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Minutes of the Regular Meeting of the Academic Council

Thursday October 21, 2010

Craig Henriquez (Chair, Academic Council and Professor of Biomedical Engineering and Computer Science): Welcome to the second Academic Council meeting of the year. When we were planning this meeting in September, we thought we were actually going to have a light agenda; as you can see we were wrong… We have a pretty packed meeting. Most of the presentations are largely informative and I hope will be of interest. We will end in executive session, asking for your approval for four candidates for honorary degrees for May 2011.

I also want to make you aware of ECAC's efforts over the past couple of weeks, primarily in developing a new university committee to look at Duke's Global Strategy. It is our sense and that of others, that the current Academic Programs Committee neither has the bandwidth nor the expertise to deal with the matters of the creation of Duke degrees abroad and also in shaping Duke's global strategy. As a result, we are advocating for the creation of a new committee, called the **Global Priorities Committee** or GPC, that will be advisory to the Vice President and Vice Provost for Global Strategies and Programs, a position currently held by Greg Jones. Next month Greg will update us on planning and Duke's global strategy. We will be sending a draft of the charge of this committee and structure of this committee to you looking for feedback, and we will be asking for your formal endorsement for its creation at our next meeting. So stay tuned.

So let's go ahead and get started with the approval of the minutes from the September 23rd. May I have a motion for approval? [The minutes were approved by voice vote with no dissent.]

Update on October Board of Trustees Meeting

Our first agenda item is an update from President Brodhead regarding the Board of Trustees meeting held earlier this month. If you recall from last year, we made a change in one of the traditions of the Academic Council, namely the timing of the Annual University Faculty Meeting. Those of you who have been around for a while know that this meeting often was held in October, usually preceding this particular meeting. Last year, ECAC decided to give this meeting its own time slot and have it in the mid-year – which we thought was an appropriate time for a state-of-the-University address. We are planning to do the same thing this year – have the address and the meeting in February – the time and location to be determined, but we will let you know that as we know it. But while we got rid of one tradition, we instituted a new one, and this was at the suggestion of the Board of Trustees, which is to have the President update the faculty on the last Board of Trustee meeting and address any pressing University matters. I sent a message to all of you asking if there were any questions for the President and there were a couple of you who asked questions regarding the matter of bonuses and incentive pays that have been given attention in the media – also the subject of a student protest (we don't have many but we did have a small one). ECAC asked the President if he would comment on this as well. President Brodhead?

President Brodhead: I see that I am all that is standing between you and Budget 101 (laughter) so I will

make my account of the Board meeting relatively brief. Quite a number of people in this room are on subcommittees of the Board of Trustees and so many of you know how much work is done in the ten committees whenever the Board comes to town, but I will stick to the macro-sessions if I could. As I think back to the meeting that took place on the first and second of October, I suppose the first thing that would occur to me to mention is that we have four new trustees: one is **Laurene Sperling**, known to some of you because she headed the Library Board of Visitors, one is **Hope Morgan Ward**, the Methodist Bishop of Mississippi, one is **Adrienne Clough**, a Young Trustee elected to us from Fuqua, and the other one is **John Harpham**, the even younger Trustee elected by the undergraduates last year. We spent a whole day with these people in their orientation for the Board, but just the ability of this university to recruit people of different generational positions year after year of the degree of intelligence and devotion of these people is something that we should all feel very happy about.

Let me mention the main subjects of the meetings and you can ask questions if you wish. There was a report on Duke's Endowment and its adventures in the last period. You have had **Neal Triplett** come and report here I think in the spring time and you will have him again then. The Trustees were pleased to hear about the 13% return that the endowment had brought back through the period of July 1st or June 30th; there was a discussion about whether a University was better to be anticipating inflation, deflation, or what in between, and it is of course very fascinating to have a room full of people as smart as the Trustees opine on a subject about which no one person can be guaranteed to be right in advance, but which it will matter to us whether the university in general gets it right.

The second subject on the Friday meeting was undergraduate admissions. This is a subject that the Trustees have considerable interest in, and it was really by way of an annual report. I think the salient things to say about this presentation were those of you who follow the news know that the number of applicants of undergraduates to Duke went up something like 12% last year, and a total of 33% over the last two years. There were 26,700 applicants for the 1,750ish places at this university last year, so everyone was very happy about that.

The other thing to report is that the academic quality of Duke undergraduates has continued to rise. It has now reached the point where it doesn't rise because it has reached a sort of ceiling but we have been very impressed to find that our students have the same kind of scores that Stanford students have, and things of that sort, and I think there was very general satisfaction with that on the part of the Trustees.

The one part of the picture that I wouldn't say is concerning, but I would say is annoying is the percentage called yield, which is of the people we admit and how many of them choose to come here: Duke has always decided to admit the very strongest students, understanding that the strongest students are the ones that have the most other choices. So, we understand that we could have 100% yield if we wished it by admitting students who wouldn't have had any other choices, and Duke has had a history, in the last ten to fifteen years, the yield has been more or less constant at a number slightly above 40% – 40% of the students we admit choose to come here. That number hasn't wandered very much one way or another, but it is a subject of interest to the Trustees and we have outlined an idea for trying to make the case for Duke ever more strongly to our applicants. Other things being equal, it would be nice to be chosen by more of those we chose, and we hope to see that figure go up over time.

In the evening there was a dinner at the Nasher, this was by way of a palate-cleanser or a frivolous interlude and what made it fun was that three student groups came and performed, an undergraduate pianist with astonishing gifts came, a group of students who do musical comedy came and sang, and a group who do a variety of multicultural dancing came and danced, and everybody was left in a state of happiness and envy on the part of the Trustees.

The next morning, the main subjects of discussion were two. One was international, and of course the Trustees understand that this is the pioneering phase of Duke's career. It is a place of excitement and opportunity, and also uncertainty, and the Trustees have shown the same interest of understanding these uncertainties in our progress in crossing that space that the faculty has shown. The main thing for me to report is that after the meeting, the Trustees have formally constituted a committee to look at international matters. This will be chaired by Trustee **David Rubenstein** and has a lot of people who have a very great deal of international experience in their line of work and I think will be very, very useful and they'll stay in close touch with Greg Jones and the rest of us about these matters.

You know that a school is reviewed at every board meeting, this year it was the Nicholas School of the Environment. Dean Chameides gave, if I may call it so, a wizard report on the special strengths of the Nicholas School in combining science and policy, in recognition that the environment is now understood to be not only the natural as distinct from the human, but the natural as continually influenced by the human world – very comprehensive account, much pride on the part of the Trustees, and then after that, there was a kind of broadening of the lens for a bigger picture of environmentalism at Duke.

We had a faculty member, from the Marine Lab, come and talk about his work in oceanography; we had a faculty member come and talk about Duke's vision of an energy program; we had people from the Nicholas Institute of Environmental Policy Solutions come and talk about their efforts this past year and a big update on sustainability from the University.

I would just mention that there was one issue that kept coming up and coming up and coming up. If you were in a different line of work from myself, you would call this issue "branding." Since I don't think of a University as a commodity or something of that sort, I would call it the issue of reputation or promotion, but we all know that we are talking about the same kind of thing.

