1. Purpose of the manual

Control of an organization’s budget—be it a for-profit or not-for-profit entity—is one of the most critical of management functions. An organization with lax budgetary controls or—more insidiously—a lax attitude towards unplanned or poorly planned expenditures at the very least fails to optimize efficient allocation of limited resources and at worst courts disaster.

The purpose of this manual is to provide organization managers and their administrative assistants with a tool which, it is hoped, will be useful in understanding:

- The structure of the University’s budget
- The control mechanisms available to them through SAP ERP
- On-line budget performance monitoring
- The annual budget cycle from initial preparation to approval of the budget by the Board in May
- After approval of the budget, procedures to be followed in budget revision requests.

The sections relating to on-line budget monitoring assume that the reader has access to SAP ERP and has attended an on-line training session to provide basic familiarity with SAP ERP.

Budgeting is of necessity an imprecise science, but it is hoped that careful study of this manual will provide encouragement for a thorough understanding of the manner in which budgetary estimates become financial realities.

There are many schools of budgeting, and so-called “zero based” budgeting has become fashionable in some quarters, but, for a Cairo-based organization, it appears unlikely that sweeping changes in expenditure levels can be effected from one budget year to the next, and those who study the immediate past and present most assiduously are likely to assess their requirements most accurately.

2. STRUCTURE OF THE BUDGET

2.1. Types of Budget

2.1.1. Annual Appropriations

For the majority of organizations, operating within Unrestricted Current Funds (i.e. funds in the ranges 10100000 and 10200000), budgets are prepared, monitored, and controlled by annual appropriation. This means that an approved expenditure budget for a specific expense code is valid for one fiscal year (i.e. period’s one through twelve of fiscal year 2xxx) only.

Unexpended or un-obligated budget is not normally available to be carried from one fiscal year to the next (if exceptional circumstances warrant, written application may be made to the Vice President Finance Office to increase budget for a subsequent fiscal year by the amount of an unavoidable under-spend in the base fiscal year).
Conversely, budget overruns do not result in an automatically reduced budget allocation for the following fiscal year.

In SAP all budget lines which are set by annual appropriation must be located, when performing on-line inquiries, by first entering the Fiscal Year for which information is required.

2.1.2. Multi-Year Budgets (Projects Budgets)

In some situations budgets are set for a period exceeding one fiscal year. These are so-called Multi-Year (MY) budgets and are set as Projects. The budget period may either be defined, i.e. funds must be expended by a predetermined final date; or undefined, i.e. funds may be expended at any future time provided an available balance remains.

Sponsored grants typically fall into the defined period category, while expenditure budgets relating to restricted donations fall into the undefined period category, unexpended balances being available for spending until the entire gift has been consumed.

In SAP Multi-Year budgets are an attribute of a Project. That is to say that an organization must be defined as a Project in order for budgets to operate on a Multi-Year basis.

2.1.3. Fund Balance Budgets

Funds spending may be limited by so-called Fund Balance control. Spending is then limited, not by budget line allocations (as in 2.1.1. and 2.1.2. above)—although these may provide an additional layer of control—but by the Fund Balance itself which must always be kept in credit.

This mechanism may be convenient when a fund has been established to execute a specific project and the amount available for spending is to be automatically incremented whenever, for example, additional funds are donated.

2.2. Control Mechanisms

2.2.1. Commitment Items Groups

Spending for virtually all organizations operating in the Unrestricted Operational fund 10100000 and Unrestricted Capital fund 10200000 is controlled by setting ceilings or limits for so-called Expense (Commitment Items) Groups. A Commitment Items Group consists of one or more budget lines which are normally logically related and fall within a single Cost Center.

Operational budgets (i.e. organizations falling within the Unrestricted Operational and Capital funds) are controlled by five groups:

- Salaries, Wages & Allowances (pooled by category of employment)
- Fringe Benefits (pooled by type of benefit)
- Operational Supplies & Services
- Depreciation on Capital Expenditures
- Capital Expenditures

Individual lines—unless set to full spending control (see section 2.2.2. below)—may be “overdrawn,” that is to say appear with negative availability of funds, but the underlying group, which will normally have a spending limit equal to the aggregate of the limits for all constituent
budget lines, must have an un-obligated budget balance equal to or greater than any proposed expenditure within the individual constituent lines.

2.2.2. Full Spending Control

Individual budget lines within a Commitment items group may be set to full spending control. This means that each expense against such a line must satisfy two conditions:

1. There must be an un-obligated budget balance in the underlying appropriation unit equal to or greater than the proposed expenditure, and
2. There must be an un-obligated budget balance in the budget line itself equal to or greater than the proposed expenditure.

