

**Brandeis University**  
**Responsibility Center Management**  
**Policy & Procedures Manual**

**Office of Budget & Planning**  
**June, 2005**

## 1. Introduction

Beginning with Fiscal Year 2001, Brandeis University adopted a budget model – Responsibility Center Management (RCM) – for internal financial reporting and budgeting. The University’s goal in instituting RCM has been to establish a disciplined, strategic approach to budget planning, development, and management. In addition to establishing financial performance targets, the purpose of RCM has been to assist in the process of setting programmatic direction and academic priorities. The RCM model is fully operational in the Heller School, the International Business School, the Rabb School, and the Rose Art Museum. The budgets for the centers and institutes are presented in RCM format.

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### **RESPONSIBILITY CENTER**

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The responsibility center is the key budget-management and decision-making unit in RCM. There are two types of responsibility centers: “contribution centers” which generate operating revenue and incur costs, and “cost centers” which generate little or no revenue but provide support services to the contribution centers.

Contribution centers serve the needs of students and faculty and fulfill the University’s primary mission of teaching, research and public service. Four of Brandeis’ five contribution centers are schools (Arts and Sciences, The Heller School, the Rabb School, and the International Business School); the fifth is Auxiliary Services (Residence Halls, Dining Services, and University Events).

Cost centers are administrative units that provide support services to the contribution centers. The two University cost centers are the central administration and facilities. Central administration comprises the Office of the Provost, Office of the President, Communications, Institutional Advancement, General Counsel and Finance and Administration. Central administrative expenses form the basis for the overhead rate to the contribution centers. The facilities charge includes all actual facilities operating costs, including utilities, plus depreciation and amortization.

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### **FULL COSTING**

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RCM apportions all University revenues and expenses among the five contribution centers. Because it allocates all revenues and expenses to the contribution centers, RCM provides a comprehensive measure of the University’s cost structure. Using RCM, the University can determine the “bottom-line” financial effect of each contribution center on net operating results.

RCM divides revenues and expenses into three categories:

- Direct revenues of the contribution center, such as tuition, indirect cost recovery, auxiliary revenue, gifts, and endowment income
- Direct costs of the contribution center, such as salaries and operating expenses
- Indirect costs incurred by the University in service of the contribution centers, which include the Office of the Provost, Office of the President, Communications, Institutional Advancement, General Counsel, Finance and Administration and Facilities

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## **INCENTIVES, SANCTIONS, AND DECENTRALIZED BUDGET MANAGEMENT**

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RCM is designed to support and advance the unit's programmatic and financial goals. Each responsibility center is accountable for meeting specified programmatic and financial performance targets. Programmatic goals and financial performance targets are set by senior management, in collaboration with the Unit's leadership and the Provost, as part of the annual budget process.

The University will communicate the annual financial performance target for the following fiscal year that will include revenue and expense budgets to each RCM unit in the spring following the March Trustees' meeting. University funded budgets (including endowment and gifts) may not be exceeded without consultation with the Budget Office for University funds, gifts and endowments. Requests to modify budgets should be submitted to the Budget Office on the existing revenue/allocation request forms. Requests to increase budgets must be accompanied by a demonstrated source of funding. Grant budgets will continue to be modified through the Office of Sponsored Programs Accounting.

RCM units that fail to meet revenue and expense targets must cover a substantial portion of the resulting deficit. Likewise, RCM units that exceed their performance targets retain a substantial portion of the resulting surplus. RCM thus provides strong incentives for revenue growth, entrepreneurship, and cost management, and holds contribution centers responsible for their programmatic as well as financial performance. (See page 12 - 'Budget Surpluses & Deficits' – for specifics).

## 2. RCM Annual Budget Process

The annual budget cycle is designed to establish RCM budgets for the coming year and to update unit strategic and budget plans based on specified assumptions. Each school as well as the centers and institutes will prepare their fiscal year budgets in RCM format. After review and approval by the President, Provost, the Executive Vice President, and the Budget Office, these budgets will be consolidated into a single University budget. This University-wide budget is then presented to the Board of Trustees for approval in March of each year.