When the Dean of the Nicholas School says "Our school is unequaled in this, that, and the other strength" but one problem we have is that we are not so well known for the strength in the environment, then you realize that's not an environmental challenge, that's a branding challenge, or a reputational challenge. When we see six out of every ten students we admit here choose other schools, even if they are excellent ones, it occurs to you that one of the things you could be doing is to figure out are you promoting this University, are you teaching people its distinctive strengths in the way that would make them make the only intelligent choice from those that confront them. So I would say it is just a theme that came up at any number of different points in the meeting and so it is a subject that we have talked about many, many times at every meeting, certainly every year while I have been president. At the next meeting there will be sustained discussion of the issue of how Duke identifies itself and how it promotes itself, I think that is to the benefit of all of us.

The last feature I would mention, there is another issue that has come up at the edge of ever-so-many discussions in trustees meetings in the last two or three years, it is the issue of entrepreneurship. Virtually every school here has activities that are under that name, in a world where innovation and the start-up plays a larger and larger role, both in the for-profit and not-for-profit sector, entrepreneurialism has a bigger claim on the attention of universities.You know that a position is now posted that would give leadership to Duke's entrepreneurial efforts and that, together with branding, or whatever better word you choose for it, will be subjects that we will be returning to in December. Can I answer questions about the Board of Trustee meeting?

Sunny Ladd (Sanford School): You mentioned this issue of branding. I recall that an outside firm was hired a few years ago, I can't remember exactly how many, to address this very issue of reputation and branding. Whatever came out of that whole exercise?

Brodhead: I would imagine that if you were to go back over the last 20 years, probably more than one firm has been engaged in more than one point in these issues, but remember the name of a University isn't made in one year, or made once and for all, and universities are complicated things because they have so many separate parts and they are so decentralized. So how you pull their parts together so that they are all well-described by a fairly simple message to the outside world is just an ongoing challenge.

The firm you mentioned was Edelman, and Duke got a variety of forms of benefit from it, but it seems to me that the subject continues to be of importance to the University. I suppose a cynic would say that the ideal state of things is to have your reputation far exceed your reality (laughter). I think that Duke is in a somewhat the paradoxical situation, that there are situations where the reality exceeds the reputation. Well who wants that, right? Keeping your lamp under a bushel is a virtue in scripture, but not in the world of competitive academics (laughter), so we really want to find out how to make ourselves known.

Peter Burian (Classical Studies): I wanted to ask a question about internationalization. At Founder's Day, Bob Steel gave a very interesting address including the remark that perhaps there were other things equally important or more important than establishing campuses. It sounded a bit like it shot across the bow, and I wonder if the question is now arising if whether we are pursuing too many opportunities, not always the right opportunities, or whether there is simply a desire to revisit and see where we stand. How would you characterize the current climate?

Brodhead: I would characterize it this way: if we were doing nothing, the Trustees, I believe, and the faculty, would be deeply disturbed at that myopia of the University in a world where absolutely everything everyone does turns out to have international ramifications. International dimensions are just part of how we educate our students, that we have to know more about more parts of the world to educate students that issues aren't authoritatively known by being known as they occur in one place. If you want to understand economic diagnosis, you are really going to have to understand a plurality of economies and how they interact. If we talk about environmental issues, clearly these things have transnational dimensions to them, so I think that there is complete agreement, as I trust that there is in this room, that internationalization, or as we now say, globalization, is an important direction of evolution for the University.

But then the question arises: how exactly do you do it? I heard Bob Steel say that line, but I thought that what he was specifically raising was the question, is it campuses that you want abroad? And my answer to that would be no, Duke has never made campuses the first thing it wants, what you want are certain kinds of intellectual activities, certain kinds of exchanges, ways our faculty can teach elsewhere, ways our faculty can learn elsewhere, ways our students can get the benefit of faculty coming back from experiences elsewhere. I promise you the Kunshan program in China has been devised entirely in those terms, but at some point, the question arises, that unless you are going to meet in hotel lobbies or live in tents, it has to be housed somewhere. I think the interest of Kunshan is that someone else was willing to build a space for us, we are not building a Duke campus abroad. I certainly heard that sentence but I did not regard it as antithetical to the aim of the University, [which is] to remember that it is first intellectual, educational, and research issues that we are pursuing, and that facilities will always be the means to an end, and never the end. I think that actually is a salutary warning, but also completely compatible with the thinking of the University.

Jocelyn Olcott (History): Could you elaborate a bit on what you mean by entrepreneurship and what that would look like in the department of English or something like that?

Brodhead: Well, would the English department be surprised when I introduce my program on English and Entrepreneurship (laughter), and yet, truth to tell, you know what I mean by entrepreneurship. I suppose I would define it in some rough way, there would be one way of thinking in which the world is full of existing institutions and processes and you go take your place in them, and there'd be another world in which what you say is I've got a problem I'm trying to solve, or I've got an idea I'm trying to hatch so let me create the new manifestation of that thing. Teach For America was a senior essay, the opposition between someone coming up with the idea of an experimental school movement and how you staff it with teachers, as opposed to the existing structure that hires people to fixed positions year after year. We know this in medicine, when we talk about translation, which we do frequently in this University, of course what we are principally talking about is entrepreneurship and one of the forms, how do you take the discoveries made in laboratories and carry them out to the benefit of people in the world? It passes through a process of commercialization and that could take the form either of licensing or selling a discovery or of the form of creating one's own business to carry it out.

Part of what makes entrepreneurship interesting to me in a University is how many fundamental university values it touches on. When we speak of engagement as opposed to disengagement as at the core of our philosophy of education, for instance, well a student who learns something and takes a test on it has accomplished one thing, a student who can take an idea, visualize a practicable form of that and carry it out to the world to succeed or fail is practicing education in a more engaged form. As I say when we talk about translation, which is a core feature of engineering and medicine, you are talking about entrepreneurship, when you talk about business training now, not everyone wants to go learn how to work in a corporation, many people want to learn the skills that would enable them to found a business of their own. The Law School here has a new program in law and entrepreneurship, as you know, where people learn about intellectual property and financing and other things that would be core skills for that. I am not going to pretend that every discipline can equally lend itself to entrepreneurship, but I would say that this is a University that would not exist were it not for the skills in entrepreneurship. This is a place where people have taken ideas and made them happen in a way that has benefited absolutely every department in the University. That's not a full discussion, but it would be the beginning of the discussion of the subject.

Olcott: Is it different than what we already do somehow?

Brodhead: I think in certain ways it is the name of what is already done in some disciplines; in others it seems to me that it would actually be fairly different from what we already do. But of course it is not as if entrepreneurship is some unitary virtue to be plunked down on the whole University and expected to fit equally well in every place.