SAP ERP has been configured for example for the Operational Supplies & Services lines not to be set to full control. The reason was to avoid the consequences of full controls, which may necessitate frequent budget adjustments (and consequent risk of operational delays) unless the organization's budget has been planned with a high degree of initial accuracy.

2.2.3. Allotments

A further layer of budgetary control can be introduced by allotting a budgetary spending limit amount between constituent periods. An annual budget may be broken down by month or by quarter and amounts so allotted do not have to be equal for each sub-period. An equipment budget, for example, might be broken down into four quarters as follows:

- Q1 $ 0
- Q2 $ 2,000
- Q3 $ 20,000
- Q4 $ 0

Similarly, a project budget (Multi-year) may be broken down into sub-periods of year whose beginning and ending dates do not necessarily have to correspond with the University's fiscal year.

Allotments may be set up with full control which means that expenditures during any sub-period must not exceed the allotted amount (and under-spending in any sub-period does not result in the available balance being carried forward to the next sub-period).

This option must be exercised at the fund level—that is to say, allotments must be created for all participating budget lines in the chosen fund.

At the present time allotments are in use only for project sponsored grants, no interest having been expressed by managers for this option to be exercised for cost centers within the Unrestricted Operational fund.

2.2.4. Revenue Augmentation

Expenditure lines can be set with an initial spending limit which is automatically incremented for every dollar (or pound) of revenue recognized in a revenue line which is explicitly tied to the selected expenditure line. For example, a cost center which earns revenue from selling duplicating services may initially budget revenue from this source at LE 20,000 and duplicating expenses at LE 15,000. The duplicating expenditure line may then be set so that recognition of
revenue of LE 20,001 causes the associated expenditure line to be augmented by LE 1 to become LE 15,001, and so on for each incremental pound of revenue earned.

3. Budget Performance Monitoring

All cost centers with access to SAP ERP can monitor their budget performance on line.

Immediately after you log on to SAP, Open the Folder “FM” where you will find a folder titled “Funds Reporting” under this folder you will find the following reports:

- Budget Availability Report (transaction code ZFM01)
- Operational Plan Report (transaction code ZFM04)
- Capital Plan Report (transaction code ZFM 05)

Clicking on each of the above will take you to a screen where you will specify which year you are requesting the report, and then press the icon shown as a clock at the tool bar and the report will be produced instantly.

You may drill down on any line in the report for detailed information at the transaction level.

Finally, it should be noted that while these reports are instantaneously updated as individual transactions are posted during the course of the business day (figures may have changed in a report even if the second inspection follows the first at an interval of only a few minutes).

4. Budget Changes

4.1. Area Contingency Funds

Because budget variances, when they occur, tend to be adverse, each area manager is allocated a contingency fund at the beginning of the fiscal year. This contingency fund is charged with each upward revision in the Manager’s Area resulting from increased requirements due to:

- Personnel, if the result of unplanned additions
- Supplies and services
- Equipment and furnishings.

All such increases must be approved by the appropriate area manager before acceptance by the Budget Office. The only exception to the foregoing principle is when revenue-earning organizations — typically auxiliary enterprises — request expenditure increases (excluding increases in equipment budgets) at the same time that they submit upward revisions to revenue budgets in amounts which will ensure preservation of projected operating margins. In such cases expenditure increases may be submitted for approval directly to the Budget Office.

4.2. Budget Increases not Increasing Appropriation Unit Limits

Budget changes which do not result in any net expenditure increase may be entered directly by cost centers managers on SAP ERP provided the requested changes will not increase the total budget appropriation for any commitment items group.

This does not apply to sponsored grants or funds subject to externally imposed spending
restrictions.

This means, for example, that an equipment line (CI Group 19x-xx-xxx) cannot be increased by reducing a supplies line (CI Group 6xx-xx-xxx). The converse equally applies.

Exceptions: budget transfers between CI groups are not normally permitted, unless under extreme pressure to satisfy an emergency, and if the following criteria are met:

There shall be no net increase in the salary and fringe benefits CI groups except with the approval of the HR Office and/or approval of the V.P. for Planning & Administration.

The decrease in the CI group from which funds are being transferred shall not exceed 5% of the originally approved annual budget for that unit.

4.3 Equipment Budgeting

All operational equipment acquisitions are subject to the requirement that the items being purchased shall have been requested during the annual budget preparation process and subsequently approved with reference control numbers called “WBS element” which must be quoted on the requisitions submitted to the Supply & Chain Management.

The SCM will not proceed with the procurement of any item of equipment lacking a budget reference control number.

Emergency equipment acquisitions (i.e. items not requested during the annual budget preparation process) require the following steps to be taken before a requisition can be issued:

- Approval must be obtained from the relevant area manager
- The applicable contingency fund is charged with the full amount of the cost
- The Budget Office issues a WBS element which is entered on the requisition to enable the SCM to take the necessary action.

