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**MSU Business Process Review Business Case:**

**Accounts Payable**

**1099s**

**Executive Summary**

During Phase I, it was determined the process of recording and reporting vendor earnings on IRS Form 1099 was consistent across all campuses. Annual reporting of vendor earnings to the IRS is centralized and accomplished by the Bozeman campus. Reportable payments, regardless of the campus involved, are aggregated and reported on a single Form 1099 to the vendor and the IRS.

However, during Phase I it was also determined that each campus was obtaining a Form W-9 from common vendors without knowledge that other campuses already had the required Form W-9 on file. With consolidated reporting, only one W-9 is required.

At the end of Phase I of the Business Process Review, the Accounts Payable Team recommended that the receipt of forms W-9 on all vendors would be annotated on the FOATEXT screen in Banner by the campus originally receiving the vendor's W-9 form. This would eliminate duplicative W-9 forms on each campus for common vendors.

This recommendation was intended to accomplish two things. First, reduce the time involved of making duplicative requests to a vendor for the same form and, secondly, reduce the amount of filing required on each campus. In addition, it was felt we could reduce potential vendor frustration by asking for required information only once. Sharing the W-9 data across the four campuses will complete the centralization of this process.

While the entire 1099 process in the Accounts Payable section of Administration and Finance only amounts to about 5% of one FTE across all campuses, it is interesting to note the numbers of common vendors. During FY 06 29,954 vendors received a payment from at least one campus. Of those, only 1,289 received payments from multiple campuses. Those 1,289 vendors are the focus of this modification.

Vendors receiving payments from 4 campuses	Vendors receiving payments from 3 campuses	Vendors receiving payments from 2 campuses	Total
66	186	1,037	1,289

Assuming that payments to a vendor by four campuses represents four W-9 forms, that payment by three campuses represents three W-9s and payment by two campuses represents two W-9s on file, it is apparent the number of W-9s handled can be reduced from 1,289 to less than 600.

Reducing the number of W-9s to one per common vendor, assuming a 1% annual increase in the numbers of common vendors and assuming a 3.5% increase in salary and benefit costs, approximately \$10,000 can be saved over the 5-year projection period by obtaining only one Form W-9 per common vendor and annotating same in the FOATEXT form in Banner.

Because this recommendation utilizes current functionality and requires no new hardware, immediate implementation is anticipated upon approval from the Oversight Committee and President Gamble.

As an ancillary issue, the Implementation Team should investigate the possibility of the MSU campuses filing 1099s and employee W-2 forms under a common campus tax id number. It is recognized the UM campuses take this approach to reporting of earnings and their method should be investigated as well. However, the investigatory team should also consider other ramifications such as the impact on grants issued to individual campuses under individual tax id numbers.

This investigation hinges on whether the Payroll team recommends a single payroll process for all four campuses.

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## A. Introduction

### 1. MSU Business Process Review

The 4 campuses of MSU were invited to participate in a business process review of all administrative and financial business processes across the 4 campuses.

There were several strategic objectives:

- develop a single process to be used by the 4 campuses,
- have a consistent set of definitions for all data elements, and
- improve institutional and system efficiencies and effectiveness.

Each of the processes will be:

- Redesigned,
- Modified, or
- Remain unchanged.

Each process will have a business case and cost benefit analysis to support the final recommendations.

The investigation and development phases (Phases I and II) occurred during 2006. Implementation of approved recommendations will occur during 2006 and 2007 in alignment with business cycles and resources availability.

#### a. Summary of Processes to be Redesigned or Modified: Accounts Payable

<b>Process Title</b>	<b>June 28<sup>th</sup> 2006 Recommendations</b>	<b>Oversight Committee Recommendations</b>
Vendor Set Up	No Change	No Change
Warrant Maintenance	No Change	No Change
Manual Checks	Modify	Modify
1099s	Modify	Modify
Data Entry	Modify	Modify
Invoice Payment	Redesign	Redesign
Purchasing Card	No Change	Redesign
Travel	No Change	Redesign

During Phase I, the Accounts Payable Team reviewed the eight processes listed above and recommendations were brought to the Oversight Committee in June. The Team's and the Oversight Committee's suggestions are shown above. The Accounts Payable Team investigated the feasibility of the Modify and Redesign recommendations during Phase II.