If there aren't other questions about the Trustees meeting, I will show my conscientious, non-evasive nature, by returning to the question that Craig Henriquez put before me. This was the question about an editorial that ran in the Herald-Sun. It was a couple of weeks back, that suggested that at the time when Duke had said that there was no more raises for the faculty, in fact there had been luxurious bonuses and financial considerations for a range of administrators, and people were mentioned. I want to say that some of the editorial are based on facts that were published on the IRS 990 form, which of course it was responsive to, but I think that the message conveyed by the editorial was profoundly misleading, and you can start with this fact: it neglected to note that the compensation numbers in question were from the calendar year 2008 and thus were from the period before the financial turndown and before the lack of salary increases that we have all enjoyed the last two years, and so it was from an earlier period. Secondly, it gestured as if there might be ever-so-many groups; in fact, there are two groups of salaries in the University that carry something that might be called a bonus, but when I tell you what it is, you'll understand how misleading that term is. The people who work at DUMAC and the people who work in the executive positions in the health system are not compensated with a flat salary, they are compensated with a base salary and a further part of compensation that's at risk based on performance. There are performance metrics and at the end of the year, the metrics are consulted and used to calculate what portion of the at-risk salary is then added on. So this is to say that this was not any irregularity, it simply is the regular way that compensation is done in parts of the University.

You'll notice right away that these two chapters of the University have budgets that are different from the University in general, the funds in them are not available to distribute to salaries here and are under the authority of their own separate Boards, the Health System Board which has its own compensation committee, which I sit on, and the DUMAC board, which has its compensation committee which I also have sat on. I take it that the question at the bottom of the question was: have senior leaders of this University enriched themselves at the time that they were enforcing a salary freeze on the faculty of this University. The answer to that question is no.

Kerry Haynie (Political Science): So would athletics be another group that has a different budget structure in terms of incentives. For graduation rates, are coaches compensated for that?

Brodhead: No, the salaries of people in athletics aren't so constructed – it would be fairly familiar in other industries. In the academic one is the structure where there is a base salary and then an at-risk performance dimension of the salary. That is the structure of compensation for the executive positions in the Health System and for DUMAC, it is not the structure of compensation in the Athletics Department or elsewhere in the University. Certainly not for the rest of senior leadership.

Haynie: So would there be a bonus structure at all?

Brodhead: The only bonus structure that I can think of in athletics are some of the contracts of the coaches have been written that if you win a national championship it activates a bonus and things of that sort, they would be pretty obvious and industry standard across the country.

Budget 101

Henriquez: Thank you President Brodhead. You actually lead very nicely into the next presentation, because you mentioned that at the first Board Meeting of the year is often the time that the Trustees welcome in any new members. As you heard, there were four new members welcomed in this year. These members get an orientation in which they listen to a series of presentations on how the University works.

We learned that one of these presentations was a tutorial on the University budget and how that process works. Believing that the faculty should know as much about how the budget process works as the Trustees, we asked Provost Lange, Executive Vice President Trask, and Executive Vice Provost for Finance and Administration Jim Roberts if they would do an encore presentation for us here at the Council. I did a little digging and I discovered that a formal presentation of the University budget used to be a part of Academic Council meetings in the 1970's. Yesterday, at the ECAC meeting I presented Peter with the 1975 budget, which we learned that the total budget for the campus side was 59 M dollars-which is about the amount of money we are trying to get out of this current budget. So as you can see, the scale of the budget has changed dramatically over the past 35 years as Duke has grown.

So without further ado, Professors Lange, Trask and Roberts will give us a short course on the budget, called Budget 101 and there may be an exam at the end, I'm not sure (laughter).

Provost Peter Lange: So Dr. Trask, as a sign of the austerity system that we are currently working under, Dr. Trask loaned me a laser pen in which the batteries have run out (laughter). I'll have to do this without that, but the Divinity School on the other hand has one (laughter). So, Budget 101, as Craig indicated, this was really at ECAC's initiation, and I should stress that this is not the budget, we have talked a lot about the budget, what we are talking about is the processes and structures which underlie the budget. In other words, you have seen the numbers that have come out of the processes that we are going to talk about today, so what we are going to talk about is what is the process and structure of the budget at Duke, and I am going to do the presentation with the usual amount of harping from Dr. Trask and Jim Roberts is going to present one page to you in the desperate hope that somebody can explain that page better than I can.

Let's begin with the basic structure of the annual budget process. I said that we are going to talk about budget, process, and structure, so let's just start up here (slides). There is an annual cycle and the period that we are now in, this period here, which if we look at what is going on in the current budget year, we get a variance report about this time every year which says: ok, we expected it to be on these tracks for the year, and we are either ahead of that track, hopefully, or behind that track, occasionally, and we start to talk with the deans about what is their budget going to look like for the next year, in part in light of that variance report, in part in light of the other thing that we do this time of year which is have discussions within the administrations and with UPC about what the likely salary, fringe benefits, and tuition assumptions are for the year because for the deans to build their budgets they need to be able to fill those in, how much are salaries likely to go up, how much is tuition likely to go up, how much revenue will we get on the tuition side, how much are fringe benefits, and that happens in this period here. In the next period, the deans actually go ahead and prepare their budgets, what you should understand is that the same thing happens in central administration because they obviously face some of the same costs, they don't have tuition revenues but they do have the cost structure, and there is an iterative process between the deans and my office on the campus side and between Dr. Trask and his unit leaders on his side to talk through how this is all working out, where the tradeoffs might be made, what the implications are of those various tradeoffs, what the implications are of those various tradeoffs, and how decisions made in central administration might affect the costs that eventually get allocated to the other units in the University.

We go through a budget approval bar, obviously the Board is involved here, preliminary tuition rates, salary, and fringe rates are approved in December, and then they are later approved in the February board meeting so that we have time before we have to present the full budget for board approval, and then we get board approval through all of the various committees and UPC is involved, and we start this monitoring process, we look at the year-end numbers, often the year-end numbers are better than what we got in spring variance.

There is another variance report in February which kind of tells us how we are doing after the middle of the year, we do that and then it rolls around again.

So that is the basic process. There is a tremendous amount of iteration back and forth between administration and unit managers, so between central administration and managers of the units or the deans, and there is a lot of interaction as well, regarding UPC and various numbers and those things feed up to ECAC.

What does the overall structure of the University's budget look like? Well, this figure shows you the proportions, and I am going to draw your attention to three of them and also get you a few numbers. The first section I want to draw your attention to is the two green areas. The two green areas combine the direct sponsored research that we get, so grants, contracts, what grants and contracts and different kinds of awards that we get and the likely intersection is the overhead portion of that. This totals \$836M of revenue which is about 44% of the total revenue and of that \$836M, about \$670M is in this green box and about \$166M is in the light green box so when people say oh what are the ICRs, what are the overheads, what are the FMAs – these I presume are in the Provostopedia, if not we should immediately enter them in there – that is what they are talking about. The light green box is one of those three terms, which are thrown about pretty indiscriminately. The second thing is net income from students, which is the red box, so this is tuition and related fees across the University which totals \$332M and 17% of the total.What you need to understand is that this is net of financial aid, the amount of tuition and fees you get once financial aid has been taken out. And the total gross student income is $585M and financial aid, and this is not just undergraduate, all the schools have financial aid programs in one form or another. Financial aid represents an additional $254 M which you don't see here because it's basically an expenditure and not a revenue. So this is net $254M.

