

**UNIVERSITY OF HOUSTON SYSTEM
ADMINISTRATIVE MEMORANDUM**

SECTION: Fiscal Affairs

NUMBER: 03.C.01

AREA: Planning and Budgeting

SUBJECT: The Planning and Budgeting Process

1. PURPOSE

- 1.1. The University of Houston System's planning and budgeting process supports programs offered by the different component universities through an integration of planning and budgeting in accordance with Board of Regents policy 01.01. The Houston System approaches planning and budgeting with the philosophy that both the annual Operating Budget and the Legislative Appropriation Request are extensions of the overall planning process. These budgets represent action plans to achieve the overall academic objectives of the System which have been formulated by the System community and approved by the Board.
- 1.2. This process is designed to produce budgets oriented to accomplishing approved objectives and also to provide a rationale for making resource allocation decisions which can be articulated to internal and external constituencies of the System. The budget represents a management tool designed to implement the long-range plans of the budget and to achieve its approved objectives during a specific budget period. This requires a periodic and systematic review of programs in order to determine their importance vis-a-vis current programs' objectives, as well as a framework to allow new ideas and proposals to be introduced and discussed at all levels.
- 1.3. Consequently, the general budgeting process of the System is one of resource allocation based on program justification. The University of Houston System strives to provide financial resources for support of stated and agreed upon program objectives. The System believes that responsible administrative officers should have maximum flexibility within principles of sound fiscal management to dispense resources to meet program objectives.

2. ORGANIZATIONAL AUTHORITY AND RESPONSIBILITY

- 2.1. The Board has delegated to the Chancellor the responsibility for initiating and overseeing the development of the System's plan which is approved by the Board. The Chancellor's Planning Council, which is comprised of the Chancellor, the Presidents, the Senior Vice Chancellor and the Vice Chancellor for Administration and Finance has the responsibility of developing the framework and finalizing the content of the plan for the University of Houston System. The President of each component university is responsible for developing a plan for the campus within the framework outlined by the System Administration.
- 2.2. The budgeting process involves allocating available resources in order to accomplish the objectives included in the plan. All budgetary matters must follow the established guidelines and reporting pattern in the approval process, with the Board having the ultimate authority for the approval of the annual Operating Budget for all current funds. The Chancellor must report to the Board increases or decreases in the overall budget that he or she deems to be of a material amount at the next regularly scheduled meeting of the Board, following the execution of such changes.
- 2.3. The Vice Chancellor for Administration and Finance has the responsibility to ensure that the System's budgetary operations are administered in accordance with the approved Operating Budget, and within the statutory requirements set by the State of Texas.
- 2.4. Presidents are responsible for the coordination of and recommendations on all budgetary matters involving units within their respective campuses. Further, each is charged with the responsibility of ensuring that the objectives within the overall mission of the campus are accomplished, and are realized with the resources provided for that purpose.
- 2.5. The component universities budget directors are responsible for working with their management to coordinate their budget development effort. While specific duties vary among the component universities, they generally include guideline and calendar development, support for tuition and fee development, detailed preparation via the budget development module, development of revenue projections, development and management of salary increase pools, data review and reconciliations, uploading to the general ledger and payroll systems, and publishing of the printed budget documents. Throughout the year, the budget directors are responsible for budget operations, including processing and reconciliation of budget transfer journals, reviews of budget-to-actual results, including the tracking of key revenue and expenditure streams and support of colleges, divisions, schools, and departments as needed for budget operations. Support is also provided for the legislative process through the preparation of the Legislative Appropriations Request and associated reporting and analysis during the legislative cycle.

3. THE PLANNING PROCESS

3.1. The University of Houston System's plan is a dynamic plan based on the Board's strategic principles and related initiatives. The plan is revised on an annual basis at which time the initiatives are evaluated, reviewed, and updated as needed. Component universities, as a part of the annual plan and budget process, assign priorities and invest resources in light of the Board's strategic principles and State priorities. The updated plans are submitted to the System Administration as a part of the plan and budget cycle. The Chancellor presents the revised plans to the Board annually.

4. BUDGET AND LEGISLATIVE APPROPRIATIONS REQUEST DEVELOPMENT

The call for preparation of budget requests will originate from the Chancellor's Office and will be directed to each President. While the process of budget development is basically administrative, its central substance is the thought and judgment which individuals throughout the System bring to bear upon it.

The individuals involved operationally in budget development can be grouped into three categories.