The annual RCM budget development process begins in September of the year before the budget year. The process begins with the University's Budget Office providing the previous year's final results in RCM format and account detail to each responsibility center's Budget Manager. Following the transmittal of the prior year-end results, Budget Managers and Deans meet with senior management of their respective divisions to discuss the responsibility center's strategy and goals, new programs and expansion or diminution plans. Near this time, the University Budget Office meets with the Budget Managers to review and discuss the previous year's final year-end performance and the coming year's budget parameters.

Based on the meetings held in October, the RCM Budget Managers then prepare their budget plan and adjust their strategic plan as needed. Budget Managers prepare revenue and expense budgets in RCM format. The budget includes all sources and uses of funds. The Budget Manager assembles the revenue side of the budget in consultation with Budget Office staff and others as necessary (Treasurer, Sponsored Research, Accounting, Provost, Dean, etc). Revenue parameters will include estimated tuition and fee increases, anticipated endowment income, and funds from gifts and grants. These materials are submitted to the University Budget Office prior to the unit's scheduled budget meeting. Budget meetings will occur during December and January.

During January, the Budget Office consolidates all of the responsibility center budgets to produce a University-wide RCM budget. This budget is compared with the prior fiscal years' results, unit strategic plans, and the University's integrated planning forecasts. By the end of January, the RCM Budget Managers, Deans, and Senior Vice Presidents meet by responsibility center to discuss and review the budget plans.

The Budget Office prepares a final package for approval by the President, Executive Vice President and Provost. The final, approved budget is completed by early March and presented to the Board of Trustees for their approval at the March board meeting. In that meeting, the Trustees also set the new tuition rates and other University-wide parameters such as the pool of funds available for salary increases.

In April, the Budget Office and the Office of Human Resources prepare a schedule and plan for managing the annual salary adjustment process. In May and June, the University Budget Office maps the budget to the financial system accounts in order to load the new budgets into the financial system. By July 1st, the Budget Office loads all new budgets into the PeopleSoft System.

To see a detailed timeline of this process, please refer to the schedule for the annual budget development cycle in section 5 of this manual.

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## **BUDGET TRANSFERS**

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Within the approved annual budget plan, budget transfers move budgeted funds from one account to another, either within a department or between various departments. Funds may be transferred from personnel to non-personnel accounts or from non-personnel to personnel accounts (these transfers must cover salary and fringe benefits).

A budget transfer may be initiated by sending a memo to the Budget Office stating the following:

1. Total amount to be transferred
2. Account(s) to be decreased
3. Account(s) to be increased
4. Purpose of the transfer
5. Approval of Budget Manager(s)

*These transfers should be considered one-time. Any transfers with multi-year impacts must be addressed in the budget process for the coming fiscal year. It is the responsibility of the RCM unit to initiate budget transfers to cover projected spending in salary and operating expense line items. While RCM units manage for a bottom line target, they are part of the larger University budget and as such have an obligation to provide timely and accurate projections for the line items of the RCM presentation to contribute to accurate University forecasts for all revenue and expense elements of the budget.*

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## **SIGNIFICANT PROGRAM CHANGES**

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Significant program changes require the approval of the responsibility center's Dean and Senior Vice President. Examples of significant program changes include but are not limited to: reorganizations, salary adjustments for more than several staff, or Trustee/Presidential directives. The Dean must submit a formal plan, including financial projections, to the Senior Vice President, and must consult with the Executive Vice President to discuss the financial impact of the proposal. Revisions to the proposal may be necessary, and if so, all parties should review the revised document. After the Dean and Senior Vice President agree on the terms of the program change, the responsibility center's Budget Officer should send a memo to the University Budget Office with the following information:

1. Account number to be increased or decreased

2. Amount to be increased or decreased
3. Purpose of the increase or decrease and support documentation showing analysis of revenue and cost changes
4. Approval of the Dean
5. Approval signatures of the Provost and Executive Vice President

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## **BUDGET MONITORING**

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The responsibility center will receive a midyear and final RCM report from the University Budget Office unless quarterly or monthly reports are requested or recommended instead. The report includes the RCM summary by responsibility center and account detail. Meetings are also held between the Budget Office, Budget Managers, and Deans on a regular basis to review results for the year.