The last area I want to draw your attention to is the yellow which is endowment income and that is about $335 M and that represents about 17% of the total. And you will remember that 17% number because when we had the sharp declines in endowment, one of the questions people were asking is what is the real impact on the overall budget of the University when you get a decline in that area and what that says is what is the impact of the decline in that 17% section of the total revenue of the University?

What about expenses? Here is the overall structure of expenses. I want to draw your attention to the red, green, and green sections which are Faculty Compensation, Staff Compensation, and Biweekly Compensation. Now those three sections together as you will see represent about 63% of the budget. If you added up the numbers they are about $1.2B. The reason I am pointing that out is it means that 65% of the budget is a relatively fixed cost. And universities, if you realize, these are not easy numbers to change. This is what we have been working on to some degree over the last few years through the early retirement program. And given, for instance that we did not want to lay people off, that meant that these numbers had to come out through early retirement. But you see what a big portion this is of the overall budget of the University and the 36% is a general operating, that is this stuff. You'll remember that Dr. Trask talked the other time about the stuff. Tallman, do you want to talk at all about the stuff right now?

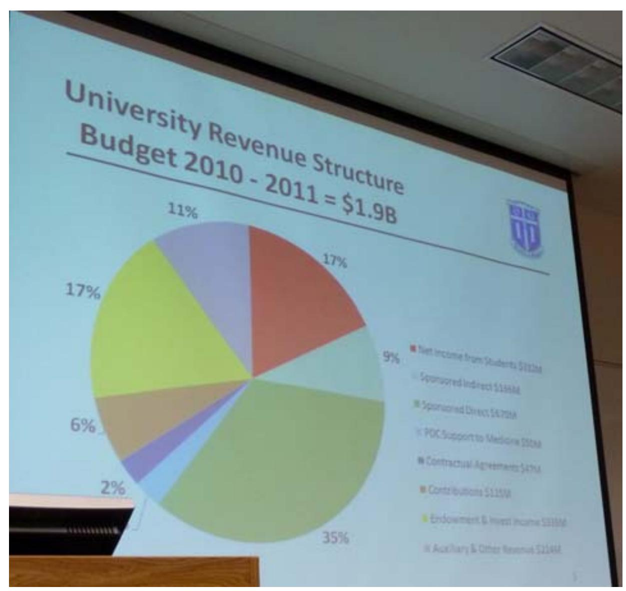
EVP Tallman Trask: Well, if everything else went by in non-salary items, supplies, utilities, and everything else, and that is the next place that we are trying to go in terms of getting substantial reductions and a lot of e-procurement when it goes live in January, try to automate and force pricing down on what we find. I'm not convinced that it will have a huge percentage increase, but the underlying number is so big that a couple of percents will go a long way.

Lange: So this next slide is the one that I'm going to ask Jim to discuss.

Jim Roberts (Executive Vice Provost for Finance and Administration): So all that money is managed, believe it or not, through about 30,000 different accounts so that is what one of the challenges for University Finance alone and the things that astound people in the corporate

world. We operate under rules of fund accounting because many of the resources we have were given for particular purposes. So this is meant to represent the green is really unrestricted money that is fungible and can be spent on anything we want basically although we do have internal conventions that Peter is going to talk about, about who owns this money. About half the money is in the green, and about 4000 of the account codes. That is the area that we focus most on because school financial officers have to match up hundreds of expense accounts against a different, smaller set up of revenues. So a couple of hundred revenue accounts feed thousands of expenditure accounts. And so keeping all of that in balance is one of our biggest challenges.

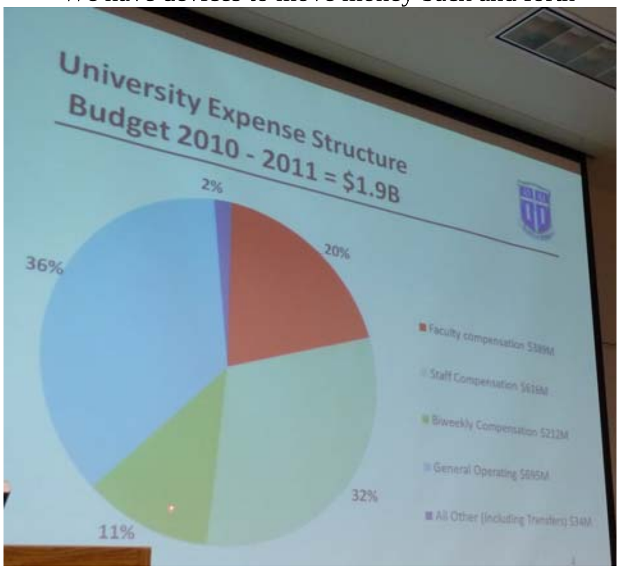
The yellow is "spend with caution", in other words, there are restrictions on those funds and one set of those funds comes from the income of the endowment that is distributed for professorships, scholarships, etc., that is



on the left hand of the box. There are expendable gifts we receive that have a purpose and that we are responsible for fulfilling that purpose. In those cases, the resource and the expenditure are in the same account and it is pretty hard to go wrong if you just look at your statements and have your financial officers do that.

Finally on the far right are the sponsored research accounts which then also feed back into the other restricted operating budget because the F&As, the cost recoveries, are technically on restricted income.

We have devices to move money back and forth



into this other green, which are known as the allocated funds, and this is where, for example, a faculty start-up account will be. It is money that we take out of this unrestricted money, and we set it aside for its particular purpose, but really it is sort of fungible, it could come back in there. This is also where dean's reserves are. Each school is required to have what we call a rainy-day reserve. If the revenue projections in particular are off at the end of any year, then they bring money back in from their reserves to balance this part of the budget out. It closes out the end of every year. The money here has to go into this section.

Finally, there is plant funds, for say renovations, can get moved out into the general funds or be gifts, and then down here we have the endowed funds, so obviously the red to the permanent endowments, we cannot spend that. The restricted gifts and then a term of art, the orange, a slightly less severe tone of red, is the quasi-endowment. The quasi-endowment is the money that is legally unrestricted, but the University through the Trustees' action has put into the endowment and so it functions like the endowment, even though it can be technically undone as endowment. Money with board approval can go into there and out of there. Some of the income from the quasi-endowment feeds the operating budget and some of it feeds the professorships and other endowed accounts. So all of the 30,000 accounts are basically assigned to the management responsibilities through the management-centers budget concept.

Lange: So if you ever wondered why everyone in positions like Jim wears glasses, now you understand (laughter).

Haynie: Peter, a quick question. So the slide before the one Jim explained, where do administrator's salaries fall? Are you staff or faculty?

Lange: It depends, it depends on who the administrator is. So in my case it's in the administrative side, but we have some administrators where part of their salary is still paid through the faculty side, since they still do some teaching for instance, but it is broken up that way.

Haynie: So you and your staff?

