



# NACUBO INNOVATION AWARD

## Application Form

To guarantee consideration completed application must be received by **April 11, 2008**

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NACUBO/Innovation Award  
1110 Vermont Ave., NW, Suite 800  
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Please submit a program summary no more than 3 double-spaced pages using a minimum font size of 10 points.

Do not include additional information (reports, forms, etc.) with the application. The Awards Council may request such items during the evaluation process.

Program Title: Kuali Financial System  
Institution Name: Indiana University  
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### Institution Type

- Research     Comprehensive/Doctoral     Small Institution     Community College

### Award Category Type

- Process Improvement  
*Recognizes higher education institutions that have successfully re-engineered or designed a program, improving service delivery of administrative activity in response to a campus need.*
- Resource Enhancement  
*Recognizes higher education institutions that have successfully reduced costs, increased revenues or improved productivity in response to a campus need.*

### Topical Area(s)

(Check all that apply)

- Accounting, Finance and Tax     Campus Operations     Human Resources  
 Information Technology     Leadership/Institutional Effectiveness     Planning and Budgeting  
 Risk Management     Student Financial Services     Other: \_\_\_\_\_

### NACUBO Primary Representative

(Endorsement required)

Name (print clearly) Neil Theobald  
Title (print clearly) Vice President & Chief Financial Officer

I hereby certify that to the best of my knowledge the statements and calculations contained herein accurately reflect the circumstances reported.

3/7/08

Date

Signature

## Kuali Financial System

Seven years ago Indiana University administrators were considering alternatives for replacing the existing financial information system. Standard options were evaluated such as retooling the current financial system through internal development or purchasing and implementing a vended package. Internal development, while usually ensuring the institution will get the features it needs, often requires considerable resource commitments and brings with it the ongoing responsibility for system maintenance and enhancements. Implementing a vended product presents certain tradeoffs as well. Uncertainty in the software industry, lack of control over maintenance costs and upgrades, inflexibility of system features for higher education, and the initial acquisition cost, projected at \$20m+, are significant considerations when weighing the benefits and costs of a vended application. In addition, the perceived increase in workloads for central administration, departments, and colleges to conform to delivered functionality can make purchasing a proprietary enterprise resource planning (ERP) system less attractive. Seeking a better strategic path, Indiana University opted for an alternative and formally began exploring a collaborative approach.

Other collaborations such as Sakai, uPortal and the Open Source Portfolio were demonstrating the potential of community source initiatives, but this approach had not yet been tested for delivering a core administrative system. As a proof of concept, Indiana University joined with several organizations and other institutions of higher education to explore the possibilities of this innovative approach to the complex and costly aspect of institutional administration.

The preliminary work, funded by a planning grant from the Andrew W. Mellon foundation in 2004, assessed higher education's readiness for a community source financial system project and concluded that such a system could be applied across colleges and universities of all sizes. In March 2005, after more than a year of evaluation, partner coalescing, and preparatory work, the Kuali Financial System (KFS) received a \$2.5 million grant from the Mellon Foundation to help fund the software development. The founding higher education partner institutions were Indiana University, the University of Arizona, the University of Hawaii, Michigan State University, San Joaquin Delta Community College, and Cornell University. A core directive of the project's mission was the Kuali Financial System would work for all private and public, and large and small institutions.

KFS was designed from its inception to fully meet the standards of both the Governmental Accounting Standards Board and Financial Accounting Standards Board and to incorporate the following features: flexible chart of accounts, distributed access, robust workflow engine supporting electronic authorizations and business rules, and a scalable, modular design. The latter is critical to the success of KFS since it needs to be functional for any Carnegie Class institution, from small two year colleges to major research institutions. The design has been extensively evaluated by higher education accounting experts, the Kualii partners and the rSmart Group, and was chosen by the founding partners over the complexities of commercial offerings.

On October 25, 2006 and November 13, 2007 the first and second phase of the open source Kualii Financial System was released, bringing to completion the core components of a financial accounting system. This system includes modules for the chart of accounts, financial transactions, workflow, purchasing and accounts payable, grants and contracts, research administration, disbursement processing, labor distribution, and the general ledger. All software and material is available under the Educational Community License and may be adopted by colleges and universities without licensing fees. The open licensing approach also provides opportunities for support and implementation assistance from commercial affiliates.

The Kualii consortium continues to strive to create a community of interested parties. To provide opportunities for interested institutions to learn about the Kualii Financial System we offer a bi-annual two day conference called Kualii Days. The conference was initially developed by Indiana University in October, 2005 to showcase the project and hosted 43 attendees from 31 institutions. In November, 2007, the Kualii project presented Kualii Days V where attendance had grown to 326 individuals from 60 institutions. As part of the project the concept of the Kualii Test Drive was developed, which is a web accessible version of the released software with actual data. The site is available to any institution interested in learning about KFS and allows individuals to get in, set up workflow, process financial and chart transactions, and then review those actions to see how the actions update tables and balances. Finally, the Kualii website is a robust communication tool designed to facilitate and maintain the Kualii community.

Resources are pooled from the current nine partnering schools, which include the original founding partners and the University of California, the University of Southern California and Colorado

State University. Partners have invested in the project by contributing cash and/or development resources for a defined period of time. The Kualo Governance Structure includes a Kualo Board comprised of members from each school, NACUBO, and the rSmart Group. The Kualo Financial Functional Council provides oversight and direction for system functionality and is composed of one voting member from each participating organization. Sub-committees have been established for each of the ten KFS modules and consist of more than 100 subject matter experts tasked with specifying and prioritizing system functionality. Technical resources are managed by a full time project manager who supervises six development managers and over 25 developers combined from each of the institutions involved. A Kualo Technical Council composed of senior architects from each institution and the rSmart Group establish the development standards and architecture.

For its part, IU reallocated more than a dozen individuals to this effort, from senior executive leadership to staff members. While it has been an extremely burdensome effort, it has also been a growth opportunity for all involved. The ultimate impact on the institution is still to be realized, but at a minimum, IU will be able to redirect significant financial resources to the academic mission of the university and away from the development of administrative systems.

Indiana University believes this project to be unique and also believes the financial model upon which the Kualo consortium is based provides a powerful argument for the use of open source software as an alternative to commercial software for administrative systems. The collaboration and organization of the project also highlights the synergies that can be created on the non-academic side of higher education. This collaboration extends beyond the boundaries of the partners to the higher education community. The resource commitment by Indiana University and the other partner schools has been large, but the result is control of destiny, significantly decreased implementation costs due to developed skill levels of staff working on the project, and a specialized financial software system developed for and by higher education.

Additional information about the Kualo Financial System can be found at [kualo.org](http://kualo.org).