

# *Duke University*

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## **MEMORANDUM**

TO: Department Heads and Business Managers

FROM: John E. Clements  
Director, Budgets & Analysis

DATE: November 5, 2007

RE: FY 2008/2009 Budget Instructions

Enclosed are instructions for the FY 08/09 budget development process. Your budget requests for FY 08/09 should reflect your department's fiscal requirements for all anticipated operating activity and be submitted for review to your appropriate budgetary official as specified in Attachment A. Please note that careful attention to the details outlined herein is necessary to accurately report the University's operating budget to the Board of Trustees.

The FY 08/09 budget guidelines, as well as information specific to the Budget Planning System (BPS), are outlined in Attachment B. Attachment C contains instructions unique to the service center rate establishment and approval process. We encourage everyone involved in the budget preparation process to review all of the instructions in the enclosed attachments.

More detailed information pertinent to targets and deadlines will be communicated by your management center. If you have any questions that are not addressed in the attached instructions, please contact your management center budget office. Thank you in advance for your participation in the budget development process.

**APPROPRIATE BUDGETARY OFFICIALS**

**President's Office** ..... Richard H. Brodhead

**Academic** ..... Peter Lange  
James Roberts  
Amy Oates

**School of Medicine** ..... Scott Gibson  
Ellen McCarthy  
Leroy Lee

**Central Administration** ..... Tallman Trask III  
Hof Milam  
John Clements

**BUDGET OFFICE NUMBERS**

**Office of Budgets and Analysis** ..... 684-5804

**School of Medicine Finance & Resource Planning** ..... 684-6228

**Academic Financial Services & Systems** ..... 684-3501

<b>FY 08/09 BUDGET GUIDELINES</b>
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**BPS DATA ELEMENTS** - Please note the following:

- BPS allows you to simulate different budget scenarios with 3 distinct budget versions (A, B, & C). Version A is considered the official version and will be routed accordingly for budget review/approval in the workflow process. Versions B&C are working copies; you can simulate different scenarios of your budget as needed. Copy functions facilitate copying data between the different versions. Please be careful when running these functions, as the copy functions will overwrite any existing data that is contained in the version that is being copied to.
- Actuals will be updated in BPS on a monthly basis during the budget development process. Fall and spring year-end projections will be updated around November 15<sup>th</sup> and February 15<sup>th</sup>, respectively.
- The payroll data loaded into BPS will be updated through the month of November. Beginning in December, you will need to manually update for any changes to payroll (e.g. rate increases, new hires, terminations, etc.) that occur during the budget development process. The position management number will be used to link the position budgets in BPS to the R/3 July salary setting tool.
- New positions that were created last year in BPS were assigned a BPS-only position number that began with the number 9. Valid position numbers begin with the number 5, and are assigned by SAP when the position is created in HR. There is no link between the 9xx BPS-only position number and the 5xx position number that is created in SAP. However, each management center attempted to synch up the new 9xx BPS-only positions with the new 5xx positions that have been created since last year's budget development cycle. In those instances where the new position could be identified, the position budget from the 9xx BPS-only position was loaded to the current year budget for the new 5xx position. If establishing the link was not possible, there will be no current year position budget on your newly created 5xx position numbers. If a position was created last year in BPS and has not yet been created in SAP, you will have to re-create that position in BPS again this year if the position is still desired.
- The position budgets for biweekly employees will be calculated in BPS by multiplying the Current Hourly Rate x FTE % x 2,080.
- Fringes are set globally in BPS and calculate automatically for G/L accounts 610000, 610100, and 619900. The fringe benefit rates for FY 08/09 are as follows:

	<b>APPLIED TO ALL FUNDS 6100</b>	<b>APPLIED TO NON-GOVT. 6101</b>	<b>TOTAL</b>
Faculty/Staff	21.0	1.9	22.9
Biweekly	16.5	0.9	17.4
House Staff	14.1	-	14.1
Graduate	5.8	-	5.8
Students	7.7	-	7.7

The attrition provision of 2.5%, and associated fringes, calculates automatically when your biweekly payroll G/L accounts total \$80,000 or greater. For information on how to restore attrition, please contact your management center.

