Duke University adopted a formal management center budget system, upon the recommendation of the Academic Priorities Committee and the President’s Advisory Committee on Resources, effective with the 1991/92 fiscal year. Financial responsibilities and resource flows are structured through three primary management centers: the Provost’s Area Management Center (PAMC), the Medical Center Management Center (MCMC), and the Central Administration Management Center (CAMC).

The Provost’s Area (PAMC) and the Medical Center (MCMC) are responsible for generating the resources necessary to support the teaching and research mission of the university and for supporting their respective shares of the costs of central administration. The Provost is responsible for fulfilling the obligations of PAMC and for managing financial affairs within the Provost’s area to maximize academic and financial success.

Within the Provost’s area, the Provost and the Deans have agreed to apply principles of management center budgeting at the school level. Each of the schools under the Provost is a fiscal management center, and each of the Deans is responsible for generating the resources necessary to support the teaching and research missions of their schools and for supporting their respective shares of the academic and administrative support costs of the university. Resources available to the Provost supplement the resources generated by the schools and are allocated by the Provost in ways intended to support the university’s academic mission as effectively as possible. The remainder of this document describes the fundamental operating principles of management center budgeting within the Provost’s area.

Rationale for Management Center Budgeting

Management center budgeting within the Provost’s area is intended to support the pursuit of academic quality within the constraints of available resources. Management center budgeting supports the pursuit of academic quality within the Provost’s area by:

- Enabling Deans to provide effective leadership by linking resource allocation decisions to programmatic responsibility;

- Creating incentives to increase resources and efficiently manage expenses;

- Encouraging the accumulation of reserve funds at appropriate organizational levels;

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1 Revised January to reflect changes in the total unassigned income allocated to schools beginning with the FY 15/16 budget.
• Establishing a clear structure of accountability for financial performance and stewardship; and

• Providing a fiscal framework for effective academic planning.

While the university has long recognized the advantages of entrepreneurial, decentralized management, it has also recognized that it is the Provost’s responsibility, under the President, to ensure that academic programs are developing in ways that will make the university more than the sum of its parts. Accordingly, the Provost has both the responsibility and the academic and fiscal authority to ensure, first, that Duke’s academic programs are developing in mutually reinforcing ways and, second, that – working with the Executive Vice President – the university’s investment in the infrastructure of academic and administrative support is commensurate with our academic goals. In addition to his role in the appointment, annual review and reappointment of Deans, the Provost has a variety of means of exercising this responsibility, including:

• Leadership of the university’s strategic planning process, establishing institutional directions and priorities in conjunction with the needs and capabilities of the schools;

• Approval of annual faculty search plans;

• Approval of all tenured appointments and of all faculty promotions;

• Allocation of strategic planning resources, Provost’s discretionary funds, and “base unassigned income” to the schools;

• Allocation to the schools of costs of university programmatic initiatives and investments in academic and administrative support; and

• Review and approval of annual budgets of each of the schools.

Management Center Agreements

Management center budgeting at the school level is defined by the following four elements:

• A structure of financial accountability – all university activities are represented by accounting fund codes, and every fund code is “tagged” to associate it with the responsible management center. A school management center consists structurally of all the unrestricted revenue and expense codes, gift and endowment codes and sponsored research codes for which it has specific responsibility.

• Rules regarding the disposition of favorable and unfavorable variances. Schools are responsible for 100% of the variances in the fund codes that comprise their
management center. Unrestricted surpluses are transferred to the reserves of the school; unrestricted deficits are to be covered by school reserves. The Provost is authorized to establish “rainy day” reserve levels for each of the schools and is required to backstop any deficits arising in the schools for which there are not adequate reserves.

- Rules for sharing the academic and administrative support costs of the university outside the schools. In the Provost’s Area Management Center, all academic and administrative support costs for which the Provost is responsible are allocated to the schools. The schools are thus responsible for funding both their direct costs (e.g. instruction, financial aid, department and school administration) and a portion of the shared academic and administrative support costs of the university. Costs are allocated to schools based on a specific methodology consistently applied to all schools as determined by the Provost with input from the Deans and appropriate faculty advisory committees. See below for a more detailed description of cost allocation principles and methods.

- A subvention from the Provost. In accordance with the Senior Officers’ memorandum of January 17, 1997, a portion of the university’s unassigned income is allocated to the Provost to support academic programs. The Provost allocates these funds, currently $20.2M,² to the schools as an additional revenue source to help meet the direct and indirect costs of their programs. There is no specific formula for allocating these funds; the Provost takes into account each school’s historical circumstances, current needs and future prospects in allocating this resource.

