in UM-D's former system.

Streamlined and Enhanced Monthly Student Accounts Reports

Our monthly student accounts reports have been reworked to provide more summary information. A summary report showing the activity in the student loan collections area is backed up by detailed activity. The summary report offers an overview of the types of loans and accounts being collected as well as a scope of the work. In addition, easy-to-read graphs were created to compare current year collection aging with the prior year. A current accounts receivable roll forward was also developed, which shows activity compared to last year and helps frame





the overall scope of activities that are processed through the student accounts Finance manages.

Ross School Real Estate Investment Fund Operating Procedures

Finance worked with the Ross School of Business (RSB) to develop comprehensive operating procedures for the new Ross School Real Estate Investment Fund. Finance collaborated with RSB faculty and staff as well as key central office stakeholders (e.g., the Office of the Vice President and General Counsel and the Investment Office) to ensure the operating procedures addressed all business, educational, internal control, and compliance needs so that this new program could become operational in summer 2016. In addition, Finance worked with RSB and central office stakeholders to delineate a framework and guidelines related to the selection of investment and the oversight and governance of the fund and develop an action item, which the Board of Regents approved in April 2016. Finance also assisted with the establishment of accounts for this new investment fund in the general ledger and at the university's custodian bank.

The fund will be used as part of a RSB course to provide students with an opportunity to discover, evaluate, and make real-estate private equity investments. Established with initial funding of \$125,000, RSB plans to secure additional funding from donors, with a goal to grow the fund to \$3 million.

Monroe-Brown Seed Fund Operating Procedures

Finance worked with U-M Medical School's Fast Forward Medical Innovation program (FFMI) to develop comprehensive operating procedures for the new Monroe-Brown Seed Fund, a collaborative effort between the FFMI, a unit of the Medical School Office of Research, and the Center for Entrepreneurship at the College of Engineering (CFE). Finance collaborated with FFMI staff as well

as key central office stakeholders (e.g., the Office of the Vice President and General Counsel, Office of Technology Transfer, and the Investment Office) to ensure the operating procedures addressed all business, educational, internal control, and compliance needs. Finance also worked with RSB and central office stakeholders to delineate a framework and guidelines related to the selection of investment and the oversight and governance of the fund and develop an Action Item, which the Board of Regents approved in April 2016. In addition, we assisted with the establishment of accounts for this new investment fund in the general ledger and at the university's custodian bank as well as the onboarding of the fund's program manager, who is a new hire to the university.

The Monroe-Brown Seed Fund will make investments in U-M biomedical start-up companies that involve both College of Engineering and Medical School joint technologies. Technologies could fall into the domains of therapeutics, devices, diagnostics and/or health IT, and digital health. This program supports U-M's leadership position in biomedical research and technology and benefits the broader local entrepreneurial ecosystem by providing incentives to attract and retain world-class research talent. It provides the university with an additional tool in its overall research support armamentarium.

Initial funding of \$3 million was provided by the Monroe-Brown Family Foundation, with a goal to grow the fund to \$40 million through additional gifts.

Support Victors for Michigan Campaign Activities

The university's Victors for Michigan campaign reached new milestones this year and Finance had a key role in supporting its success. With over 60 percent of the campaign period elapsed, more than 80 percent of the university-wide goal of \$4 billion has been achieved.





Finance worked closely with the Office of University Development and campus units to process a high volume of new—and increasingly complex—gift agreements timely and accurately, including those related to the expanded Matching Initiative for Student Support. Finance also consulted on options for complex gift agreements, provided development officers speaker points to assist with donor questions about endowment account administration, and assisted units with best practices for establishing matching programs and quasi-endowments. For the first nine months of FY 2016, Finance opened nearly 700 new endowments, quasi-endowments, and life annuities, bringing total endowment accounts Finance administered to nearly 10,000 separate (individual) funds, with a value of \$9.4 billion as of March 31, 2016.

Internally Funded Research

Finance staff co-chaired a cross-functional team with the Office of Research and Sponsored Projects to assess, document, and analyze the current processes for tracking and reporting the amount of research and development expenditures funded by internal sources within the university's individual colleges, schools, and units. The team reviewed available data and guidelines on institutionally funded research and developed questionnaires to gather additional information from internal units as well as from peer institutions. The results were collected and analyzed to determine how institutionally funded research activity is defined, categorized, tracked, and reported.

Finance prepared a comprehensive report to summarize the results of its review. The review found that the university's current method of reporting internally funded research is consistent with the federal guidelines established by the National Science Foundation (NSF) Higher Education Research and Development (HERD) Survey, and the Office of Management and Budget (OMB). The NSF survey instructs institutions to include institutional funds spent for organized research as

well as amounts from internal funds designated for research (e.g., departmental research) and report on them, both from an overall perspective and by fields of science. The report also includes identified opportunities for enhancing tracking, and reporting of departmental research.

Development of Research Administration Training for Faculty and Staff

In fall 2015 and winter 2016, a training program for newcomers in research administration was piloted. The eight-day *Navigate: Fundamentals* program was crafted to follow the workflow and business process of the sponsored research project lifecycle. A number of research staff professionals across campus collaborated on the development of this course. The pilot cohort participants included 26 research administrators from colleges, schools, and units on campus. The *Navigate: Fundamentals* course will be made available again in fall 2016.

There is campus-wide acknowledgment of the need for research administration training, as evidenced both by individual and office statements, and community survey. The case for training in research administration is so compelling that Sponsored Programs and the Office of Research and Sponsored Projects joined to sponsor the design, development, and delivery of three additional pilot courses—*Advanced Budgeting*, *Uniform Guidance Cost Principles*, and *Research Administration for Faculty*. The development of these new programs will follow a similar implementation process used to design *Navigate: Fundamentals* (collaboration with colleagues across campus). The new courses are projected to begin in fall 2016.