Each University Budget Manager is provided online access to a series of revenue and expense reports for all funds. These reports, which are the same reports used by the University Budget Office to prepare RCM reports, provide access to unit revenue and expense information in real time. The University Budget Office provides training and assistance to the Budget Managers in the use and modification of these reports. This is done individually or in settings such as the Budget Managers meeting held each month by the Vice President for Budget and Planning. It is the responsibility of the Budget Manager to be familiar with accessing and using these reports.

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## **FINANCIAL STATEMENTS**

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After the start of the new fiscal year, the Budget Office provides all responsibility centers with quarterly statements outlining their staff sizes, revenues, and expenses. These expenses include separate charges for University overhead rates and facilities charges. The responsibility center manager is required to notify the Budget Office of any discrepancies in the facts and figures included in the RCM financial statements.

### 3. Format of Responsibility Center Statement

The responsibility center statements include the following data: student enrollment, faculty and staff count, non-financial and financial ratios, direct revenues, direct expenses, overhead charges and facilities charges. Each line of the statement is described below.

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#### **ENROLLMENT FTE**

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Full-time equivalent (FTE) enrollment figures are contained within lines 1-3 of the responsibility center statement. Enrollment figures are based on data provided by the Registrar. Students are assigned to a school based on their major. The report separates enrollment into undergraduate and graduate categories.

FTE enrollment calculations include full-time students enrolled in a school or program and part-time students expressed in full-time equivalency. Methodologies for the conversion from part-time to full-time equivalent vary for graduate and undergraduate students.

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#### **FILLED UNIVERSITY FUNDED FTE**

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The next section of the RCM report includes the count of University-funded faculty and staff in a given responsibility center (lines 4-6). A full-time equivalent faculty member's teaching, research, and service responsibilities vary by school and program. A full-time equivalent staff member works a 35-hour week and a 52-week year.

The Budget Office maintains a roster of all staff working for the University. It is this roster that determines the filled FTEs associated with each responsibility center. Under RCM, all University-funded and endowment-funded faculty and staff salaries are included in the appropriate faculty and staff expense lines. Sponsored research and gift-funded salaries will be included in the direct research expense line. Some faculty members have joint positions in two or more responsibility centers. Faculty members receiving split funding are allocated accordingly. The deans determine the allocation of shared faculty members between departments. The roster is taken from the University's PeopleSoft Human Resource system.

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#### **DIRECT REVENUES: THE SOURCE FOR THIS INFORMATION**

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Direct revenues are the monies that are generated by the core activities of a contribution center. The following items comprise direct revenues: net tuition and fees, net cross-registration revenue, gifts for operations, endowment allocation, sponsored research, auxiliary, other income, and department income.

#### **Net Tuition and Fees**

Net tuition and fees equals total tuition and fees revenue less financial aid. Even though the summary responsibility center income statement does not exhibit these two components, each responsibility center is provided the back-up data – e.g. tuition and fees

dollars and financial aid discounts. This information can be obtained in reports to which each Budget Manager is provided access.

### **Net Cross-Registration**

Net cross-registration shows the revenue (or expense if the number is negative) associated with students who take courses at one contribution center but whose tuition and fee revenue belongs to another. Each unit is responsible for providing the data on their cross-registered students and associated expense.

The formula for calculating the net cross registration revenue (expense) is described in Section 4, RCM Policies, of this manual.

### **Gifts for Operations**

Gifts for operations shows the revenue associated with donor-restricted gifts. According to the Financial Accounting Standards Board, a donor restriction is a stipulation made by the donor that specifies a use for the contribution that is more specific than the general nature of the institution. For example, a gift to support a specific chair at the Heller School is considered restricted but a gift to support general University operations is unrestricted.

Gifts that are received but not spent are not included as income but rather show up on the responsibility center gift report. For example, a donor may give a school \$100,000 to purchase new computer equipment. If the responsibility center only spends \$60,000 on such equipment in year 1, Gifts for Operations in the year 1 RCM financial statement will show \$60,000. The remaining \$40,000 is carried on the responsibility center gift report to purchase new equipment in future years.

### **Endowment Allocation**

This entry shows actual endowment return (income and capital gains) that covers operating expenditures incurred by the responsibility center. This line reflects the return from endowment resources that has been restricted by donor intent to the use of a responsibility center. For example, if a donor gives \$1,000,000 to a specific program at Brandeis, this line will show the portion of the income produced by the \$1,000,000 that was spent in a given year. As with gifts for operations, this annual allocation of revenue should equal the actual expenditure in order to satisfy the restrictions of the donor. The expenditure should be limited to 5% of the three-year average of the market value of the endowment fund.