- 4.1. First, there are the Deans, Directors and other principal administrative officers, both academic and non-academic, and the Department Heads and faculty with whom they consult. Their dialogues and reviews are aimed at identifying: 1) new opportunities and needs ranked in priority order and justified in terms of their direct importance to major program objectives, 2) improved and more cost effective ways of carrying out present assignments, and 3) budgeted activities or positions which can be reduced or eliminated when they no longer support major program objectives.
- 4.2. The second group of individuals involved in budget development are those who form the central administration: the Chancellor, Presidents, and key members of their staffs. It is the job of these individuals to identify, assess, study, and determine the resource requirements of the System. They must work with the principal administrative officers within their areas of responsibility in reviewing operations, discussing issues, and examining current programs, activities, and new opportunities and needs. Further, they must analyze and project revenue figures so that the boundaries of the budget can be defined. The Chancellor is responsible for recommending an annual operating budget to the Board.
- 4.3. The third group is the Board, who have the ultimate authority for the approval of operating budgets for all components of the System.

4.4. Each campus is responsible for developing both a Legislative Appropriations Request and an annual Operating Budget.

a. Legislative Appropriations Request

The Legislative Appropriations Request will be developed by each component university in the spring and summer of even-numbered years and will form the basis of the request for State appropriations for the University of Houston System. ’

The framework within which the Legislative Appropriations Requests is developed is provided jointly by the LBB and the Governor’s Budget and Planning Office. The Chancellor shall inform the Board of key elements within the Legislative Appropriations Request.

b. Annual Operating Budget

The annual Operating Budget is based upon each component’s plan and consists of funds budgeted in the four current fund groups as set forth below.

- Educational and General Funds: expenditures of these funds support an institution’s primary mission and support activities which include: instruction, research, academic support, institutional support, operation and management of plant, and scholarships. The primary sources of educational and general funds at the System are State appropriations and statutory tuition.
- Designated Funds: funds that are not restricted by external sources, but are designated by the Board for operating purposes. The primary sources of designated funds at the System are designated tuition and fees and investment earnings.
- Auxiliary Funds: – funds generated by any auxiliary enterprise, an entity which exists to furnish goods or services to student, faculty, or staff, by charging a fee related to the cost of the goods or services. Auxiliary enterprises include residence halls, food services, parking, University Center, Health Center, Wellness and Recreation Center, intercollegiate athletics, and college stores.
- Restricted Current Funds: funds available for operations but which are limited by donors and other external agencies to specific purposes, programs, departments, or schools. Examples of restricted funds are federal contracts and grants, donor scholarships, and private gifts.

All expenditures will be budgeted within fund groups in cost centers whose purposes are defined in terms of the programs planned by the System. In no case may the budgeted expenditures of a fund group as a whole exceed its budgeted revenues and reserves.

The University Treasurer is responsible for preparing an annual budget for the bonded indebtedness of the System. This office will notify each campus of the amount of debt service payment required and the dates of remittance of such payment.

5. PERFORMANCE EVALUATION

Each year, universities submit an accountability report to the Board of Regents, thereby completing the cycle of planning, budgeting and evaluation. Key performance measures are examined in the areas of student participation, student success, academic excellence, research, and institutional efficiencies/ effectiveness. These measures are also reported annually to the Texas Higher Education Coordinating Board, the Governor's Office, and the Texas Legislature.

6. BUDGET MANAGEMENT

6.1. The responsibility for the management of funds rests with the Chancellor and respective Presidents. However, any one of them may delegate responsibility for day-to-day management to Vice Chancellors, Vice Presidents, Deans, Directors, or Department Heads as they deem appropriate.

6.2. Each President is required by this process:

- a. To develop a program plan and budget for the campus;
- b. To ensure that budgeted allocations to the campus are not exceeded by expenditures;
- c. To expend the allocations within the guidelines set forth in the Operating Budget;
- d. To require managers to conform to Federal, State and University rules and regulations applicable to the expenditure of funds;
- e. To ensure that expenditures bear a relationship to the level of achievement of the agreed upon objectives;
- f. To maintain integrity of revenues and expenditures by fund group;
- g. To realize budgeted revenues; failure to realize budgeted revenue should produce a reduction in budgeted expenditures; and

- h. To maintain the integrity of individual cost centers.

7. BUDGET EXECUTION

- 7.1. The basis for the annual Operating Budget submitted to the Board will be individual revenue and expenditure cost centers. All revenues and expenditures will be budgeted in appropriated cost centers and submitted to the System Budget Office for review and inclusion in the Operating Budget submitted to the Board. .

New cost centers may be established at a later date through the budget amendment process.

- 7.2. Budget Control

Budget control involves the systematic review of proposed changes made in the budget by responsible administrators in order to insure consistency with the program priorities established in the original budget and/or assessment of institutional impact of proposed changes in established priorities.