Working with Intercollegiate Athletics

Finance collaborated with Athletics throughout the year to review its internal business processes related to procurement spend and PCard use. Finance performed spend analyses and shared recommendations with the Athletics Facilities, Information Technology, and Sports Administration





Departments. Finance also facilitated joint meetings with senior management in Facilities Maintenance to explore support for the Athletics campus facilities instead of using outside suppliers. Finance is in the process of working with Athletics senior management to review multiple major departmental contracts in an effort to drive savings as well as identify targeted commodity lines to pursue additional contracts. In addition, a Finance team member currently participates as a subject matter expert on the Athletics Resource, Governance, and Accountability Council as the department implements its Lean initiative.

Health System Value Margin Improvement (VMI) Initiative

Procurement Services assisted the U-M Medical School in working with several project teams in the areas of sterilization, move management, and shipping and logistics. These initiatives are focused on improving operations and creating value for the life sciences departments.



Finance is also working with the Health System's information technology project teams in the areas of commodity purchases and software maintenance. These initiatives seek to improve internal processes to streamline acquisition and product management, and to reduce total cost of ownership.

A Broad Array of Collaboration

Finance consulted with various employees across the institution to help them develop the university's mission beyond the classroom or hospital bed, including:

- Provided outreach education on tax issues to employees managing transfers of technology or intellectual property.
- Worked closely with the Office of the Provost regarding certain international educational opportunities.

- Worked closely with the Office of the Vice President and General Counsel in converting a start-up venture into a spin-off investment.
- Worked closely with University Human Resources to provide a deferred compensation arrangement vehicle to enhance recruitment and retention of faculty, researchers, and physicians.

Migration to Exadata

Finance collaborated with ITS to migrate the server that was home to the Mcard database to a new server and database environment. The new environment adds more stability and security to the Mcard database. The new database supports the programs that provide Mcard functionality, including secure building access and Dining Dollars.

Enhanced Merchant Support for Fireside Café

Finance worked with ITS and Information & Infrastructure Assurance (IIA) to deploy updated credit card terminals at the Fireside Café on North Campus because the older, analog devices were not meeting the needs of Student Life. As part of a pilot of the new secure PCI network being developed by ITS and IIA, these terminals leverage the benefits of the new network in a more secure environment and dramatically increase the transaction speed for processing credit card payments. After this implementation, transaction times were significantly reduced.

University-wide 10-Year Capital Plan

A comprehensive long-term planning tool, the Summary 10-Year Capital Plan, was implemented in FY 2016 by Finance to assist university leadership in strategic decision making. The plan, which consists of a new 10-year forecast and supporting reports, includes approved and potential future major projects for the Ann Arbor, Dearborn, and Flint campuses, plus the University of Michigan Health System. It allows for a comparison of estimated central funding sources against university priorities to ensure the



most strategic use of limited resources. The plan has been converted into Tableau Software for quick filtering of data and visualization of key metrics.

Capital Project Financing Letter Tracking System

Finance has issued internal financing agreements called financing letters on major capital projects involving multiple funding sources, for years. These financing letters are routed between numerous units across the university to guide all parties through funding questions from the start of the project through financial close out and return of any remaining funds. Historically, obtaining the correct financing letter was onerous and confusing because of similar names for projects as well as amendments to the financing letters as conditions and agreements changed. A new tracking system has been created in Tableau to allow stakeholders to quickly obtain the status of each project letter and link to an electronic version available for review, download, or print.





COST CONTAINMENT

B&F Budget Planning Process

New Capitalization Threshold

Increased Use of Electronic W-2s

Support Health System Value Margin Improvement Initiative

Spend Analysis

Strategic Sourcing Savings

Savings Victors Program

U-M Surplus Generates Revenue

Debt Financing

Veritas: The University's Captive Insurance Company



B&F Budget Planning Process

Finance led the Business and Finance FY 2017 budget planning process, which included a one percent base budget reduction that was re-invested in its highest priorities. The division provided a year-end FY 2016 summary report to the executive vice president and chief financial officer and the president on cost avoidance activity for B&F programs such as construction, employee benefits, debt management, risk management, and strategic sourcing.

New Capitalization Threshold

In FY 2016, Finance implemented a new capitalization threshold for campus renovations, new construction, and information technology projects. Construction projects include the acquisition, renewal, and replacement of building assets, while information technology projects include the purchase and/or development of software or IT infrastructure.

After a robust analysis, which included benchmarking with peer institutions and assessment of the accounting and reporting implications of a revised capitalization, Finance increased the capitalization threshold for these assets from \$50,000 to \$500,000. At this new threshold, it was determined that Finance could significantly reduce administrative burden by decreasing individual annual capital asset project capitalization volume by approximately 30 percent, on average, while still capitalizing approximately 95 percent of the dollars. Finance also negotiated a 25 percent reduction in existing componentization fees from its third party vendor as a result of the increased threshold.

In addition, Finance updated its online Capitalization Guidelines to reflect this change as well as combined all of its construction and IT project guidelines into one document.

As part of the implementation, all projects that were in progress at June 30, 2015 were

reviewed in FY 2016 and all impacted units were contacted before entries to expense previously incurred expenditures were made.

Increased Use of Electronic W-2s

Nearly 80,000 W-2s were issued this year and efforts by Finance and Information and Technology Services to encourage employees to elect the option to download their 2015 W-2 forms electronically were very successful. Even with a record number of W-2s issued, Finance was able to achieve its highest percent of recipients utilizing the electronic distribution option. For calendar year 2015, 75 percent of all W-2s were electronically distributed, as compared to 63 percent five years ago. This electronic initiative supports the university's sustainability and cost-containment efforts by reducing printing and postage costs.

Support Health System Value Margin Improvement Initiative

Finance staff were requested by UMHS to serve on work teams to design a future state for key initiatives in their Value Margin Improvement (VMI) project because of their subject matter expertise with respect to optimizing organizational hierarchy and journal entry business processes and developing and documenting finance policies and procedures. Finance staff served on the health system's VMI change initiative work teams and helped develop business case and implementation plans for initiatives related to optimizing organizational hierarchy; standardizing journal entry templates and policy; and cataloging and documenting finance policies and procedures for the health system.

