Driving Higher Education Institution Success Through a Better Financial Process

How CFOs can improve financial insight to support institutional success
Summary

Catalyst

With financial insight and guidance from chief financial officers (CFOs), higher education institutions are making better, faster, and fact-driven strategic decisions. This has placed pressure on accounting offices to close the books faster to provide more detailed financial analysis to the CFO which can then be used to advise institutional leadership and reduce risk with strategic decisions.

Today, the financial close process is fragmented with manual intervention due to a lack of automated integration, ERPs missing functionality for the close process, and a reliance on spreadsheets. To better understand the issues surrounding the financial close in US higher education institutions, Ovum and Blackline have partnered to develop the Ovum Higher Education Finance Survey, which saw Ovum interview 100 business leaders in the higher education sector about their current challenges with the financial close and their plans for improving finance and accounting functions.

Ovum view

The CFO is an important partner to institutional leaders who must make difficult decisions for their institutions to remain competitive and viable in a challenging business environment. Timely and accurate financial information is expected by institutional leadership, as data-driven decisions reduce business risk and are critical to the success or failure of an institution. This expectation places a heavy burden on the CFO and accounting office to rapidly prepare accurate financial statements in a cost-effective manner while still allowing time for strategic analysis and planning.

Almost all institutions in higher education have opportunities to increase the efficiency and accuracy of their financial close process, with automation a key area on which to focus. Automation will enable institutions to close their books sooner and enable staff to focus more on value-added functions that will help the CFO guide the institution to growth and financial stability.

Key messages

- The majority of institutions (65%) depend on manual intervention as part of their financial close, which increases the risk of inaccurate numbers due to human error.
- Month-end close is labor intensive and expensive, with 54% of institutions requiring 10 or more full-time staff to focus on it.
- Most higher education institutions (58%) continue to operate with a decentralized structure.
- Centralized and decentralized structures each have issues with errors and the ability to close their books on time. Neither structure delivers optimal outcomes for the financial close.
- Standardization of the financial-reporting process and integration of systems are the top two priorities when it comes to improving the quality of the financial close process.
- 48% of institutions plan to upgrade their financial systems in the next 12 months.
- Modern technologies that support automation will help institutions accelerate their close and address business officers’ number one financial business challenge: decreasing the time and management oversight needed for financial processes.
Today's financial close challenge

Institutions take an average of four days to complete a month-end close

The accounting office needs to be able to quickly close financial periods and prepare financial reports in an efficient manner. This is critical to the success of the CFO, as institutional leaders and external stakeholders look to the CFO for up-to-date financial insight and analysis when making strategic decisions. However, institutions are struggling to rapidly close financial periods. According to Ovum's Higher Education Finance Survey, only 28% of business officers were strongly satisfied with their close-and-reporting processes. When it comes specifically to the month-end close, 44% of business officers said that it takes their staff between four and six days to close and 7% said it can take up to 10 days. Some 12% of business officers said they were not able to close their books on time.

![Figure 1: Just over half of institutions take four or more days for their month-end close](source)

High levels of inefficiency prevent a fast, reliable close

The financial close in higher education presents significant operational challenges that affect institutions' ability to efficiently and accurately complete all tasks. Even though 49% of business officers said they could close the month in one to three days, most institutions are not able to do so on the last day of the accounting period due to processes that require accounting to take place during the first few days of the next period, such as when internal feeds from departmental systems are involved.

Manual processes affect accuracy and speed

Higher education institutions struggle with manual processes and spreadsheets, and 60% of business officers reported that their financial close process relied on Microsoft Excel. Even though Excel is an excellent tool for data entry, it requires manual processing, increasing the risk of errors. The smallest
error in a spreadsheet can have significant effects on the accuracy of the financial data. Error correction is time-consuming and difficult for staff to perform. According to the Ovum Higher Education Finance Survey, the average rate of errors reported by higher education institutions for their financial entries was 8.5%. Research 1 universities reported an error rate of 12.5% and private two-year colleges reported a rate of 9.8%. Four-year private colleges were the best performing, with a 5.5% error rate.

**Figure 2: 5–14% of financial entries are initially incorrect for 59% of institutions**

![Bar chart showing the percentage of financial entries that are incorrectly entered the first time.]

Source: Ovum Higher Education Finance Survey

**Operational structures and lack of automation are key challenges**

With 58% of business officers saying that their financial processes were spread across the campus, decentralization, or a siloed approach, continues to be the default mode of operations. Of the institutions types, four-year private colleges (68%) and research 1 universities (62%) were the most decentralized.
Figure 3: 15% of institutions have highly centralized financial functions

For institutions that operate with a decentralized structure, the responsibility for managing and executing financial processes rests with the school, division, or department. A decentralized organization adds complexity to the financial close, as the accounting office is dependent upon the individual business unit to provide its financial information, and there is often a delay for internal feeds due to a lack of system integration and standardization. Given this, it is not surprising that it takes longer to complete a financial close in a decentralized structure.

Manual intervention is also prevalent in institutions with decentralized structures: 80% of institutions that said their financial operations were decentralized also said they relied on Microsoft Excel for their close processes. Interestingly, the survey identified that even though organizations with a highly decentralized structure typically had a strong reliance on spreadsheets, these organizations reported a lower proportion of errors in financial postings (5.8%) compared with organizations that had a highly centralized structure (8.2%).