#### b. Business Process Review Objectives

President Geoff Gamble's letter to the MSU campuses focused on 6 major desired outcomes of the BPR project:

1. A strategic effort to enhance all of the University's business processes that fall under the general umbrella of Administration and Finance operations.
2. Establish a University wide information system based upon a set of common, standardized data elements and business processes used by all campuses and agencies.
3. The BPR teams will review all processes and develop a standardized design for all data elements and business processes which will be selected for President. Gamble's final approval.
4. The BPR outcomes will be a visible example of a more operationally consistent Montana State University.
5. MSU will enjoy a higher level of efficiency and effectiveness throughout our administrative operations and information systems
6. MSU's commitment to the Board of Regents in support of their Strategic Goal III – Improving institutional and system efficiency and effectiveness.

These six major strategies can be translated into six subordinate strategies or tactics that can be identified and measured for many of the individual processes to demonstrate achievement and accountability:

- Improved institutional and systems efficiencies and effectiveness;
  - Single process across 4 campuses,
  - Data consistency,
  - Quality process,
  - High level of customer service, and
  - Timeliness of product or service delivery.
- Reduction of paper based transactions.
- Improved records management.
- Improved technical functionality.
- Development of Business Continuity Plan.
- Implementation of Front Office/Back Office concept

The Accounts Payable Team's goals for the 1099 process are to:

- Achieve a single process across the four campuses
- Achieve data consistency
- Improve efficiency across the campuses
- A higher level of customer service

**c. Scope of This Case – 1099s**

As proposed by President Gamble, the BPR project will review all administrative and financial processes across all four MSU campuses. During 2006 BPR Teams collected and analyzed data as part of the assessment and recommendation periods, being Phase I and II respectively. Implementation will occur during 2007.

It was assumed that since the BPR project could only make recommendations pertaining to administration and finance policies and procedures, any investigation would be contained to within central administration and finance departments. Cost benefit analysis will include estimates for the whole organization based on detailed analysis in central administration and finance, and extrapolated analysis of other departments.

Recommendations pertaining to other Divisions, for example, Student Administration, or Office of Sponsored Programs, could be made based on the Administration and Finance Division data collection and analysis. Although the implementation of such recommendations would be determined by the Executive of these other Divisions.

The 1099 process includes the accumulation and reporting of payments to vendors considered to be taxable income by the IRS. Specifically, obtaining Form W-9 from vendors directly affects the accumulation of data in this process.

**d. Recommendation**

The Accounts Payable Team recommends the Oversight Committee approve that one campus obtain a Form W-9 from a vendor and that the FOATEXT form in Banner be annotated that the W-9 is on file in order to preclude another campus from obtaining a W-9 Form from the same vendor.

**2. Business Process Review Business Case Purpose**

This business case addresses the redundancy of requesting, receiving and filing multiple Forms W-9 from a single vendor.

**3. Background**

At a very high level, the background to the MSU Business Process review is based on:

- a commitment by President Gamble to the Board of Regents to improve the institutional and system efficiency and effectiveness of MSU, and
- addressing issues that were identified by the Pappas Consultants (see Appendix 1) being:
  - decision-making lacks a system wide perspective,
  - inefficient business processes,
  - suboptimal use of technology, and

- operational information, expertise and best practices are not systematically identified and shared across MSU Administration and finance organizations

In particular, this business case identified the fact that processes were redundant and the use of existing technology was sub-optimal.

Multiple requests to the same vendor for the same information is obviously an inefficient use of resources. The fact that, once received, the information is not being entered to the FOATEXT form in Banner for other campuses to reference is a sub-optimal use of current technology.

**a. Connections to other Projects/Products or Programs**

The Accounts Payable Team has ongoing links with:

- BPR Purchasing Team
- Accounting Functions Team

**b. Current Problems or Limitations**

The primary current problem is the redundancy of information requests and attendant cost of gathering that information.