Spend Analysis

In FY 2016, Finance provided spend analysis reporting to 12 university units. The analyses were completed for FY 2014 and FY 2015. Recommendations were provided that include the increased usage of existing strategic contracts





and shift from using non-preferred procurement methods. The data analyzed represented over \$387 million in spend for FY 2014 and over \$407 million in spend for FY 2015.

The following units were provided spend analysis reports:

- Athletics (selected department IDs)
- College of Literature, Science, and the Arts
- UM-Dearborn
- Medical School
- Rackham Graduate School
- Ross School of Business
- School of Dentistry
- School of Information
- School of Kinesiology
- School of Natural Resources and Environment
- School of Public Health
- University Libraries

Strategic Sourcing Savings

Finance continued its cost containment efforts in FY 2016 by pursuing a series of new strategic contracts and renegotiating existing agreements in the following categories:

- Graphic and Website Design
- Expedited Shipping Services
- Managed Printer/Copier Program
- Coffee Supplies and Services
- Audio Visual Events Services
- Document Shredding
- Polymerase Chain Reaction (PCR) Supplies
- Water Supplies and Services
- Food and Office Supplies
- Pharmacy Benefits Management (PBM) Services

The projected savings from these contracting activities will exceed \$7 million annually. The university has realized more than \$70 million in savings since FY 2013 through its strategic sourcing efforts.

Savings Victors Program

Procurement Services presented a number of Savings Victors awards in FY 2016. The goal of the Savings Victors program is to acknowledge university employees who successfully use procurement resources, such as strategic contracts, to contain costs and maximize resources on behalf of their units. Recipients of the Savings Victors award receive a commemorative award and their story is showcased in the Procurement Services newsletter.

U-M Surplus Generates Revenue

Finance held three vehicle auctions in FY 2016 resulting in over 120 vehicles sold and bringing in revenues totaling over \$775,000. In addition to vehicles, car parts and grounds equipment were also included in the live auctions. In FY 2016, Finance began using Biddergy, a Michigan-based online auction company, to sell hospital equipment and building fixtures/equipment to the highest bidder. Total U-M surplus sales for FY 2016 were over \$2 million.

Debt Financing

In FY 2016, Finance completed two major debt transactions:

- Issuance of \$307 million of General Revenue Bonds Series 2015, which included the strategic refinancing of \$204 million of existing variable-rate debt into fixed-rate debt at near historically low fixed rates
- Rolled over U-M's commercial paper program from Series J, with an issuance limit of up to \$180 million to Series K, with an issuance limit of up to \$300 million

The funding from these transactions supports, or will support, various capital projects across the institution. The university maintains credit ratings of AAA and Aaa on its debt obligations by S&P Global Ratings and Moody's Investors Service, respectively, and is one of only seven public





universities in the country to hold the highest possible ratings from both rating agencies. These ratings enable the university to achieve lower interest costs and attract a broader investor base.

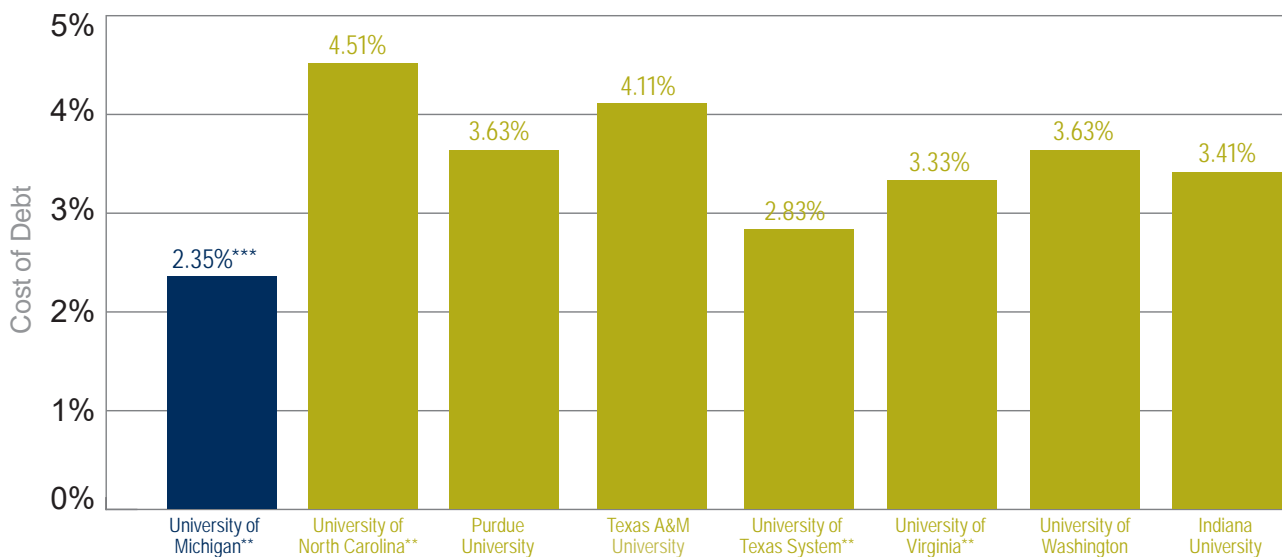
For the first time in the university’s history, a virtual roadshow was used to market the Series 2015 bonds to investors. This online presentation was created with voice overs from Treasury officers and offered electronically to investors along with the required preliminary offering statement. The university realized significant savings by the elimination of travel time and expenses that would have been incurred if the bond sale had been promoted through onsite meetings with potential investors. The virtual roadshow helped to recruit new investors and generated significant demand for the bonds, ultimately leading to \$18 million in estimated savings over the life of the bonds.

for rating higher education institutions during the fiscal year. This necessitated an in-depth review of the new methodologies and analysis of U-M and peer metrics to estimate ratings under the new methodologies. The debt team also created a new debt capacity assessment model using the new criteria that now has more interactive modeling capability.