Source: Ovum Higher Education Finance Survey
Automation of repetitive and redundant tasks is lacking in the financial close process. Only 35% of business officers said that their month-end close was fully automated, showing that a clear majority, 65%, relied on manual processes to close the period. The operational structure of the institution also correlated with the level of automation used in the close process. Of business officers who said their institution operated with a centralized structure, 40% said that their month-end close was fully automated. Automation can be also linked to the timeliness of the close: 91% of business officers who said their month-end reporting was fully automated managed to report on the close date.
Relying heavily on manual processes for the financial close is not only inefficient, but also expensive in terms of labor. Relying on spreadsheets and internal feeds from other departmental systems demands many employees to compile, reconcile, validate, and consolidate the financial information spread across the campus in various departments, division, and schools. Some 36% of business officers said that they required 15 or more employees for their financial close process. In addition, 40% said their institution relied on 50 or more employees for journal entries; 17% said that 100 or more employees were involved in this task. Having to monitor and manage this process leaves little time for accountants to focus on cost-saving activities such as forecasting and financial analysis, as their time is spent on redundant tasks and fixing errors.

Automated can enhance the close process and deliver meaningful outcomes

Automation is key to an accelerated, more efficient, and accurate financial close

Automating financial and accounting processes will help business leaders deliver the necessary financial information to institutional leadership for strategic decisions. To achieve this, business leaders must enhance financial and accounting functions with modern and innovative technologies specifically designed to streamline financial processes, remove manual intervention, and reduce errors.

Cloud-computing solutions enable accountants to focus on providing actionable financial information rather than just financial reports. Cloud solutions provide the ability to access more data for detailed reporting, automate data entry to reduce human error, and enable instant access to data for greater visibility on financial performance. Cloud solutions also minimize dependency on IT for implementation and support, and reduce IT infrastructure costs.
Robotic process automation (RPA) has significant potential to improve speed and quality and reduce institutional costs associated with the financial close. RPA software automates repetitive tasks in a time-efficient and accurate manner by removing manual effort for routine, knowledge-process work. Using a rules-driven structured process, RPA software connects with and integrates into existing systems by automatically pulling the right data out and writing back changes.

RPA is ideally suited to help institutions with their financial close considering the large number of transactions, repetitive and routine tasks, heavy dependency on spreadsheets, and manual intervention financial close typically involves.

**Case in point: How Gonzaga University optimized its financial close with automation**

Gonzaga University, a private institution in Spokane, Washington, with 7,400 students, implemented automation software in its 2017 year-end financial close process. Automation software was specifically implemented to eliminate redundancy and human error associated with Gonzaga's use of spreadsheets for account reconciliation and journal entries. The university was concerned that the year-end-close process caused stress and low morale among its accounting staff, but it soon realized the following benefits thanks to RPA:

- Hours and costs associated with overtime were reduced; duplicate effort was eliminated; and processes became more efficient and better controlled.
- The risk of human error was reduced with automation that eliminated binders and spreadsheets for account reconciliation.
- Employee morale improved; staff no longer needed to spend time on mundane processes.

**Conclusions**

Due to external forces such as shifting enrolment patterns, declines in tuition revenue, and a more competitive environment, the role of the CFO in higher education has evolved to that of a strategic partner and advisor to institutional leadership, driving change with financial insights. To be successful in this expanded role, the CFO must have in-depth understanding and visibility of the institution's financial performance at any point in time. This puts the pressure on the accounting office to accelerate the close of accounting periods to provide the CFO with accurate and timely financial information that can confidently be used for strategic financial planning and analysis.

Delivering the necessary financial information to the CFO is a challenge, as financial and accounting processes are complex, fragmented, manual, and labor intensive, regardless of the financial operational structure (i.e., decentralized or centralized). When it comes to closing an accounting period such as the month-end or year-end, each operational structure has issues with the ability to close on time and with accuracy. The ability to complete a close in less time or even reduce errors by 1% can have significant impact on institutional costs and confidence in financial reports.

There are clear opportunities for all institutions to enhance the financial close process with automation software or RPA. Automation software has the potential to reduce institutional costs and improve the quality of the financial close. It can simplify complex processes by reducing the need for manual intervention and repetitive and redundant tasks. This improves accuracy by removing the potential for
errors and enables faster processing times to complete a close sooner. Automation software will also reduce labor costs, as mundane tasks are automatically processed, reducing the need for management oversight, giving accountants more time to focus on important strategic tasks such as modeling, forecasting, and analysis. In addition, cloud-based automation software can leverage the current investment in existing ERP/finance systems with minimal costs for IT support.

Automation will enable CFOs to spend less time on transactional, day-to-day accounting and more time on successfully guiding their institution to achieve its mission and goals with in-depth financial insights.

Appendix

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Ovum Consulting

We hope that this analysis will help you make informed and imaginative business decisions. If you have further requirements, Ovum's consulting team may be able to help you. For more information about Ovum's consulting capabilities, please contact us directly at consulting@ovum.com.

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