### **Sponsored Research**

This figure represents the income associated with grant-funded activities carried out during the fiscal year. This figure includes the indirect cost recovery that the funding agencies agreed to pay the University for overhead activities and facilities support.

### **Auxiliary**

Auxiliary revenue is the income produced by auxiliary units such as dining services and residence halls. This revenue is directly associated with auxiliary expenses.

The source of data is the PeopleSoft system plus the dining halls management and University events management. Note that auxiliary revenue only appears in the auxiliary responsibility center.

### **Other Income**

Other income includes a variety of revenue items. Examples include interest income, theater production revenue, bookstore fees, lab fees and parking fines. The source for this information is the PeopleSoft system.

### **Department Income**

The source of data is the PeopleSoft system.

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### **DIRECT EXPENSES: THE SOURCE FOR THIS INFORMATION**

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Direct expenses are costs incurred to run the core activities of a contribution center. There are several items that comprise direct expenses: faculty salaries, staff salaries, student wages, fringe benefits, operating (non-personnel) expenses, and sponsored research expenses.

### **Faculty**

This line includes salaries for all full-time, part-time, and adjunct professors and instructors at the University.

### **Staff**

Wages paid to all non-faculty members at the University are reflected in the staff line. It includes full-time and part-time employees as well as temporary staff and overtime payments, if any.

### **Student Wages**

The Student Wages entry shows the amount paid to student workers at the University. The Student Wages line includes for example the wage component of graduate student stipends.

### **Fringe Benefits**

Fringe benefits refer to all health, disability, insurance, and other benefits paid to employees of the University. This line includes accruals, as necessary, for benefits incurred but not expended.

### **Non-Personnel Expenses**

Non-personnel expenses include travel, supplies, outside services, temporary employment agencies, equipment and other similar expenses.

## **Sponsored Research**

Sponsored research expenses include the direct expenditures related to a sponsored research grant.

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## **INDIRECT EXPENSES**

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Indirect expenses are general costs incurred by the University, rather than the contribution centers. Indirect expenses include University overhead and facilities charges.

### **University Overhead**

University overhead is the sum of expenses of the University's cost centers. University overhead includes the costs of the following departments: Provost Administration, Finance and Administration, General Counsel and the President's Office. It is composed of salaries and fringe benefits expenses and general institutional expenses such as general interest payments, and audit, legal and insurance costs. Capital equipment is excluded from the calculation. The general institutional expenses are offset by unrestricted institutional revenues, such as unrestricted gifts for operations and endowment spending income.

The total amount of overhead is apportioned to the contribution centers through a "tax rate." The tax rate is derived by dividing all expenses from the cost centers, net of indirect revenue, by the direct expenses of the contribution centers, less pass-through sponsored research. The tax rate is applied uniformly to the contribution centers. The previous year's financial results, adjusted for the coming year's budget, are used to determine the following year's tax rate.

The overhead rate is calculated by the budget office, using information from the financial records system. The formula for calculating the overhead rate is:

$$\text{Overhead Rate} = (\text{Cost Center Expenses} - \text{University Gifts}) / (\text{Contribution Center Expenses} - \text{Pass through Research})$$

### **Attributed Overhead**

The cost of University fundraising and sponsored research administration and sponsored research accounting is distributed to each RCM unit based on their total share of annual gifts received during the current year and annual sponsored research expenditures.

### **Facilities and Depreciation Allocation**

This is the actual cost of housekeeping, utilities, grounds, and other expenses related to maintaining the physical plant at Brandeis. It also includes interest payments on long-term debt but not principal payments. A charge to fund renewal and deferred maintenance is also part of the facilities and depreciation allocation.

The University develops the charge by taking the actual facilities and depreciation cost for the entire University and allocating it to the responsibility centers using total square

footage per responsibility center. The charge is evenly applied to all space on campus. This methodology shares facilities costs evenly between the contribution centers rather than tracking costs based on the age of the building, use of the space, or debt service costs associated with a given structure. The absence of meters precludes more accurate cost assignment.