Finance strives to keep interest costs low while managing interest rate and put risk by maintaining an appropriate mix of both variable and fixed rate debt and issuing different types of debt to accomplish the university’s financing objectives. The university has benefited from having a higher percentage of variable rate debt in its portfolio compared to its peers as illustrated in the chart below, which compares the interest cost of debt of the university and its Aaa public university peers for FY 2013 to 2015.

Both S&P and Moody’s changed their methodology

FY 2013–2015 Average Interest Cost of Debt*—Aaa Public Universities



* Average interest expense divided by debt over the three years, adjusted for identifiable differences in peer published financial statements

** Swaps present in debt portfolio

*** Cost excludes capitalized interest to be consistent with financial statements of peer institutions





Veritas: The University's Captive Insurance Company

Since 1986, the university has owned and operated the Veritas Insurance Corporation as a vehicle to partially finance its own insurance claims. The university pays premiums to Veritas to insure an expected level of loss on an annual basis, while catastrophic levels are insured using commercial policies. This enables the university to avoid certain overhead costs, such as marketing, bundled services, and profit that a typical insurance company would include in its premiums. The university also retains investment returns on the premiums it pays itself and holds onto excess premiums when claims experience is better than projected. Savings are returned to the university through lower insurance rates, premiums credits, and dividends.

The chart below conservatively illustrates the savings impact created by Veritas compared to a strategy of exclusively purchasing commercial insurance.

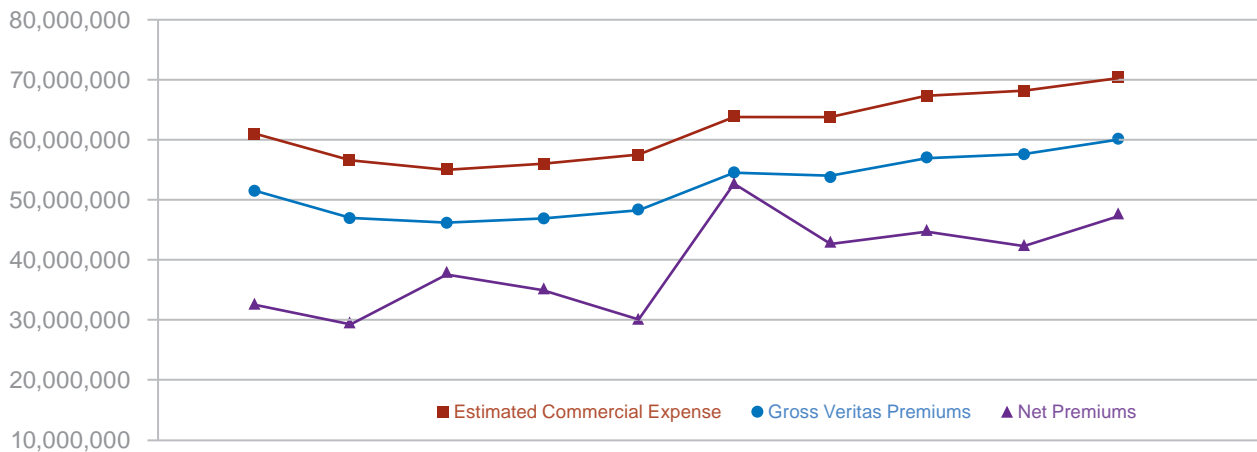
The chart also represents:

- The projected cost to purchase commercial insurance (line with squares)
- The projected total losses (line with diamonds) based on projections of loss from our actuaries
- The actual cost (line with triangles) based on the return of premiums through premium credits and dividends

In FY 2016, the realized savings were \$26 million.

Veritas Avoids Costs, "Captures" Good Claims and Investment Performance

Commercial Costs vs. Veritas Gross Premiums and Net Premiums



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Commercial Savings	\$10M	\$9M	\$9M	\$9M	\$9M	\$10M	\$10M	\$10M	\$10M	\$11M	\$99M
Veritas Premium Credit	\$18M	\$18M	\$9M	\$13M	\$18M		\$11M	\$13M	\$16M	\$12M	\$129M
Premium Savings	\$28M	\$27M	\$18M	\$23M	\$27M	\$10M	\$21M	\$24M	\$26M	\$23M	\$228M
Dividend	\$30M				\$24M						\$54M
Total Savings	\$58M	\$27M	\$18M	\$23M	\$52M	\$10M	\$21M	\$24M	\$26M	\$23M	\$282M

- Estimated Commercial Expense = Gross U-M Insurance Expense + 20 percent Increase in Veritas Lines (Industry Standard per Towers-Watson)
- Gross U-M Insurance Expense = Commercial Insurance, Veritas, Administrative Expenses, Retentions
- ▲ Net U-M Insurance Expense = Gross U-M Insurance Expense - Premium Credit attributable to previous year





CUSTOMER SERVICE AND TRAINING

Budget Kickoff Presentation

Upgraded Budget Software

New Transfer Account Resource

New e-Learning Courses for Timekeepers

Payroll Office Customer Outreach

Form 1042-S for International Students

Quick-View Reference Guide

Internal Controls Forums

Internal Controls Customer Outreach

Concur Brown Bags

TSA PreCheck Events

Strategic Supplier Shows

Tax Tool Kits

Mcard Modifications



Budget Kickoff Presentation

Finance delivered the FY 2017 Budget Kickoff presentation to over 50 B&F budget administrators in three separate venues across campus. The purpose of these presentations was to communicate the B&F budget process, timing, and deliverables. The meetings also served as outreach to the various B&F areas for feedback and questions.