**B. Methods and Assumptions**

In Phase I, the Accounts Payable Team developed flowcharts for each process under review, comparing steps involved on all campuses. We collected data on the amount of time each step takes (flowchart analysis) as well as how much of each employee's FTE is devoted to the process overall (workload distribution analysis). There is significant agreement among the campuses in the steps of the process, data definitions, and reporting needs in Accounts Payable in general and in the 1099 process, specifically.

Because the Oversight Committee gave us fairly explicit direction to explore existing Banner functionality, our Phase II research focused on that issue. The result was the discovery that a fairly easy fix for recording FormW9 information in Banner can be implemented on all campuses thus achieving the commonality goal expressed by President Gamble

**1. Financial Metrics**

The primary measurement in this process is the time required for all four campuses to garner the same information.

**2. Business Case Scope and Boundaries**

This business case covers the four campuses and any agencies that may also obtain forms W-9 from common vendors.

**a. The Analysis Period**

Time savings and costs have been projected over a five-year period.

**b. Organizations**

The organizations covered by this business case include the administrative and finance processes across the following:

Montana State University

- Billings campus
- Bozeman campus
- Great Falls campus
- Northern campus

**c. Functions and Positions**

While this business case study has been centered on the Accounts Payable function within Administration and Finance, the analysis has been based on the numbers of W-9s received institution-wide regardless of the source.

**d. Technology**

Because this recommendation utilizes existing technology, no new hardware or software is required.

**3. Scenario Design**

Only one scenario has been analyzed: obtaining only one FormW-9 from a vendor and having the receiving campus annotate the receipt of that form on the FOATEXT form in Banner for other campuses to access.

**4. The Cost Model**

The cost model has taken in to account the numbers of common vendors amongst the campuses along with the amount of time needed to mail out requests to vendors and receive Forms W-9 form the vendors.

**5. The Benefits Rationale**

Not only are cost savings generated by the reduction of repeated effort on the various campuses but, existing functionality is utilized and the image of the campuses may be enhance in the view of the common vendors.

**6. Data Sources and Methods**

Self-reported data was accumulated from each campus as to the amount of time and dollars expended in performing the 1099 process including the gathering of FormsW-9.

**7. Assumptions**

It is assumed that this recommendation will allow the campuses to move from accumulating multiple forms from one vendor to receiving only form from a vendor. We've also assumed a minimal 1% annual increase in the numbers of common vendors along with an annual increase of 3.5% in salary costs.

## **C. Business Impacts**

### **1. Financial Model and Cash Flow Statements**

The financial planning model shows a savings of nearly \$10,000 over the panning period

#### **a. Expenses (or “Operating Expenses”)**

Operating expense are calculated in terms of the time necessary to perform the current function versus the proposed function with reduced numbers of Form W-9 received.

#### **b. Assets Purchased**

None

#### **c. Cash Flow Summary**

Savings approaching \$10,000 over 5 years.

## **D. Sensitivity and Risk Analysis**

### **1. Sensitivity Analysis**

The sensitivity in this analysis hinges on the numbers of Forms W-9 involved. Obviously, savings will be impacted based on the numbers of forms involved. We have allowed for this by increasing the numbers of common vendors 1% annually in the analysis.

### **2. Risk Analysis**

The risk involves not adopting the recommendation or a campus not implementing the approved recommendation. Both of these seem rather small.

Because about \$2,000 can be saved per year without involving new hardware or software investment, it seems a small risk that the Oversight Committee and President Gamble won't approve this recommendation.

Because the campuses will see a marked reduction in the numbers of request they must send for W-9s and because the necessary information will be contained on a Banner form (FOATEXT) each AP section is already familiar with, the risk seems small the campuses wouldn't implement the approved recommendation.

## **E. Conclusions and Recommendations**

We conclude that it is in the best interest of each campus and the MSU system in general to approve and implement the recommendation for the first campus to receive a FormW-9 from a vendor annotate that receipt on Banner form FOATEXT for reference by all other units to preclude those units from requesting similar information from the same vendor.