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## **MARGINS**

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Margins in the RCM financial statement provide the reader with a way to evaluate the performance of the responsibility center. Simply stated, a margin shows net income, or revenues less expenses. There are two kinds of margins: the direct contribution margin and the net contribution margin.

### **Direct Contribution Margin**

The direct contribution margin equals direct revenues minus direct expenses. The margin shows whether a center is able to cover its direct expenses with the revenue it produces.

### **Net Contribution Margin**

The net contribution margin shows a complete picture of the responsibility center's financial condition. The net contribution margin equals direct revenues less direct expenses and indirect expenses.

From an institutional perspective, it is important to manage a responsibility center to the net contribution margin. The University must be able to cover all of its costs, including the costs related to the general upkeep of the institution. If it is not able to do so, the University will not be able to balance its summary level budget.

## 4. RCM Policies

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### **TRANSFER PRICING**

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A school that teaches a significant number of students from other schools incurs an additional instructional and administrative cost. Likewise, a school whose students enroll in large numbers in courses taught by other schools experiences a reduction in its instructional and administrative costs.

Because the number of student cross-registrations among schools is in some cases quite large, school budgets will be adjusted by a system of transfer pricing to reflect the instructional costs and savings created by cross-enrollments.

The transfer payment for student cross-enrollments is based on a share of the salary and fringe costs for every faculty member who teaches a course that includes one or more students from other schools, in addition to overhead and facilities costs. An example of the formula used to determine the transfer pricing amount is below:

*Transfer Pricing = Total cost of instruction \*(total cross-enrolled undergraduates / total students)*

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### **STRATEGIC PLAN**

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As part of the annual budget planning and development process, each contribution center, in consultation with the Office of Budget and Planning, will devise a 5-year strategic plan. The financial element of the plan will include all revenues and expenses, including overhead and facilities. The programmatic element will outline planned academic initiatives and enhancements over the coming year.

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### **BUDGET SURPLUSES AND DEFICITS**

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Under RCM, a surplus is defined as the responsibility center's ending financial result that is greater than the budgeted bottom-line (net). A deficit is defined as an ending financial result that is below the responsibility center's budgeted bottom-line (net).

Responsibility centers will have little incentive to outperform their financial targets unless they are able to retain a portion of their surplus against their target. Responsibility centers also will have little incentive to achieve their bottom-line performance targets unless they are required to cover a portion of their deficit against their target. For these reasons, RCM will allow the responsibility center to keep a significant portion of annual budget surpluses, while requiring it to repay a significant portion of annual operating deficits.

Heller, IBS, and the Rose Art Museum will retain 75% of any surplus and be responsible for repaying 75% of any deficit. The Rabb School will retain 25% of any surplus and be responsible for repaying 25% of any deficit.

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## **CENTRAL BANK**

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When applicable, the “central bank” will cushion the effect of annual fluctuations in responsibility-center performance on the University’s financial results. The bank will issue and monitor each contribution center’s balance sheet, disburse and collect short-term loans to cover contribution-center shortfalls, and manage and disburse accumulated contribution-center reserves from prior-year surpluses.

There will be restrictions on the drawdown of banked surpluses to ensure that sufficient funds are available to cover the bank’s loan obligations; to avoid wide variations in the University’s annual financial statements; and to ensure that the draw-down of reserves is budgeted for appropriate categories of expense. Restrictions on the withdrawal of banked surpluses are listed below.

- Reserves may only be spent on one-time costs
- The responsibility center must submit a proposed spending plan before drawing down the reserve
- All withdrawals require the approval of the Executive Vice President and the Provost.

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## **INDIRECT COST RECOVERY**

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Certain sponsors of grants and contracts, notably federal agencies, provide the University with payments to cover the facilities and administrative costs that are associated with grant-supported expenses. The government has specific expenses which it considers “allowable” as part of facilities and administrative (indirect) costs. The government regulations governing the calculation of the indirect cost recovery rate are set forth in the Office of Management and Budget (OMB) circulars A-21 and A-110.

While regulations are very specific for the financial management of certain grants, the University may use any methodology to manage the affairs of the entire institution. The University as a whole does not need to calculate its internal overhead rate according to OMB standards. Using RCM, the University has developed a reasonable standard for consistent calculation of overhead expenses. Indirect expenses under RCM differ from facilities and administrative costs as calculated for indirect cost recovery.