Upgraded Budget Software

Finance upgraded the B&F budget software (BPC) to Version 10.0 during FY 2016. Business Planning and Consolidation (BPC) by SAP is utilized across B&F as well as units such as Athletics, Fleming Shared Services, and the Division of Public Safety and Security. Finance hosted four individual group training sessions as well as some individual training for over 50 users. Benefits of the upgrade include increased customer flexibility to create customized reports on a monthly, annual, or multi-year basis.

New Transfer Account Resource

To supplement our existing Transfer Account Matrix, Finance created a new online publication with detailed instructions on proper Transfer Account usage. This resource provides fund-specific information about which accounts to use for each type of funding transfer, including:

- Moving funding for a project or defined activity
- Moving expenses from prior years between chartfields
- Covering overdrafts
- Moving balances to close out projects/chartfields

Campus units and the Shared Services Center have found this additional resource to be a valuable reference when preparing and reviewing transfer journal entries.

New e-Learning Courses for Timekeepers

Finance collaborated with Information and Technology Services (ITS) to develop an online

training course for new departmental timekeepers. The six-hour, instructor-led TLC112 Time Reporting course was replaced by the following combination of eLearning courses and training labs:

- Required 1:** TLE121 *Employee Leave Data (30 mn)*
- Required 2:** TLE122 *Time Reporting (1.5 hrs)*
- Optional:** TLE323 *Campus Time Reporting Lab* or TLL324 *Hospital Time Reporting Lab (2 hrs)*

The new curriculum will allow new timekeepers to complete the training at their own pace and expedites access to the timekeeper role. It may also be referenced by anyone who wants to learn more about the timekeeping process.

Payroll Office Customer Outreach

As part of Finance's continuous improvement efforts, Finance employees from the Payroll Office met with administrators from units across campus to receive feedback regarding time and labor/payroll processes. Among the topics discussed were changes associated with last June's PeopleSoft HCM upgrade, Payroll website updates, future training needs of units, and potential system changes units would like to see. As a result of these sessions, several new queries were requested, some system issues were identified, and two units expressed interest in Payroll staff leading—or participating in—training sessions for their staff.

Form 1042-S for International Students

During the past year, the Internal Revenue Service (IRS) was not properly crediting the tax withheld on the 2014 and 2015 1042-S forms issued to non-resident aliens. This resulted in the IRS notifying international students attending universities throughout the country that they either owe tax or will not be issued their refunds.

Finance is working collaboratively with the university's International Center to assist impacted





students. Finance estimates that 1,283 of the 1,502 students who were issued 2014 1042-S forms for scholarship/fellowship payments may have been impacted. Finance has been contacted by approximately 85 of these students and provided them with a letter confirming the tax amounts withheld by the university on their 2014 1042-S forms.

Quick-View Reference Guide

Finance created a quick-view reference guide to help provide Fleming Shared Services clients with easy access to the information that is necessary to process transactions such as invoices, service unit billing, PCard and out-of-pocket reimbursements, check deposit, hosting, and human resource transactions.

Internal Controls Forums

Finance and University Audits co-sponsored two Internal Controls Forums for approximately 65 lead budget administrators across campus. The theme for the forums focused on risk, and the agenda included presentations from an academic unit, a non-academic unit, as well as a discussion on cybersecurity. The agenda also included group table discussions and participants were provided a handout summarizing recent fraud cases investigated at the university as well as Compliance Hotline statistics.

Internal Controls Customer Outreach

Representatives from Finance's Office of Internal Controls met with all 46 units across campus that certify their financial results and controls in order to discuss common issues and share best practices. This information was shared with central staffs. The office also conducted quarterly workgroups with unit representatives to share ideas and solicit user feedback and developed a list of key campus initiative topics for VP-BAG group meetings to improve communication with non-academic units.

The office's other outreach efforts included:

- Conducting internal controls training for six new lead budget administrators
- Providing assistance to departments across campus with audit corrective actions as well as specific questions related to issues such as handling of cash, use of gift cards, and help to improve reporting
- Coordinating the FY 2015 gap analysis and sub-certification for Finance and Fleming Shared Services

Concur Brown Bags

Finance introduced a series of Concur brown bag sessions in FY 2016. These presentations were developed to help inform customers of new and improved features in Concur, and included demonstrations of the mobile apps available as well as a variety of tips and tricks. The response has been very positive and content is updated based on unit feedback.

TSA PreCheck Events

Finance brought the Transportation Security Administration's (TSA) PreCheck program to campus twice in FY 2016 for special enrollment events. The TSA is responsible for protection of the nation's transportation systems, including airports. The PreCheck Program offered enrollees expedited screening via a special lane at airports where they may not have to remove shoes, belts, light jackets, laptops from cases, and compliant liquids from carry-on luggage. Overall, nearly 1,100 employees took advantage of Finance's two on-campus events to conveniently enroll in the TSA PreCheck Program.

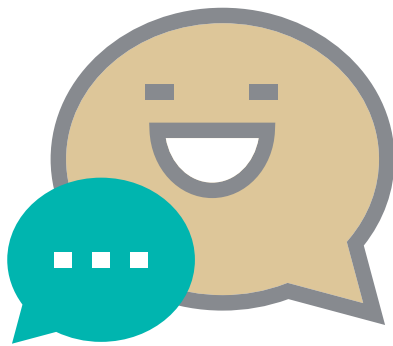
Strategic Supplier Shows

Procurement Services held three Strategic Supplier Shows in FY 2016, which took place at the Michigan League, and on the Dearborn and Flint campuses. The shows allowed strategic suppliers and internal service providers to demonstrate new products,





promote new services, and build relationships with their university customers. University faculty, staff, and students were invited to attend and to sample products from participating suppliers and internal service providers. In total, over 1,000 people attended the shows, which featured nearly 300 suppliers. A show at the North Campus Research Complex is planned for early FY 2017.