- Distributed and general and administrative expenses (G/L accounts 900100-901200) have not been pre-loaded for FY 08/09. For budget development purposes, departments should assume a 3.0% increase. Larger departments may request the forecast assumptions for upload into BPS in mid-January.

- Projected FY 08/09 endowment income distributions have been pre-loaded into the recipient funds on G/L account 310100. These projections are based on first quarter data provided by Endowment/Investment Accounting and reflect the projected income (based on current units) to be distributed on June 30, 2008 for spend in FY 09/10.
- Job code ranges are not loaded in BPS. Please reference the following HR website for job code pay ranges. <http://www.hr.duke.edu/compensation/classifications.html>.

**BUDGET SPECIFICS** - Please note the following:

1. **SERVICE CENTER RECHARGE RATES** – Federal reimbursement regulations require us to follow very specific guidelines for administering Service Centers and related pricing/charge-back mechanisms. For more information, please refer to Attachment C.
2. **ALL FUNDS** – As in the past, departments are required to budget operating activity across all funds, which include: current unrestricted (1xx), restricted (3xx), allocated (4xx), quasi-endowment (66X), and plant funds used for operating activities (i.e. capital renewal (74x), indebtedness (769x) funds). Other plant fund activity, i.e. construction projects (72X) and deferred maintenance (75X) should be budgeted separately as part of the capital budgeting process. Departments are not required to build the budgets for their non-current unrestricted activity on each individual fund, rather an aggregate approach is allowed. However, please remember the board reports are consolidated at the G/L account summary level. The all funds budgets should be built with this in mind, in order to ensure the consolidated financial reports are as accurate as possible.

For your convenience, a set of all funds board reports are included in the summary reports section in BPS. These reports are in the same format as the financial reports distributed to the Board of Trustees. These reports should be utilized to help consolidate and analyze your budgets in the same format as will be done at your Management Center budget offices.

3. **APPROPRIATIONS AND TRANSFERS** – Please remember to consider all sides of your appropriations and transfers as you prepare your operating budget. Offsets should be entered on the Spreads and Appropriation Offsets tab in BPS. As we continue to analyze and report on an all funds budget for the institution, it's critical that we capture both sides of all intra-company transfers so that we can eliminate the impact of any such transfers on a consolidated basis for the University.
4. **SPREAD CODES** – Budget spread codes are included in BPS and are based on current year spreads. The use of the ACT and 3YR spread codes in BPS will result in a spread of 1/12<sup>th</sup> in BPS, since the current fiscal year is still in progress. The budget spreads will be recalibrated once the fiscal year ends and the corresponding budgets will be re-loaded into SAP at that time.
5. **MULTI YEAR PLANS** – BPS has been set up to allow all departments to complete up to 10 years of out year planning. Although multi-year planning is not an institutional requirement, it is required for some departments. (Please refer to your management center instructions for specific information.)
6. **INFLATION ASSUMPTIONS** –The latest CPI report estimates overall inflation at 2.8% for the twelve months ended September 2007.

7. **SALARY INFORMATION** – Please note the following:

- **PROPER USE OF G/L ACCOUNTS IN BUDGETING EMPLOYEE EFFORT** - Compliance with Federal OMB Circular A-21 requires precise assignment of G/L accounts in order to properly define each employee's effort. Please ensure that employee salary and wages are budgeted on the appropriate G/L account. For specific help, refer to <http://www.finsvc.duke.edu/gap/glaccts/exp60xx.html>.
- **SALARY POOL FOR UNIVERSITY EMPLOYEES** - The recommended salary pool for both exempt and non-exempt (non-bargaining unit) employees is **3.8%**. (For bargaining unit employees, please refer to the current bargaining unit agreements.) The recommended salary pool applies to both the University and the School of Medicine. Careful attention should be given to the allocation of resources between the exempt and non-exempt salary increases. Departments are asked to ensure that the overall percentage increase between the exempt and non-exempt employees remain in-line with one another.