Lange: Yes. Management Center Budget. So, we have what is called responsibility centered management or management center budgeting at Duke. What it means is that there are three large management centers. The Provost's area which includes all of our academic units, plus the academic support units, and the administrative support units and the administration that supports those. We have the Medical Center Management center which includes the School of Medicine and the School of Nursing and we have the Central Administration Management Center which includes the Office of the President, as you can see here, and all of the offices that provide services for the whole University.

These three management centers each have different roles, obviously, and what we should note about them at this point, and I will come back to this in a minute, is that this management center – the Provost's, and this management center – the medical side have revenues. That is, they not only have expenditures, but they have revenues. The Central Administration Management Center basically doesn't have any revenues so we have to somehow pay for these, and as you will see in a minute on this slide, this slide shows you the flow of funds so that the different units can be paid for. This is the allocation from Central Administration that comes to pay for Central Administration, their costs need to be allocated to the Provost area, toward the health system, to the medical school. Is everybody following me? Similarly, the Academic support units, the library, student affairs, student services, Duke Press, Nasher Art Museum, TIP, the Provost's office, those units also don't have revenue so those costs are also allocated to the schools. I think that covers the arrows.

Linda Franzoni (Pratt School): When you say that there is no revenue from the center, but yet financial services, that would be DUMAC I assume?

Lange: No, no, no. Financial service is all the people that figure out where the money goes. You know that last chart that manages those 30,000 codes?

Franzoni: So where would DUMAC go? I assume it has revenue?

Lange: DUMAC has no revenue. DUMAC manages the endowment and if you go back to the endowment, DUMACs returns would be reflected in the returns that come out of this box and are moving up toward those yellow boxes…

Pat Wolf (Pratt School): It seems like athletics and development though have income?

Lange: Correct. They do.

Wolf: But they are in the Central Administration part.

Lange: They do. Do you want to talk about that?

Trask: Development essentially doesn't have any revenue on its own. All of its revenue belongs to somebody else and so it is simply a pass-through mechanism. Athletics, along with Student Affairs and Housing, there is revenue to offset expenses but they don't have any net revenue, so they have no money left to distribute.

Lange: So let's go back to athletics, when we talk about the athletics budget in the Council, which included the revenue that they have, and then we showed the shortfall, we show the portion that they give through athletic scholarships, and then we have this long discussion on what they have as a subsidy to get from the rest of the University to close their budget and that is the part that we've also shrunk in accordance with the last couple of years but that is what happens with athletics. It is very hard to capture everything without lots of footnotes. What these questions actually are the footnotes that could be on the page and that's fine.

Warren Grill (Pratt): Peter, what mechanisms are in place for the Provost's area and Medical Center and the Health System to affect in some way the costs that are being generated by the Central Administration that ultimately they are responsible for paying for under this structure?

Lange: I'd like to hold that question.

Trask: They are welcome to participate in all of the annual budget meetings where all of the increases are discussed. They are free to object to them which they do on occasion, although truth be told, for the last two years there haven't been any cases so there hasn't been a whole lot of objections but one of the things about this system is where every one of these flows goes, there are actually some flows back from the health system to the University, the corresponding party is part of the budget process to create the budget.

Lange: Now, what are the sizes of these management centers? The total University budget outside of the health system is $1.92 billion. Of that, $838 million is in the provost center, $972M is in the medical center, and $118 M is in the central administration management center. Basically, medicine is a little larger than the rest of the University in these budget terms and the Central Administration Management Center is about 5% or 6%.

So why do we have a management center budget? Why do we organize ourselves like that? You can imagine that another way to organize it would be to make it all central, make all of the revenues come to the middle and then redistribute them. In fact there are universities that more or less run that way: Stanford more or less runs that way and I believe Yale more or less runs that way. The Center collects everything, we used to run that way. We used to run that way until 1991 when we switched to management center budgeting which at that time was fairly unusual, but now there are lots of universities using this. So why do you do it? Well, management center budgeting is basically a tool designed to allow us to put the most resources into academic quality while assuring that we get the services we need to support that academic quality. It tries to put the incentives in the right places to get the leaders of the units to spend less on administration and more on academic quality.

So the first thing it says is that people do not know how best to spend the money in the units. Let's talk about the schools now. So that's why we decentralized to the deans to manage expenditures and I will tell you that even through the budget downturn, we rarely said to a dean, you need to make this cut and here is how you should do it. What we said to the dean is you need to make this cut or you need to balance your budget, you decide how best to do it, given the nature of your school and the tradeoffs that you need to make in your school. Second of all, it creates incentives to increase your resources and manage your expenses. If you, as dean, get to keep all of your revenue, or most of your revenue as I will come to in a minute because we do have those allocations, if you get to keep most of your revenue, then you know that every new dollar you raise you get to keep a very large share of it and I will come to that. You also know that if you as a dean have as your responsibility to try and improve your academic programs as much as possible, you're going to try to hit the right balance between putting as much as you can into academic programs without undercutting the ability to support those programs. And for instance that is one of the tensions that we have had in the last couple of years about how far to cut administrative support in the schools. So the deans have been reducing administrative support because their overall revenues were declining but they had to decide at some point, and they get feedback from faculty, at some point they are cutting into the administrative side too much and the faculty start not being able to do what they are intended to do at the right level because the administrative cuts are threatening to be too severe, but the incentives are in the right place because the dean gets to keep those resources and then spend them in the right way.

And as I said also, if you run a surplus in the school for a year, you keep it. So the deans build up reserves beyond a rainy-day reserve and when they later come, they can use those reserves to do new things that they want to do and so the deans have another method for efficiency. Last time I talked about the reserves, the rainy-day reserves as being a guarantee that we aren't in a moral hazard position when the schools run a deficit. The other side of that is that when the deans run surpluses and they have reserves, they are able to use them for academic purposes that they want.

Now, the last point – if you don't want to have everything totally decentralized, you have to have some mechanisms for exercising some strategic control. How have we been doing that at Duke? We have a balance. We don't have a completely decentralized system, we have been doing it first of all through the budget management processes. I should have told you in the first section and through the fact that we've had central funds which can be appropriated for strategic purposes based on a strategic plan that we develop in a University. So it is really managed decentralization.

This is one of our favorite charts. This is what we call the rainbow chart, for reasons I think are evident, and what this chart shows you is the distribution from different sources of revenue through each of the schools. I think you've seen this before, but again to draw your attention to the bottom line, basically Medicine is about as big as all of the schools to its right, and Arts and Sciences, which is the second column, is about as big as all of the schools to its right. That is one way of thinking. So you have one extremely large school, one very large school, and then a set of substantially smaller schools. And the largest of the smaller schools is about one sixth the size of Arts and Sciences and therefore one twelfth the size of Medicine. That just gives you proportionality.