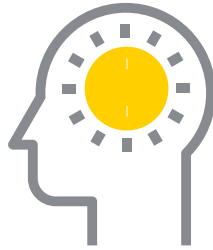
Mcard Modifications

Finance modified the printing of Mcards in response to two requests. The first request came from UMHS to change the name on the face of UMHS Mcards from “University of Michigan Health System” to “University of Michigan Hospitals and Health Centers.” This change went into effect in January 2016. The second request came from university leadership based on student requests to add the phone number for the university’s Counseling and Psychological Services (CAPS), a service for students who may be facing various mental health challenges, to the back of Mcards as a resource for Ann Arbor students. This modification was implemented in April 2016.

In addition Finance hosted six supplier shows that featured the university’s strategic life sciences suppliers. The shows were held at the Medical Science Research Building, North Campus Research Complex, and Biomedical Science Research Building, and provided the opportunity for researchers to meet with the university’s strategic partners to discuss lab equipment and supply needs.

Tax Tool Kits

Finance provided tax tool kits (questionnaires, flowcharts, memorandums) to central departments to help manage certain tax issues. In FY 2016, Finance worked with the Shared Services Center to address the tax-free reimbursement of certain fringe benefits such as clothing, which the IRS has been auditing. Finance provided clients with criteria statements via M-Box that allowed them to process these transactions accurately, efficiently, and completely.



NEW INITIATIVES

Affordable Care Act–Employer Shared Responsibility (ESR)

Shared Services Center Post-Implementation Stabilization

Ensuring Compliance and Reducing Risk

Travel and Business Hosting SPG

Signature Authority Write-Up

Major Construction Projects

Participation in Institutional Autonomous Systems Committee



Affordable Care Act–Employer Shared Responsibility (ESR)

The Employer Shared Responsibility (ESR) provision of the Affordable Care Act, effective January 1, 2016, aims to provide access to health plans to all employees—whether regular or temporary—as long as they are working full time, which is defined as 30 hours per week on average. During the implementation and stabilization phases of this project, Finance partnered closely with University HR and ITS.

For all employees who qualify and enroll in health care coverage under the Affordable Care Act, the process was designed so that the employer portion of health care charges would first hit the Payroll erroneous shortcode. The Payroll Deductions Area must then process transfers in the weekly off-cycle payrolls to charge the appropriate departmental shortcodes. Payroll staff spent a considerable amount of time with Benefits Administration to create a spreadsheet that was complete and accurate for this transfer process. In addition, these employees increased the number of entries that may appear on the monthly Benefits Discrepancy Report that is reconciled by the Deductions Area to ensure the appropriate adjustments are made to the employee/employer portion for medical deductions. The project team is also currently working on a process that will allow delivery of the 2016 year-end 1095s forms via self-service.

Shared Services Center Post-Implementation Stabilization

During this past year, Finance spent significant time to support the stabilization of the university's Shared Services Center (SSC), particularly for the following Phase II areas that went live April 20, 2015:

- Gross Pay Reconciliation
- Statements of Account (SOA) Reconciliation
- Accounting Customer Service
- Employment Verification
- Time and Leave
- Travel and Expense

Finance has played a key role in ensuring the SSC's success by meeting regularly with the center's staff, advising on topics as they emerged, assisting with policy interpretation and documentation, addressing questions about specific reconciliation items, and helping clarify business processes and procedures. Finance also provided a wide variety of support to the SSC in a number of key areas, including the following:

- Assisted with modifying the following exception types for Gross Pay Register transactions that fail the auto-reconciliation:
 - TS (Timesheet Shortcode)—provided input so that the REG earnings code would be included when identifying override shortcodes that exist on the timesheet page
 - TE (TRC/Earncode not Equal)—identified “amounts only” earnings codes so they could be removed from producing this exception type, so less false positives would be created
- Assisted team with modifications to the Vacation/PTO payout form
- Provided cost accounting training sessions for the SOA Reconciliation staff and had 60 attendees
- Shared suggestions for enhancing service link
- Helped complete documentation of service level agreements
- Provided assistance with post-implementation stabilization efforts to identify and adjust in instances where work-flow not routing or posting as designed
- Created and provided ongoing customized Concur reports to meet reporting needs regarding metrics and accuracy
- Provided Travel and Expense policy training and Q&A sessions for the Travel and Expense audit and report creation staff

Ensuring Compliance and Reducing Risk

The Office of Internal Controls continues to be proactively involved in new process improvement initiatives to help ensure proper internal controls are designed into the business process by increasing the use of automation, helping to ensure compliance, and reducing risk and workload for units. The office is also increasing the use of data mining and analytics





to monitor key internal control indicators and identify potential internal control issues. Examples include studies regarding the timeliness of retroactive salary adjustments related to Sponsored Programs, potential anomalies in unit-administered financial aid payments, and aging analysis of gift fund balances.

Travel and Business Hosting SPG

A revised version of SPG 507.10-1, *Travel and Business Hosting Expense Policy*, was released in December. The content in the new version was reorganized and updated for easier and faster use by employees. In addition, the SPG includes:

- An overview of the PCard Program and usage guidance
- An overview of the Stored Value Card program
- New guidance on when it may be more prudent to rent a car instead of driving a personal vehicle
- New guidance on how to handle protected health information (PHI) when submitting expense reports
- New guidance on hosting meal limits for recruitment activities
- New guidance on receipt requirements for electronic forms of payment, such as PayPal

Signature Authority Write-Up

Finance, in collaboration, with the Office of the Vice President and General Counsel and several university units, completed an update of SPG 601.24, *Delegation of Authority to Bind the University to External Agreements on Business and Financial Matters* and its accompanying resource: Table 1, Authority Delegations. Changes to the documents include updated titles, document types and internal processes, and clarification of the authorities delegated.

Major Construction Projects

Facilities Procurement continued to provide support for major construction projects in FY 2016. Projects completed in FY 2016 included a new 78,000 square-foot School of Nursing building, the William L. Clements Library Infrastructure Improvements and Addition project, Yost Ice

Arena Ice System Improvements, and the Eda U. Gerstacker Grove located on North Campus.

