Budget Tips

Personnel Cost – Lapsed cost is an opportunity cost

Managing personnel cost effectively is the key to using the fiscal resources at your disposal. Whether at the departmental or divisional levels, being able to identify lapsed personnel cost (salaries and benefits) available to be rebudgeted for other priority purposes is key to achieving unit goals.

The budget office participates in ensuring each department is correctly budgeted for personnel cost based on the permanent positions assigned to that department. This is another way in which position control assists each department to effectively manage fiscal resources in support of departmental goals and objectives.

Managers should monitor the status of departmental personnel cost, at least quarterly, to determine if cost is within budget. If salary cost is paid in a linear manor, the monthly cost is 8.3% of the total budget. Therefore, at the end of the first quarter the personnel cost EXPENSE total should be 25% of the budget. This can be seen in the far right column on the Data Warehouse budget report (BBA and % used). If the percentage shown is greater than 8.3% multiplied by the number of months completed in the current fiscal year, that indicates that the salary budget in the current year will be exceeded and Operational or Equipment (OE) funds will be needed to cover the overage.

The process to determine if a department has the opportunity to move personnel cost budget to Operational or Equipment (OE) budget for the current fiscal year utilizes information in the data warehouse.   In addition, both the position control sheet and the labor cost detail report for the department will aid in the process.

The steps are as follows:

1. From the Data Warehouse, download the department report as of the end of the last closed period (this will populate salary and benefit information in the MTD column). **(Attachment #1)**
    ➢ Use the "Acct Cat Fdeser" to summarize data by expense type to make it easier to analyze
    ➢ Download the data warehouse report to Excel to analyze

2. Modify the format of the excel report to separate: 1.) revenue, 2.) personnel, and 3.) operational data into subtotals. **(Attachment #2)**
    ➢ Add two rows between revenue and personnel cost and two more between personnel cost and operational cost
    ➢ Create subtotals for 1.) revenue, 2.) personnel, and 3.) operational cost
    ➢ Create total expense (personnel + operational)

3. Add Section for projected Cost **(Attachment #2)**
    ➢ Column for Actuals: Project expense to June 30th
    ➢ Column for Encumbrances: Assume encumbrances will be spent by June 30th unless you make an adjustment
    ➢ Column for projected BBA on June 30th
    ➢ Column for % used on June 30th

4. Project Salary and Benefit cost **(Attachment #2)**
   - ➤ Use the MTD Actuals for salary and benefit for the last month closed. Project MTD cost times the number of months left until June 30th. Subtract projected expense from the Revised Budget to project June 30th
   - ➤ Adjust the projected number based on past or future vacant positions. Example: If you have a current vacant positions that will be filled in April then add three months of salary and benefits to the June 30th projection

5. Project operational cost **(Attachment #2)**
   - ➤ Project expense for remaining periods until June 30th
   - ➤ The BBA assumes that all the encumbered funds will be spent. If you do NOT intend to spend all encumbered funds, then the BBA will be increased by the encumbered amount not to be spent

6. Project Revenue for remaining periods **(Attachment 2)**
   - ➤ Do this to determine if the budgeted revenue will be achieved. The department expense budget assumes the revenue will be achieved. If the revenue is short or over the expense, the budget must be adjusted. Note: The budget office will true-up the revenue/expense budgets during the 4th quarter

7. If the budget minus the 12 month projected personnel cost is a positive number, there is lapsed salary that may be available to move as revised budget to OE for other purposes in the current year

8. If the budget minus the 12 month projected expense is a negative number, than the department head should reduce projected spending or seek additional budget resources

You can take the numbers from your analysis and plug them into the EOFY projection **(Attachment #1),** or use the quick method below for personnel cost analysis.

    Example: (analyze personnel cost only)
    Step 1 $707,341 = departmental personnel cost total REVISED budget
    Step 2 $319,714 = actual personnel cost as of December 31st.
    Step 3 $319,714 = projected actual personnel cost for January – June
    Step 4 $ 67,913 = Projected unspent personnel funds as of June 30th.
    Step 5 $ 37,503 = adjustment for vacant position to be filled April 1st. and a cruise adjunct (salary & benefits)
    Step 6 $ 30,409 = adjusted lapsed salary for current fiscal year.

Once a projected lapsed salary amount is determined, do not wait until June to transfer and spend the funds. Consider moving 75% of the calculated amount immediately, and monitor the remainder in succeeding months. This will allow the department to make proactive expenditures early in the year to meet unfunded objectives.

Although being short an employee in a department for a few months is challenging, it also creates opportunity for savvy managers. Be prepared to turn these one-time funds into something that will positively impact the department in the current and future years.

It is the goal of the budget office to provide useful and timely information to facilitate sound fiscal management decisions at all levels of the institution.   We are available to help you to interpret the information contained in reports as needed.

Steve Mastro
Budget Officer