Now the other interesting thing is of course that the schools are extremely different in how they raise money. Look at Medicine. Green is direct and indirect cost recoveries. So in medicine as you can see, they represent a huge portion of the medical school budget, so if somebody says to you, why does the Medical School administration pay so much attention to grant activity? Because their overall unit thrives on it; they don't get much money from tuition. This little red bar is the total tuition. That is a very different logic than in any of our other schools. Now what you see also is that there are some units that are very tuition-dependent. Fuqua, Law… Now let's just look at Fuqua and Law and Arts and Sciences. Now here is the interesting thing, that tuition dependency there, you might say is the stabilizing factor, but in fact, those schools get tuition from different sources. I think I talked about this once before. Law has an extremely stable tuition base. The likelihood that Law or Arts & Sciences will not hit their tuition target is almost zero. Dick discussed earlier, if we have 27,000 applicants for 1700 places, we're pretty sure to be able to hit 1700. Or maybe one year we'll be slightly under but we have reserves to cover that and most years, if anything, it will go slightly over. Not on purpose, of course.

Josh Socolar (Physics): Did that statement that you just made take into account the need-blind admissions?

Lange: Yes – because this is not financial aid. Financial aid is not on this chart.

Lange: Fuqua on the other hand has a lot of tuition programs and some of those programs go up and some of those programs go down, from year to year, so they're more dependent on the external environment – so even though their level of tuition as a portion of their budget is about the same as these two schools, the amount of risk in their budget from tuition is higher.

The last point I would stress about all of this, it means that you've got to manage the schools, our office interacting with the deans, in very different ways because you can't – there's no cookie-cutter here because the schools are basically not at all similar and the incentives and the pressures on the deans and on the faculty across the different schools are very different.

As I've already been suggesting, what happens in this system is that the deans and the schools keep all their revenues which would come from tuition, indirect cost recoveries, annual fund, restricted endowment income and grants and contracts. They're responsible for all of their expenses and they have allocations based on central costs. And those central costs – they get some revenues from the centers and unassigned income – that's endowment income which comes to the center because it's unrestricted and it's redistributed out to the schools. There's SIP support and then on the cost side, there are the academic and administrative costs and there are support costs. So in this system, the picture you have to think of is the dean every year is responsible for managing and balancing these expenses and these expenses with these revenue sources and this revenue source. That's the basic challenge to the dean in every budget year and it's what we oversee.

Kerry Haynie (Political Science): How much of the cost can a dean control? Some things are out of control of the dean, right?

Lange: On this side?

Haynie: Or on central allocation…

Lange: They're out of the control of the dean only to the extent – basically we work to try to keep…I'm going to come back to allocated costs in a second – but we work to keep the allocated costs down. The dean doesn't have direct control over those but our office does and we're defending, basically, the academic sector against excessive cost increases in the administrative sector. But we also have to balance what we want for the campus as a whole. For instance, right now there's a lot of people grousing about how bad the grounds look. So you have to always balance some of that, right? I think we're making the right choices so don't misunderstand me. What I'm explaining is the overall thing. So, if you're asking is each individual dean directly able to affect those administrative costs, the answer is no.

Haynie: The dean has control over….

Lange: In every school except Arts & Sciences and Pratt – except the undergraduate schools, yes, because the deans actually determines how much financial aid they want to give. They can actually fix them – because they don't have need-blind aid. The thing that makes financial aid in Arts & Sciences is the fact that it's need-blind. We have to put in mechanisms to insulate the deans from excessive increases in the cost of financial aid – which we could come back to, too.

So, let's look at allocated costs. How do we decide how these costs get allocated? The first thing to stress is that it is not a tax system. Now, this always elicits a laugh – obviously not here today – (laughter) but it elicits a laugh because what's the difference between an allocation system and a tax system? The fundamental difference is we don't charge a rate and then decide how to spend it. What we do is have costs that are actually expended that we need to get the money back to pay for – the costs are real and they pre-exist the allocation that's being made to pay for them. It's a subtle difference but it does actually make a difference in how the system works.

The way we allocate the costs is through a system that says if you have expenditures, they cost money at the center as well as in your own school. If you spend money, the payroll office has to do something, etc., etc. We also have costs in running a university as a whole, like the grounds and things like that. The schools pay those costs from the total revenue that they receive and we work to determine what those costs are going to be and our job in the Provost's Office is to try and keep them down and Dr. Trask's office, thankfully, also tries to keep them down. I will show you numbers that are supportive of that being the case.

How do we allocate the costs? We look at each school's attributed and shared expenses. Let me start with shared expenses. Shared expenses are those expenses which are paid for across the whole university and which do not in any differential way, affect specific units. That would be like payroll, grounds, things like that. Attributed expenses are those things that differentially affect or benefit one's school. The most classic example of that is undergraduate admissions. We do not ask the Law or Business Schools to contribute anything to pay for undergraduate admissions. But undergraduate admissions is not inside the budget of Arts & Sciences – it's outside and so that cost has to be paid for by Arts & Sciences and Pratt. Now, you have to remember the other schools have admissions offices of their own inside their budgets, so they pay them.

So, the attributed and the shared expenses are allocated and they're allocated based on a three-year moving average share of the total expenditures of the Provost's area in that period. Does everybody follow that? In other words, you take the three-year moving average of how big a share did the school have of the overall expenditures in the Provost's area and that's the share that that school has to pay.

What do those numbers look like? Here what you see is for each school, you see what their expenses were in 06-07, 07-08 and 08-09. That produces a total and over here you see the total for all of the schools and this total represents 49.32% of that total and as a result, Arts & Sciences' share or allocation of the shared expenses, not the attributed expenses, will be 49% of the total shared expenses. Over time, some schools grow faster and spend more and some schools grow slower and spend less. So, over time these percentages change. For instance, right now Arts & Sciences is tending to grow and expand less quickly than some of the other schools, so what's going to happen is their share is going to decline and therefore their share of allocated expenses is going to decline over some time. There's a kind of internal re-balancing mechanism which is part of the system. And the school that grows fast, their share will go up.

Dona Chikaraishi (Neurobiology): Does Medicine have any share of these expenses?

Lange: Yes, they do.

Chikaraishi: But they're not on there.

Lange: The problem is that Medicine has all of the stuff with the Health System, so we just put them out. But they follow the same basic rules – it would make this chart even more complicated.

Lee Baker (Dean, Academic Affairs & Associate Vice Provost for Undergraduate Education): So are you saying that the total provost area, does that include the Institutes and DukeEngage?

Lange: Yes. But we pay for some of those with funds that come from through SIP, rather than through the allocation system. For instance, DukeEngage is supported through SIP funds not through contributions from the schools.

Baker: So can I have one follow up? What is the relationship between SIP and unassigned income?

Lange: It's zero. Well, it's not zero, unassigned income is one contributor to SIP.

Roberts: It's like a preexisting commitment of the same bucket of resources.

Baker: For the schools?

Lange: Right. But all of those act in schools. Any other questions on this? I think we are killing this but you asked for it!

Now this slide shows you how the whole system works out. Up here in this box you will see the total revenue of the schools in the Provost's area in FY 10-11. What you see there is that our total revenue in 10-11 will be $814 million. Then down here what you see is a row for the Provost's area management center, allocations coming from the Provost's area allocations and coming from the central administration allocations and what you see is that the shared portion is about $77 million. What that means, and that is captured down here, you can put the 77 over the 814, it means that the allocations for shared costs to the schools represent about 9.4% of the total revenues that the schools have. If you take only the unrestricted revenues that the schools have – remember that big green box and big green oval that Jim showed you earlier which is only the unrestricted portion? If you take that, they represent about 12.8%.