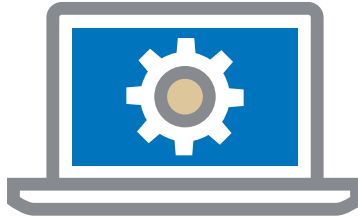
Other major projects currently under construction include the Stephen M. Ross Athletic Campus Athletics South Competition and Performance Project (estimated completion—winter 2018), construction of the new Biological Science Building (estimated completion—summer 2018), renovations of the Nuclear Engineering Laboratory (estimated completion—spring 2017), and Weiser Hall (estimated completion—summer 2017).

Major projects nearing completion in fall of 2017 are the UM-Dearborn's Science Building and Computer Information Science Building renovation, and the renovations of the Intramural Sports Building, the George Granger Brown Memorial Laboratories, the Stephen M. Ross School of Business Kresge Renovation and Jeff T. Blau Hall, and the UMHHC Magnetic Resonance Imaging Suite Expansion.

Participation in Institutional Autonomous Systems Committee

The use of uncrewed vehicles (i.e., “unmanned” or lacking a crew) has been increasing on a national level, driving the need for development of regulations to manage their inherent risks. Accordingly, the University of Michigan has recently established the Institutional Autonomous Systems Committee (IASC) to recommend policies pertaining to the use of uncrewed or autonomous systems by members of the U-M community, on—or off—U-M properties, and in the course of research and educational activities and other endeavors in the pursuit of the U-M mission. Finance has been asked to serve as a member of the IASC, with drones as the first area of focus. The IASC will jointly report to U-M's vice president for research and executive vice president and chief financial officer and will be responsible for reviewing and approving the use of any uncrewed or autonomous systems by employees, students, and visitors participating in UM-related activities.





TECHNOLOGY

Financial System 9.2 Upgrade

Post Upgrade Stabilization of Human Capital Management System

Effort Reporting Enhancements

Student Billing Data Tables

New Donor Alumni Relationship Tool Functionality

Supporting the Research Community

Print/Copy/Mail

Concur Enhancements

Contract Management Software

Mail Metering and Inserter System Replacement

Oracle Database Migration

Capital Budget Database

Electronic Settlement Enablement

New Tax Software

Email Confirmation of International Wires

Automated Gift Payments

Remote Deposit Capture

Financial System 9.2 Upgrade

Finance played important roles in preparation for the upgrade of the university's enterprise-wide financial management system to PeopleSoft version 9.2, which is schedule to be completed September 2016. A Finance Core Strategy Team was established, with representatives from key functional areas of the system in order to help review, evaluate, and guide decision making for the upgrade.

Throughout the year, Finance worked collaboratively with Information and Technology Services (ITS) and other key stakeholders to prepare for the upgrade. This included conducting extensive fit-gap sessions to identify opportunities to utilize new system functionality, improve processes, and reduce system modifications. Finance also supported upgrade efforts by updating business processes and participating in the planning and execution of system testing. In addition, through the fit-gap sessions, the team identified many system and process improvement opportunities to be prioritized for potential implementation after the 9.2 upgrade is complete.

Post Upgrade Stabilization of Human Capital Management System

The university's Human Capital Management System was updated to PeopleSoft version 9.2 in June 2015. Finance spent a considerable amount of time in FY 2016 working with departments and ITS on stabilization activities associated with the upgraded system.

New timesheet approval functionality was part of the upgrade and impacted approximately 7,000 individuals across the university. During several biweekly and monthly payrolls after the upgrade, Payroll staff assisted with the timesheet approval process for hundreds of employees as many units were delayed in finalizing updates to their employee's supervisor ID field on job data

and adding appropriate delegate approvers in M-Pathways. This effort helped ensure that impacted employees would be paid correctly and on time.

Payroll staff also helped resolve shortcode distribution issues related to the daily Retro Earnings Distribution Report used for processing salary transfers for retro active Department Budget Earnings changes initiated by units across campus. A program error impacted daily reports for several weeks in summer 2015, resulting in the need to review 6,336 rows of missing data for 1,810 employees, and then process the appropriate salary transfers. Payroll staff successfully completed these transfers between the last week of September and the end of October.

Effort Reporting Enhancements

During the past year, Finance updated and revised existing effort reporting tools to ensure consistency and increase overall ease of use. Many of these improvements were implemented to create consistency with the regular online reports and reports that are generated on an as-needed basis. Finance also changed report titles that were misleading. These changes were implemented in September with the assistance of Information and Technology Services (ITS). Finance also worked with ITS to fix a system processing issue that triggered unnecessary effort re-certification requests, based on rounding differences.

Student Billing Data Tables

To enable M-Pathways student system processes to run more efficiently, Finance collaborated with ITS to develop an archiving strategy for student billing data tables, as well as test and implement the developed archiving solution. The strategy includes archiving data to reduce the burden on the production system, but enabling access of archived data via PSquery tools in CS Prod in an archived table of the production database. In the event that any of the archived data does need to be recalled



into production, the archive process can be reversed and the data can be returned to production.

In determining which data could be archived, the team reviewed data-access history and determined that student billing data older than two years across seven tables could be archived annually at fiscal year-end. This resulted in the archiving of 20 million lines of cumulative data, significantly streamlining nightly student system batch processes. Prior to implementing this solution, each time a batch process ran, it processed through all data in the production database. The solution was comprehensively tested before implementation to ensure it didn't adversely impact production. Going forward, this archiving process will be done annually so that only two years of data are retained in the production database. Finance is also currently working with ITS on an archiving strategy for other student financial-related records.

New Donor Alumni Relationship Tool Functionality

Finance collaborated with the Office of University Development and Information and Technology Services to design enhancements to the university's Donor Alumni Relationship Tool (DART) system for gifts of securities and life annuity planned gifts. Enhancements implemented this year included new functionality to automate the posting processes for planned gifts and gifts of securities from DART to the General Ledger. A DART sub-system was also added to track details of gifts of securities, which enabled the retirement of an aging Microsoft Access database.