Budget savings realized on capital acquisitions for cost centers are NOT available to be spent on other, previously unbudgeted items. Savings in the University-wide capital expenditure budget for furniture and equipment may, however, be applied to make up any shortfalls in departmental budgets for planned capital acquisitions for which the budget proves to be insufficient due to price increases or faulty market intelligence.

4.4 Sponsored Grants

Sponsored grants budgets follow special procedures. When the grant has been officially awarded the approved budget is adapted (to the extent necessary) to SAP expense codes with the assistance of the Office of Sponsored Programs and the responsible grants accountant in the Controller’s Office.

All subsequent changes to this initial budget require the approval of the grants accountant only when the requested increases are within percentage or amount limits previously approved in writing by the granting agency.
Other changes may also be approved by the grants accountant provided the principal investigator submits documentary proof of the grantor’s acceptance of such adjustments.

The creation of a spending budget before a grant has been officially awarded, or budgetary adjustments for which no written approval is forthcoming from the grantor, require the approval of the area manager with overall responsibility for projects and grants.

4.5 Variance Reporting

Cost Center managers reporting expenditures for any budget line which exceed the approved annual budget by the greater of: (a) 10% or (b) LE3,000 (or dollar equivalent) are required at fiscal year-end to provide a written report to the Budget Office to explain the reason(s) for the overrun(s) incurred.

This process is beneficial in forcing focus on areas which are absorbing larger financial resources than planned. It also forms a basis for more accurate budgeting for these lines in the annual budget planning process.

Revenue-earning organizations and auxiliary enterprises are exempted from the foregoing requirement provided expenditure increases against the approved budget do not exceed increases in revenue against the approved budget by more than 10%. A specific example will clarify this principle:

A cost center with an approved revenue budget of LE100,000 and an approved operating supplies line of LE30,000 turns in an actual performance of LE125,000 in revenue and LE37,500 in operating supplies expense. Under the above formula no variance reporting is required unless the increase in operating supplies expense exceeds \(1.25 \times \text{base} + (0.25 \times 0.1)\) = 27.5%. LE30,000 * 1.275 = LE38,000. In the example given the actual expense was LE37,500, so no variance report is needed.

With a little practice it will be found relatively simple to determine what lines, if any, require variance reporting.

5. The Budget Cycle

5.1. The Long-Range Plan

Annual budget planning is the final stage in a process that begins with long-range planning. The Long Range Planning Committee builds a five-year financial model which in turn derives from academic priorities, expectations in student enrolment in both degree and non-degree programs, developments in non-program revenue sources such as governmental assistance, endowment income and fund raising, operational requirements in physical plant, support and student services, and executive management.

Where long-range plans amalgamate projections at the cost center level, such forecast revenues and expenditures provide an invaluable benchmark for assessing annual budget requests and significant deviations between plan and annual request need to be carefully analyzed and justified.
It is critical to understand that financial data supplied for long-range planning purposes and, in particular, during the assessment of new programs by specialized committees IS NOT A SUBSTITUTE FOR THE ANNUAL OPERATING BUDGET PLAN REQUEST. Costly confusion has arisen from time to time because cost center managers have wrongly assumed that feasibility and planning projections, once made, constitute an immutable obligation of the University and are entered by the Budget Office into the Annual Operating Budget without need for further action on their part.

5.2. The Budget Review Committee

One of the primary functions of the Budget Review Committee is to assess institutional priorities in the light of changing circumstances.

The long-range plan will normally show progressively wider deviation between “plan” and “actual” during the five-year cycle — inflation may prove higher than forecast, salaries may have to be increased at a faster rate in consequence, specific programs may cost more or less than originally envisaged.

These changes necessitate constant reassessment of spending priorities and allocation of limited financial resources. Accordingly, each annual budget cycle will differ to some degree in the institution’s perception of current budget status and priorities.

To be able to arrive at this point the Budget Review Committee requires the input of careful short-range financial planning by the Budget Office. It is such planning which forms the point of departure for the annual budget plan preparation cycle.

5.3. The Annual Budget Cycle

During the period June—September the Budget Office prepares preliminary “views” of the operating budget for the fiscal year following the one for which the budget was approved by the Board in May.

Using as a base the approved budget for the fiscal year about to begin, the Budget Office is able to examine outcomes for the following year using varying assumptions for both revenue sources and operating expenditure requirements.

The major variable on the revenue side is academic tuition. Critical factors to consider are the likely size and composition of the student body, distribution of scholarships, and, last but not least, the rate of increase posited for tuition fees.