Although the distribution of the wage pool may vary by department or School, it is expected to cover salary increases related to Pay & Performance and any necessary upward movement within the salary ranges (see below). Departments should follow specific instructions from their management center budget offices for salary budgeting.

- **SALARY RANGES** – We anticipate a **2.5%** increase in the pay ranges for FY 08/09. Please keep this range movement in mind as you budget for any employees that are currently at the minimum.
- **UNDERGRADUATE STUDENTS** - Payroll for undergraduate students (and any associated fringe benefits, if applicable) should be budgeted on the Student tab in BPS. Fringe benefits for students should be budgeted on G/L account 610500. Fringe benefits (FICA at 7.7%) should only be budgeted on Duke Students working during the summer term who are not registered for classes. For non-Duke students (G/L account 609700), fringe benefits should be budgeted whether they are in class elsewhere or not.
- **GRADUATE STUDENTS** – As in the current year, fringe benefits will be calculated for salaries budgeted on the g/l accounts used to pay RA's and TA's – 601200 and 601400, respectively. Any amounts budgeted on these g/l accounts will be charged a **5.8%** fringe benefit rate. The fringes will be automatically calculated in BPS and posted to g/l account 610700 for all effected cost objects.
- **SALARY SETTING** - Since position budgets are loaded into the R/3 July salary setting tool based on the position management number, it's important that you carefully consider this when budgeting for new positions in BPS. If you are creating a salary line item for a new position and you know the position management number, please enter the position management number into the 'Notes' field on the salary line item.

## SERVICE CENTER RECHARGE RATES

In accordance with GAP 200.300 (Service Component Administration), OMB Circular A-21 and CAS (Cost Accounting Standards), the management of service centers and the setting of associated rates must meet specific requirements. These requirements are highlighted below.

Recharge rates should be developed as part of the budget development process. However, in order to afford departments adequate time to develop more comprehensive documentation to support the rate development process, we are separating the rate documentation process from budget submission. Rate documentation (in accordance with details specified herein, and GAP 200.300) should be submitted to the Management Centers by May 1st, 2008. Management Centers will review this documentation for accuracy and completeness and forward to Jim Luther, Assistant Vice President, Cost and Reimbursement Accounting for approval per Federal regulations.

### **DEFINITIONS AND BACKGROUND:**

**Service Centers** are organizational units or activities that provide goods or specific technical or administrative services for internal University operations and charge the user for these goods/services. The two types of service centers are:

- 1) **Service Component** (defined in GAP 200.300):  
Currently Service Components are in the 157-9xxx fund series (e.g. Copy Center, Lab Animal Resources). Service Components provide goods and/or services as a convenience to faculty, staff, and students, and in general, generate greater than \$250,000 of revenue per fiscal year. The expense base can include both internal service center support costs (direct expenses) and space and general administrative costs (indirect expenses).
- 2) **Shared Resource:**  
A cost center providing goods and/or services that do not represent the major purpose of the generating department (e.g. departmental electron microscope and DNA Sequencing Lab). The services are intended as a convenience to faculty, staff, and students. Rates are based on direct costs only and can include internal cost center support costs. Generally, these operations will generate less than \$250,000 of revenue per fiscal year.
  - **Shared Resources are excluded from this process if they**
    - generate less than \$50,000 annually and less than 25% of sales are direct charged to federal grants and contracts (30x-xxxx through 34x-xxxx)
    - Department copiers, fax machines, etc. are not considered to be service centers if the charge is reasonable and is merely to recover the cost of supplies (paper, toner, etc.).