These DART system enhancements streamlined and improved gift of securities and planned gifts processing and data access, as well as reduced the inherent risk of errors associated with manual processes. In FY 2015, 1,131 gift of securities transactions were processed

totaling \$59 million and 56 life annuity planned gifts were processed totaling \$8 million.

Supporting the Research Community

Small business subcontracting plans are required by federal sponsors for research contracts exceeding \$700,000. These detailed plans are developed by Finance, with assistance from the unit, and ensure that units properly spend their funds with appropriate small businesses, per federal requirements. In addition, the department prepares quarterly and biannual/annual spend reports for principal investigators (PIs), research administrators (RAs), and sponsors, respectively.



The third—and final—phase of the enhancement effort to the reporting process, which was significantly streamlined in FY 2015, was completed in FY 2016. The final phase focused on improving the process for the annual spend report submission to federal sponsors. Overall, the redesigned process has increased accuracy, eliminated a significant amount of manual work, and reduced the time spent entering data from days to less than an hour.

Print/Copy/Mail

The Management Information System (MIS) and MiPrint Order systems continue to enable day to day processes to operate in an efficient manner and provide system continuity. Nearly 30,000 jobs have been successfully processed since implementation



in FY 2015 and mail automation has transitioned to the MIS as well. This allows customer projects to be consolidated on one ticket and billing to appear on one itemized invoice from Print/Copy/Mail.

Concur Enhancements

Finance implemented several improvement efforts in to Concur, the university's travel and expense system, throughout FY 2016. New business purpose categorization functionality was introduced in early FY 2016, which allows users to easily select a business purpose category from a number of options available on a drop-down menu. Each category includes details on additional information that is necessary to meet the university's requirements. The business purpose categories were developed based on feedback from a focus group comprised of Concur users from throughout the university. Additionally, cash advance improvements in Concur now allow requesters to attach documentation and to recall a cash advance request.

Changes have also been made to various icons within the system. These changes will improve and enhance the user's travel booking experience and make it more compliant with the Americans with Disabilities Act (ADA), Section 508. In addition, Finance worked with Conlin Travel, the university's travel management company, to make travel alerts available in real time on the Procurement Services website, further enhancing university travelers' experiences.

Contract Management Software

Finance completed the implementation of a contract management software suite, collectively known as CMS. The software standardizes and automates the sourcing and contracting processes, provides a contract repository, and enables visibility of available contracts to end users.

It also provides for consistency in contract negotiated terms, greater collaboration with customers, and contract compliance. The implementation of contract management software supports the high-level goals of strategic sourcing, customer satisfaction, and employee satisfaction. The CMS suite also provides a platform for additional direct collaboration with other non-Procurement units and suppliers for sourcing events and management of agreements. Finance is currently engaged with ITS, Learning and Professional Development (LPD), and Medical Center Information Technology (MCIT) to bring their agreements into Total Contract Manager.

Mail Metering and Inserter System Replacement

To provide even better customer service to the university community, four new metering stations, which apply over \$2 million in United States Postal Service (USPS) postage annually, and an automated letter inserter that includes a HIPPA-compliant, closed-loop system, were installed in FY 2016.

Oracle Database Migration

Finance worked closely with ITS to support the migration to EE Oracle 12c at Print/Copy/Mail. The upgrade resulted in security benefits, dedicated connection setup, and addition of Oracle Connection Manager proxy server for direct desktop connections, if applicable.

Capital Budget Database

Finance built an electronic capital budget tracking and reporting database. This streamlines data collection from ITS and Architecture Engineering and Construction (AEC) and allows for summarizing the data feeds into trackable requests for capital projects. This new database will help manage capital budget requests, making the process more streamlined and visible.



Electronic Settlement Enablement

Finance continued its effort to implement electronic settlements with eligible suppliers. The eSettlements process is a fully automated invoice-to-payment process system, which validates electronically submitted invoices and provides notifications during each step of the process. In FY 2016, enablement for nine suppliers was completed, resulting in thousands of invoices now being processed automatically in the system instead of manually.

New Tax Software

Finance uses tax software to minimize clerical mistakes as well as maximize consistent reporting practices and has created programs, such as the sales and use tax portal, which we use to report the sales and use taxes collected by U-M throughout the year. In FY 2016, we successfully implemented software to record the taxable income reported by the investments made by its long-term portfolio. This enhancement helps Finance meet its demanding reporting requirements more efficiently and effectively.

Email Confirmation of International Wires

The Cash Management team partnered with ITS and Western Union Business Solutions (WUBS), the university's foreign exchange vendor, to create a direct email confirmation of outgoing international wire transfers. The email confirmations can be sent to a designated recipient (e.g., the vendor) and provide notification that an international wire payment has been sent via the specific banking instructions. The confirmations were designed to

include specific fields of interest, including wire date, voucher ID, university department, etc., that will help the recipient more easily identify the payment when it arrives. This helpful customer service tool alerts vendors that a payment will be credited to their account, while the inclusion of pertinent voucher details will assist vendors in more quickly updating their receivables systems.

Automated Gift Payments

Finance worked with the Office of University Development to implement a file upload process from the DART system to JP Morgan Access, the reporting system for JP Morgan Chase Bank. This new process adds automation to the file transfer process for donors who contribute to the university by an ACH Debit from their checking or savings account, including donors who authorize recurring periodic payments. This upgraded process alleviates the manual intervention and redundancies associated with the previous method, while enhancing data security.

Remote Deposit Capture

Nearly 25 additional unit deposit locations have been converted to Remote Deposit Capture (RDC), representing an additional \$12 million in annual deposit activity. This deposit method enables checks to be deposited electronically as encrypted images that are securely transmitted to the bank for processing. RDC provides the university with faster availability of funds, saves units on staff time required to complete deposit-related activities for checks, and provides enhanced reconciliation reporting to units.