Principles and Methods for Allocating Costs to Schools

The following basic principles govern the allocation of costs to the schools:

- The Provost and Executive Vice President are responsible for determining annually the pool of costs to be allocated to the schools with the shared objective of maximizing our investment in academic programs while ensuring that our investment in academic and administrative support costs is sufficient to ensure the success of our primary programs. The Provost and Executive Vice President will consult with the Deans annually about cost allocation parameters (e.g. inflationary adjustments and additional planning priorities) in advance of announcing final cost allocation targets.

- All schools should share equitably in funding the academic and administrative supports costs of the university outside the schools.

- Academic and administrative support costs should be allocated in such a way that, when there is proportional benefit, the schools should pay proportionally and when

² Figure revised beginning FY 15/16.
there is disproportionate benefit the schools should pay accordingly. For example, we assume proportional benefit for the university payroll office, with allocations to all schools, and disproportionate benefit for the undergraduate admissions office, with allocations only to Arts and Sciences and the Pratt School of Engineering.

- Allocation methods should be consistent with the goals of simplicity, transparency, stability and predictability.

The specific methods used by the Provost’s Office for allocating academic and administrative support costs to schools can best be described from two perspectives, first with respect to basic procedures and then with respect to timing of the budget, planning and annual operating cycles. The Provost’s Office prepares the calculation for allocated costs based on the following procedures each year:

- All unrestricted operating budget fund codes outside the schools are analyzed to identify activities that bring disproportionate benefit to particular schools. A list of such codes is maintained and updated annually. Expenses which bring disproportionate benefit are attributed to specific schools for cost allocation purposes and are called attributed expenses. For example, the Office of Undergraduate Admissions is not part of a school management center since it serves two schools. However, the cost of Undergraduate Admissions is attributed to Arts and Sciences and Pratt, the two schools it serves. This ensures that these schools bear the costs of admitting undergraduate students and that the graduate and professional schools do not.

- All expenses that are not attributed to particular schools are deemed to be shared expenses, to be shared among all the schools proportionally. Shared expenses are apportioned to the schools based on a rolling three year average of each school’s share of modified total expenditures. The modified total expenditure base is a reasonable cost allocation proxy for the academic and administrative support costs that benefit each school. The modified total expenditure base includes unrestricted, restricted and allocated funds but excludes funds for capital projects. All categories of expenditure are included except university allocated costs, the costs of space (both debt service and annual operating costs), financial aid, sub-contracts on research grants greater than $25,000, F&A charges to sponsored projects, depreciation, recharges, transfers, and capital expenditures. In addition, the Provost has established an annual process to consider requests for additional exclusions proposed by Deans in the category of “pass throughs,” i.e. funds that are channeled through Duke but provided to an outside third party as required by a donor or university officer.

- The cost allocation information derived from these methods is combined with planning information to prepare budgeted cost allocations for future years. The annual process follows this basic timetable:
• August – update shared expense base incorporating prior year actual results and analysis of attributed costs based on approved budget.

• September to November – develop budget policy parameters for the following year, including compensation expectations and targeted increase for academic and administrative support costs.

• November to December – inflate current year attributed and shared costs by planning targets to determine the total academic and administrative support costs to be allocated to schools for the following year. Calculate cost allocations to each school using updated shared expense base and updated analysis of attributed expenses.

• December to January – project cost allocations for two additional years (new budget plus two planning years) based on budget policy planning, planning initiatives and shared statistic trends. Communicate final cost allocations for next year and planning estimates to schools.

• December to April – schools prepare detailed budget plans for the next year and estimates for two planning years, incorporating cost allocation budget and estimates. The Provost and Executive Vice President oversee budget preparation in academic and administrative support units within overall envelope established by budget planning targets and cost allocations to schools but with freedom to reallocate across activities.

• May – budget is consolidated and approved by Board of Trustees. School cost allocations, once established through the budget process, are fixed through the year.

Periodic Review

The Provost is responsible for organizing a systematic review of the management center budget principles operable within the Provost’s area of responsibility periodically, at intervals no longer than every five years. The review will consider whether the management center budget system is serving academic objectives and whether the governing principles should be continued or modified. The Provost will involve the Deans Cabinet in this review as well as appropriate faculty advisory bodies. The last review was completed in January 2015 and affected allocation methods for the FY 15/16 budget.