- a. Each President has the responsibility for ensuring that the budgetary operations are administered in accordance with the approved Operating Budget and that effective budgetary controls are established and administered at the campus level.
- b. The Vice Chancellor for Administration and Finance has the responsibility for establishing and maintaining a financial accounting system that effectively provides a basis for executing the budget as well as for providing accurate and timely comparative reports on budgeted allocations versus revenue collections, expenditures and encumbrances. In addition, the Vice Chancellor has the responsibility to develop and manage a system of financial controls that will monitor revenues and ensure that expenditures are incurred in accordance with the Operating Budget approved by the Board. Emphasis will be placed upon reporting actual and budgeted revenues and expenditures, by fund groups, on a timely basis.

c. A budget is a dynamic document which is subject to change throughout the fiscal year. Changes in the approved Operating Budget fall into one of the following two categories and require approval as indicated:

- Budget Transfer

The movement or redistribution of budgets available to a budget manager within a fund group under existing approved expenditure authority involves a budget transfer. This will normally include only the movement of funds within the same fund group. Policies and procedures affecting budget transfers will be established at the campus level.

- Budget Amendment

A request for additional or diminished resources, based upon changed circumstances with respect to the objectives previously established involves a budget amendment. If a proposed budget amendment is greater than a predetermined amount established by the President, then it must be reviewed by the President (or designee) of the affected campus.

7.3. Budgetary Accountability

In the context of this document, budget accountability is defined as the responsibility assumed by administrative officers and unit budget managers at every level in managing their respective budget allocation. It covers:

- a. Cost Center Integrity: Unit budget managers are responsible for maintaining cost center integrity for the individual cost centers under their control. This is to ensure that funds are expended only for the purposes for which they were initially budgeted.
- b. Fiscal Year–end Balance: Administrative officers and unit budget managers are responsible for ensuring that the aggregated totals of their operating budget allocations within each Fund Group are not exceeded.
- c. Objectives: Administrative officers are responsible for ensuring that expenditures bear a relationship to the level of achievement of the agreed upon objectives of their units.

7.4. Expenditure Control

Expenditure control involves the systematic review of expenditures and encumbrances lodged against specific allocations by account to ensure that operating units do not exceed approved allocations made in their operating budgets.

- a. Inasmuch as funds are allocated to a cost center in order to accomplish agreed upon objectives for a given fiscal year, the expenditure of these funds must be for goods and services purchased within that fiscal year. Unexpended budget balances at the end of any fiscal year will not be available in the following fiscal year unless they are re-budgeted. Outstanding encumbrances will be charged to the allotment for the fiscal year in which the commitment occurred.
- b. Expenditures charged to a particular cost center must be for the pursuit of the objectives of the relevant program(s) supported by that cost center. Expenditures will be limited to the levels established for each account, i.e., salaries and wages, maintenance and operations, and capital outlay. Transfer of allotments between categories will not be permitted without approval by the respective vice president or their designees. Approval procedures for transfers between accounts within cost centers will be determined by individual campus policy. Actual expenditure control will be by cost center. Restricted funds will be managed in agreement with the terms of the contract or grant.
- c. The Vice Chancellor for Administration and Finance is responsible for ensuring that the financial accounting system contains effective control safeguards so that expenditures and encumbrances cannot be made against cost centers and accounts having insufficient funds. In addition, controls must be maintained to ensure that only authorized signatories approve expenditures against accounts.

7.5. Position Control

The Office of the Vice Chancellor for Administration and Finance is responsible for establishing and maintaining a position control system. The purpose of this system will be to ensure the accurate and timely reporting of new and reclassified positions to the Board within the framework of System policy.

Appointments of executive management personnel will be reported to the Academic Affairs Committee of the Board. The report to this Committee will also indicate the resulting fiscal impact on budget.

8. SALARIES

- 8.1. The determination of salary increments is an annual process for which the decision-making responsibility is shared by the System and individual campuses. The System's policy regarding salaries is set forth in a separate document.
- 8.2. The component university Budget Office is responsible for ensuring salary changes that are a part of the annual budget process are transmitted to the Human Resources Office in accordance with the approved policies. To the extent that legislative conditions allow, the System provides for salary increases at one time during any fiscal year, normally on September 1. September 1 salary increases will be included in the Operating Budget and approved by the Board, including positions funded from contracts and grants in the Restricted Fund. 3.

9. REVIEW AND RESPONSIBILITIES

Responsible Party: Associate Vice Chancellor for Finance

Review: Every three years, on or before November 30

10. APPROVAL

Approved: John M. Rudley
Vice Chancellor for Administration and Finance

Jay Gogue
Chancellor

Date: November 30, 2005

11. INDEXING TERMS

- Annual Operating Budget
- Budgeting
- Legislative Appropriation Requests
- Planning
- Salaries