RCMs give each contribution center the flexibility to waive or reduce the indirect cost recovery rate on a particular sponsored project. Such waivers and reductions which must be done in consultation with the Provost and the Vice President for Budget and Planning,

will, however, be costly: the contribution center will be liable to cover the University overhead rate on all direct expenditures from grants, including those for which no overhead is recovered unless there is prior approval by the Provost and Vice President for Budget and Planning to waive this requirement. Thus, if a contribution center accepts a grant that does not cover its University overhead rate, the responsibility center's net contribution margin will decrease.

## 5. Annual Schedule\*

The RCM budget process includes developing programmatic goals and proceeds through budget evaluation. The general schedule below shows the overall responsibilities of the budget managers, Budget Office, and senior management.

<b>Date</b>	<b>Party</b>	<b>Task</b>
Late November	EVP/Budget Office	Provide Provost, Senior Vice Presidents, and Deans with budget call letter and request preparation materials.
December – January	EVP/Budget and Units	Meetings to review unit budget requests
Late January and Early February	EVP, Budget Office	Draft FY Budget Update and next FY Preliminary Budget Request Memo to B & F Committee
Mid to Late February	EVP	Meetings with Trustee leadership
March	EVP	Mail current FY Budget Update and next FY Preliminary Budget Memo to B & F Committee
Mid – Late March	EVP, Senior VPs, Counsel, Budget	Trustee Meetings
April	EVP/Budget and Units	Meetings to review unit budget requests in relation to approved Trustee budget
April	EVP/Budget and Units	Units allocate upcoming FY budget
May	Budget	Budget Office loads all budgets into PEAK

\*Completion dates subject to change each year

## 6. Responsibilities

The major responsibilities each party has in connection with the University's responsibility center management policy are as follows:

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RC Budget Managers	Develop strategies, goals and expansion/diminution plans
	Provide the following information by program (e.g. BA, Ph.D., MBA) on or before the date due:
	<ul style="list-style-type: none"><li>• Narrative description of programmatic initiatives</li><li>• Enrollment (FTEs)</li><li>• Staffing (FTEs – faculty and staff)</li><li>• Tuition revenue and financial aid (including cross-registration revenue)</li><li>• Endowment revenue</li><li>• Endowment-funded expenses</li><li>• Gift revenue</li><li>• Gift-funded expenses</li><li>• Other revenue</li><li>• Auxiliary revenue (auxiliaries only)</li><li>• Salaries (faculty, staff, student)</li><li>• Non-personnel operating expenses</li></ul>
	Revise budget on or before the due date during the budget development process
	Review detailed salary roster by the due date
	Monitor and evaluate RCM financial performance during fiscal year
<hr/> Budget Office	Review financial implications of strategies, goals and expansion/diminution plans
	Provide the following information by the due date:
	<ul style="list-style-type: none"><li>• Detailed financial data to RC to support budget development</li></ul>

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- Consolidated University-wide responsibility center management reports based on budgets submitted by contribution and cost centers
  - Comparison of contribution and cost center budgets to actual results for the current and prior fiscal years
  - Comparison of contribution center budgets to 5-year plans, if applicable

Map budget to the financial system accounts in order to load budget into financial system

Load all budgets into PeopleSoft

Produce periodic RCM financial results during fiscal year and highlight areas for monitoring

Monitor and evaluate RCM and institutional financial performance during fiscal year

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Human Resources	Following implementation of position management, update HR system for changes in budgeted positions as necessary
Controller/Treasurer	Produce gift/endowment account reports
Senior Vice Presidents	<p>Review strategies, goals and expansion/diminution plans</p> <p>Discuss budget adjustments with Budget Managers and Deans</p> <p>Monitor and evaluate RCM and institutional financial performance during fiscal year</p> <p>Set fiscal year surplus and shortfall amounts and determine long-term process for covering surpluses and shortfalls</p>

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## 7. Contacts

Direct any general questions about these procedures to your responsibility center's financial manager. If you have questions about specific issues, please contact:

<b>Subject</b>	<b>Contact</b>	<b>Telephone</b>
Policies, Procedures & Reports	University Budget Office	6-8302