What does that mean? Going back to my earlier discussion, if a dean raises a new dollar, the school retains either about 88 cents of that dollar, 87 cents of that dollar, or about 90.5 cents of that dollar. That is pretty good. It means that your costs of allocation are not so high.

You might say, ok, but what has been happening in the last few years? One measure we are always asked is, is the administration costing more as revenue declines? So I can give you the following comfort. In 05-06, this number, 9.4%, was 10.5%. So that means that over the last six years, allocated costs as a percentage of total revenue have declined about a percent. This number in 05-06 was 14% and it is now 12.8%. So that means that allocated costs as a percentage of unrestricted revenue has gone down from 14% to 12.8%.

So what that basically means that even in the downturn period the costs that are allocated for those administrated purposes have gone down more than the revenue has gone down, or that they are taking a smaller piece of the revenue base.

I'm sorry if that seems overly dry or technical, I too wear glasses, but this is what Craig asked us to do, this is what we subjected the BOT to, so I don't know if there are any other questions. Paula?

Paula McClain (Political Science): Peter, where does the Graduate School stand?

Lange: Oh, the Graduate School (laughter). That is one of those big footnotes. But the Graduate School has a budget, the budget is comprised of a portion which it gets through tuition, well through the fees that it charges, and a portion which it gets from the schools through the pay of TAs that goes to the graduate students. And the Graduate School also has some endowment. Does that answer your question?

Roberts: So overwhelmingly financial aid nets out.

Lange: Right. As Jim is just stressing, most of the Graduate School is financial aid. It's money in, it's money out.

McClain: What about the administrative costs?

Lange: The administrative costs is that essentially, they don't do it this way, but it would be mostly covered by the income from the endowment. It's not a big draw in all of this. Very small in fact. Other questions?

Speaker: Does the central administration have any process in place for assessing the long-term implications/effectiveness of the at-risk-salary incentives that are used by some divisions? I can see that these have become commonplace across higher education, but has there been any processes of asking whether the incentive structures at DUMAC or the Medical Center…?

Lange: Well let me go back to something that the President said. The payment structures in the Health System and in DUMAC are administered by and are a function of the decisions of the boards of those Duke organizations. And I actually don't know whether or not they have done an analysis. It'd be very difficult to do, as you can understand, because you would have to somehow have comparative organizations that do and don't have such bonuses to see if they do or don't perform better given all of the other things, so it would be very, very difficult to do. I'm not on either of those boards, but I presume those boards have made decisions based on the science that this is the most effective way to compensate the senior administrators in those units but I can't tell you that and I certainly can't tell you when they've done the research to do that. There are probably articles up there in the literature that argue about this one way or the other. My guess is that some say it works great, some say it works terribly, so you have to make a decision.

Henriquez: Thank you Peter. Our scheduled presentation by Eric Mlyn, director of DukeEngage, because we went a little longer than anticipated ,we have asked Eric if he would present at another meeting, and he graciously agreed to do so.

Lange: We'll do it faster the next time (laughter)

Henriquez: Well next time they'll all know, so when they do Budget 201, you'll all be experienced.

Changes to the Summer-Salary Policy

Our next presentation is from Jim Siedow, Vice Provost of Research and former chair of this Council, on changes to the summer salary policy. I'm going to tell you from the start that the change to this policy is only going to be of interest to some of you. For those of you in the Medical School, who are on the 12 month appointment, this change is not going to affect you… The rest of you who are in here on nine-month appointments, but the topic will be of interest to you only if you receive summer-salary support from federal grants. So that may exclude another group of you. So what I was thinking about before we lose everybody, I was hoping that we could do the Honorary Degrees while we still have roughly a quorum, it looks like a quorum to me so I'm not going to count. So any of you who are not faculty, I ask you to leave temporarily for at least four or five minutes and then we will do the honorary degrees. If you see an exodus of people leaving, mostly from the Medical Center, that will be your cue to come back into the room (laughter). And then Jim will present.

[Executive Session to consider Honorary Degrees]

Jim Siedow (Vice Provost, Research): Actually, if not enough people are interested, I could just go (laughter).

Henriquez: Let me just say a few words before Jim starts. This topic has been discussed by many faculty senates across the country due, in part, to the increased scrutiny by the federal government of funds used to support faculty salaries. There have been recent audit findings at Yale, UC San Diego, and UC Berkeley about summer efforts violations. For example, in 2008, the government alleged that Yale researchers submitted effort reports for summer salary that wrongfully charged 100 percent effort of their summer effort to federal grants, when researchers expended significant effort on other work. The key concept here is that payment for effort and the effort paid for – that is expended – must occur at the same time. In other words if a grant pays for a month of effort in May, a month of effort must be expended in May. Also, it is expected that if an investigator is paid for a month of effort by a grant, the investigator can only work on that project and no other, nor are they supposed to engage in any university activity while being paid from government funds.

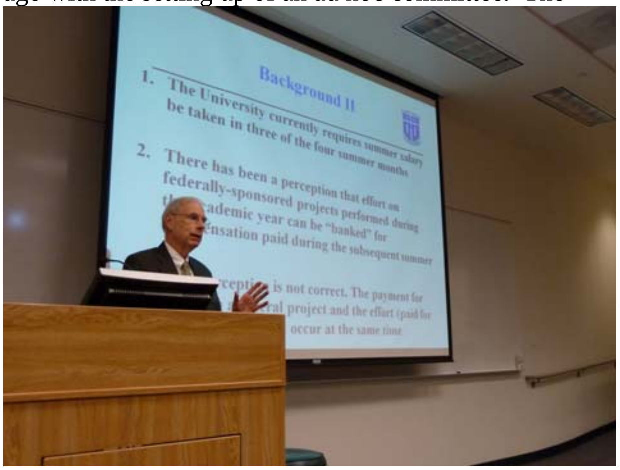
Yale acknowledged that charging errors occurred, but Yale disagreed with the government on both the nature and extent of the errors – but still ended up paying a fine of $7.6M. Nevertheless, they changed their policies dealing with summer salary, and many other institutions have followed suit. So the proposed policy that Jim is presenting today is actually similar to others, although Duke has its own spin on it.

So in an attempt to be compliant with possible auditors' interpretations, Duke is proposing its own summer policy. I should tell you that ECAC has been looking at this and providing feedback for about a year. This is not an easy issue to get your head around because it brought up touchy issues of faculty time and we all know how protective faculty members can be about their time, we realized that this is something that needed a lot of discussion and has helped shape the policy. One obvious solution that ECAC came up with was to put everyone on 12 month appointments to be like the medical center, we thought this would be a great solution to the problem – but as it turns out this would require that everyone instantly get a 30% raise (laughter). For some reason, this solution was not met with great enthusiasm by the administration.

The proposed solution preserves the current ability of faculty on a nine month appointment to receive a maximum of three months of additional salary support through grants, but the distribution of how they receive that is going to change. And now that I have thoroughly confused you, Jim will straighten us out.