On the expenditure side the major variable is personnel cost. Critical factors to consider are: the likely size of salary adjustments to combat the erosion of purchasing power through local inflation (a particularly complex issue, as the dual currency environment introduces also consideration of prospective adjustments in the pound/dollar exchange rate — a rate controlled by the Egyptian government and not subject to the more predictable pressures experienced by freely convertible currencies) and expansion in probable full-time faculty numbers (increases in other personnel categories play a subsidiary role in cost terms).

Models of the budget using different inputs of the key variables provide an informed view of sums likely to be available for operating supplies and maintenance, capital equipment, acquisition of new facilities and improvements to existing plant, and start-up costs of new programs (if any).
Once a “base case” has been developed by the Budget Office a budget status report can be drafted by the Business Office for dissemination to area and cost center managers.

5.4. The Annual Operating Budget Request

The preparation of detailed annual plan operating requests is initiated during October. Each area and cost center manager has access to the online reports and the budget guidelines. These provide the framework within which budget planning requests should be formulated.

5.4.1. The budget guidelines provide:

- Detailed advice on how to complete the Turnaround Report for Expense Budget Preparation and the Turnaround Report for Revenue Budget Preparation with all supporting forms and justifications;
- Updated information on certain cost items such as freight charges for equipment and supplies ordered from abroad, schooling costs, housing costs etc.; and
- Estimates of the annual rates of inflation to apply in calculating the probable future cost of (a) goods and services purchased in Egyptian pounds, and (b) goods and services purchased in dollars or other hard currencies.

Annual budget requests are prepared by cost center managers with such input as may be called for from other members of the department and, where appropriate, from students; they are then reviewed, modified where necessary, and approved by the relevant area manager before submission to the Budget Office before the end of the calendar year.

The Budget Office checks that requests contain all required supporting information (inadequately justified increases in budget lines may also be brought to the attention of area managers at this time) and consolidates each return to provide a preliminary operating plan for the University.

This plan is then distributed to area managers and the Budget Review Committee, and recommendations are made to the President on such further modifications as may be required, or deemed desirable, to achieve the University’s budgetary objectives.

By early April the budget is ready for preparation of the figures to be submitted to the Board at its May meeting, together with the budget report drafted by the Business Office.

5.5. The Approved Annual Budget

The Board in its May meeting approves the operating plan and determines the level of salary increases which will become effective on September 1. Because approved salary increases may not be those recommended by the administration to the Board, the Budget Office may have to make extensive recalculations in the Budget Preparation plan after salary increases have been announced by the president early in June.

Accordingly, adoption and dissemination of the approved budget, together with a detailed list for each cost center of approved capital equipment items, is not normally possible before the second half of June.

After distribution of the approved budgets to departments and units, the Budget Office waits for up to two weeks so that any possible errors or omissions may be corrected before the SAP budget adoption job is performed.
Upon completion of this job all cost centers with on-line access to SAP ERP may consult the
budget for the New Year.

5.6. Modifications to the Approved Annual Budget

Normally, from May onwards, cost center managers begin to submit/capture requests for
modifications to the approved budget. Errors and omissions may come to light, and changes may
be sought in capital equipment required.

All such changes should be entered on SAP Budget transfer transaction code FMBCC. Approved
changes to the May budget show on SAP report as negative and positive differences between the
Approved Budget Amount and the Current Modified Budget Amount.

Fund centers generating substantial modifications against the approved budget as the fiscal year
progresses may need to consider whether their budget planning process has been adequate.

Such cases can be monitored by the area managers at the end of the fiscal year, or even earlier if
warranted through the budget availability reports for their areas.

5.7. The November Budget Report

The Board meets in November to review the preliminary results for the fiscal year ended on
August 31.

An update of the May budget, which is referred to as the November Budget Revision, is prepared
internally.

This term is somewhat misleading as it implies a static budget which is revised at one moment in
time. In fact, as has been seen above, the budget is subject to daily and indeed hourly change,
and the November budget is simply a “snapshot” of the budget taken after the approval of salary
increments.

An important difference between the May and November budgets is that the latter shows the
impact of the September salary increases distributed over the cost centers, while the May budget
may contain the aggregate amount set aside for salary increases within the “Provisions &
Contingencies” line.

5.8. The February Budget Report

The Board meets in February to review the final audited results for the fiscal year ended on
August 31, as well as, the Preliminary (First View) of next year’s plan.
5.9 Actual Results versus Approved and Current Modified Budget

By the end of October, when operational results for the fiscal year ended August 31 are known with a high degree of accuracy but are not yet audited, fund centers may want to access their budget screens to view their year-end results.

As discussed in Section 4.6 above, fund center managers are required to submit to the Budget Office written reports on all expenditure lines where the adverse difference between actual expense and approved budget exceeds prescribed limits of tolerance.

These reports close the budgetary process for the fiscal year and provide a useful bridge to the planning of the budget for the year which begins the following September.