### **ESTABLISHMENT OF CHARGING RATES**

Recharge rates established by Service Centers should be based on the cost of providing services and not what independent, for-profit businesses are charging for the same or similar services. In some cases it may be appropriate to establish rates that are designed to recover less than "full cost". Full cost can include both direct and indirect expenses (indirect costs can only be included for Service Components) of providing the service, although certain types of expenses must be excluded from rate determination calculations because they are unallowable for federal reimbursement.

**Allowable Costs:**

**Direct:** Salaries, wages, fringe benefits, supplies and materials, subcontracts, and outside services.

<b>Indirect Costs:</b> (allowable for Service Components but not Shared Resources)	<u>G/L Account</u>
General and administrative expense .....	9011/12
Space rental charges .....	9009
Departmental allocation of internal administration expense (if applicable) .....	9013/14
Betterments reserves (can't exceed straight-line depreciation on facilities and equipment).....	6923
Actual depreciation (only allowable if Betterments reserves (6923) are not utilized) .....	6924/25
Reserve for Minor Acquisitions .....	6943
Interest expense related to debt financing and included as a portion of debt service .....	8017

**Unallowable Costs:**

The following must be excluded from all billing rates for all Service Centers:

	<u>G/L Account</u>
Scholarships/Fellowships .....	63XX
Capital Acquisitions .....	66XX
Advertising and Publicity .....	6902
Bad Debts .....	6910/6911
Contributions/Prizes/Subsidies.....	6918/6988
Public Relations Travel.....	6990/6991
Public Relations and Social Expenses/Alcoholic Beverages.....	6932/7101/7161/7162
Losses/Damages/Write-offs .....	6956
Transfers (except amounts to cover interest charges related to debt financing).....	8XXX

The proposed operating budget submitted as part of the rate approval process should be in sufficient detail (by G/L account) to allow a determination that the costs identified above have been excluded from the billing rates. Questions regarding the allowability of specific costs should be addressed to the Director, Sponsored Programs and Cost Analysis, Tom Davis (668-5850.)

Included with the recharge rate(s) proposal should be a description of the methodology used to determine the rate(s) and all calculations necessary to determine the annual budgeted expense credit.

**In accordance with OMB Circular A-21, the rates must be:**

- Based on actual costs
  - Service centers can not generate a "surplus" for a prolonged period (see GAP 200.300 for OMB A-21 definition of "surplus")
- Consistently applied to all customers
- Reviewed annually by the management center's appropriate budgetary official and approved by Senior Director, Cost & Reimbursement Accounting

**The Excel file, 'Service Center Use Rate Calc Form - filled.xls' contains Attachment E-1 (Service Components) and E-2 (Shared Resource), which are "sample" worksheets that will assist the user in developing rates (one set of worksheets are "filled in" with sample data and one set is "blank"). These worksheets or other supporting documentation must include:**

- **Rate development methodology**
- **Rate documentation by G/L account to support identification of allowability or unallowability of costs**
- **Billing transaction information that identifies which G/L account is utilized in the charging transaction and what fund code is credited**
- **Identification of customer base by major category (e.g. Federal grants and contracts, other grants & contracts, Other)**

**APPLICATION OF APPROVED RECHARGE RATES**

Recharge rates must be consistently applied to all University and Health Systems users. The proposed operating budget submitted as part of the rate approval process should be in sufficient detail to allow for the determination that rates are designed to apply uniformly to all service users.

Service Center recharge rates must be submitted to the Office of University Budgets and Analysis on an annual basis, along with the proposed operating budget for the service center. **All recharge rates must be reviewed by the appropriate budgetary official prior to submission for approval:**

PAMC: Amy Oates  
SOM/SON: Leroy Lee  
CAMC: John Clements

All recharge rates must be approved by the Assistant Vice President, Cost and Reimbursement Accounting (Jim Luther) prior to their use.