Siedow: That was a useful introduction. This is not a simple subject but I am going to try and keep it short because it is not simple and questions will arise so don't hesitate to interrupt me, although this looks like a crowd that is not hesitant to interrupt people.

Thank you Craig, glad to be here. This I hope is nearing the end of a long journey that began about a year ago with the setting up of an ad hoc committee. The recommendation that you are about to see has been run by the Dean's Cabinet, the Research Policy Committee, UPC, APC, and ECAC, so we've really tried to keep faculty informed as we have moved along because again, this is going to get in to sort of touchy areas. I have also learned in discussions, when I've had discussions with faculty. It is an interesting topic that is relatively easily sidetracked so I want to start out with three admonitions, one of which has already been made.



First of all, it only applies to people on nine month appointments, so Medical Center faculty it doesn't apply to them. We are only dealing with the summer salary supplement. No other type of supplement, it's just summer salary,

Secondly it is only the salary supplement that is being paid off of federally sponsored research. Summer supplements from any other resource, be it Duke or commercially supported research, our foundational research, our teaching courses that's all off of the table. So all three of those things apply. It's not what we're talking about here today. As Craig had said, and I'm going to point out that Jim Luther is in the audience, my side-kick in all of this, he's the assistant vice-president for finance, and he is the guy that actually oversees our indirect cost structure and risk assessment.

Basically to parrot what Craig said, federal sponsors have been increasing the emphasis on the need to align compensation for effort on a funded project with the time that the effort actually occurs. I'll go into that in a little bit more in just a second. In response to this and the fact that people were getting fined millions of dollars, we decided that we needed to review our summer salary, so an ad hoc committee was set up a year ago that I had chaired and thought that we could finish pretty much in the last bit of the fall semester. It took a year just to get through this committee. We did identify issues that needed to be addressed to fully comply with this requirement of the federal government.

The way we operate now is that if you want to take summer salary, and again this is off of a research grant, it basically needs to be taken in any three of the four summer months. Now, you may not have read recently what the deal with a nine month salary person is, but in fact Craig alerted me to the fact that I didn't have it right, and if you go to the faculty handbook, it turns out that faculty on a nine month appointment are basically paid for nine months, and it is broken out for eight months of which are defined as the academic core which is basically September through April and then four summer months, May, June, July, and August that make up the summer, and the nine-month salary you get, not necessarily how you receive it, but the way that it is broken up formally, is that it covers those eight academic months and then the ninth month is to cover any activities during the course of the summer that you might be doing for the University.

So there is this sort of eight-plus-one thing which was sort of nice from the standpoint of what we ultimately want to do. That's just a background. Secondly, there has also been a perception on federally sponsored projects that effort on such projects performed during the academic year can be banked and basically paid for during the subsequent summer, with summer salary Now, that probably was never legally correct, but it was more or less how we operated. Basically, one of the drivers of that was that with NSF grants, except for unusual circumstances, you can take two months of summer salary with NSF but you cannot take salary during the academic year, so many faculty, more or less would say that during the course of the academic year, I'm going to be doing some research but I can't get paid for that research because NSF wouldn't allow that, so in the following summer, you took a month or two months of salary and said that a lot of the effort has already been expended in the previous academic year when I couldn't get paid for that effort.

Two years ago, the NSF basically changed its rules and said effectively that you can take up to two months a salary at any point during the course of the year that you wanted to do the research, so you could actually take a month out of the academic year and basically devote yourself to NSF research. But suddenly, you see what disappeared was the rationale that if I spend time on the grant that I am ultimately getting paid for, I'll get paid for in the following summer, now the NSF is saying no, basically when you get paid for effort on a grant and when the effort is expended need to coincide. Hence the dilemma. So the payment for effort on a federal project and the effort paid by the grant must occur at the same time. Now, Craig rightfully pointed out in one of our discussions, what about the other side of that, the reciprocal. Well the reciprocal actually doesn't hold. Effort can be expended on a grant during the course of the academic year without being paid for by the grant. And the way that works is the compensation for this effort is essentially covered or paid for, if you will, by the portion of the faculty members' academic year salary, in other words, the Duke paid salary that is designated to cover their research efforts. Now this is seen by both the funding agencies and by Duke as – the term of art is 'voluntary uncommitted cost share.' So Duke is effectively cost-sharing into the project and that is who is paying for that effort. Not the Feds, but the University. But it is uncommitted cost-sharing so we don't have to formally incorporate it into the budget and basically make it formal cost-sharing which affects our indirect-cost structure among other things. Ok. Is everybody with me?

Questions

Franzoni: So my understanding from NSF was what you just said, that their *expectation* was that during the academic year you would work on a grant as part of being a faculty member and that was why, at least in the

past, they had policy that you could only charge summer salary.

Siedow: That is undoubtedly correct.

Franzoni: So they apparently changed that?

Siedow: But they never anticipated that you were actually going to do the work in the academic year and then get yourself paid for it the subsequent summer.

Franzoni: Because you do the work in the summer also?

Dennis Clements (Pediatrics): They were assuming you were going to keep working two more months in the summer in order to get those two months?

Siedow: That's right. Is that okay?

Franzoni: Yes.

Siedow: Alright. So basically we have two recommendations. The first one is to take advantage of the definition of a nine-month salary and basically say that for those supported with federal funding, again that should probably be up front here, we're going to change the summer effort maximum from 100% per month in three out of four months, to basically you can take no more than 75%, the three-quarters of a month of summer salary on a federal grant during any one of the four summer months. Okay, and again that basically opens up a month's worth of time where that four quarters of a month are basically being paid on Duke's nickel because that is your ninth month because Duke is paying you anyway.

We're trying to free up some time here, so then again let me remind you what Craig said, if you take 100% of a month on a federal grant, that agency owns you for that month and the expectation is that all you're going to do that month is work on the grant and you can talk about 40 hours a week being your 100% but it is total professional effort. It's ridiculous, quite frankly, (laughter), if you go into the lab on Saturday to work on another project, that's not legit because if you're going in on Saturdays, part of your total professional effort, you should be working on the funded project and not on something else.

We all know that the federal government gets a real good deal out of the amount of work that we do versus what we ask for in salary, I understand that, but it's not what is driving us here. What's driving us is the concern that some legislator might find out in Congress that in fact you took a vacation during the month that you were funded by a federal grant and that's exactly one of the things that popped up in the Yale case. Ok, so that is the first recommendation and that's a pretty simple one, we actually don't even have to change anything.

McClain: Classes actually start in August so what does that mean?

Siedow: I know, good point, excellent point. Classes don't end the last day of April either. So, basically this helps us get around the fact that our academic calendar is not truly eight months long so that helps us. The bottom line is that the feeling on the part of both the committee and the University Counsel's office, I might add, was that this really isn't going to be enough, this solely is rearranging the situation and not really covering us enough. What we feel is that we need another half a month to get in and that is what the second recommendation is.

One of the goals of the Committee was to hold faculty harmless on this. So we keep the maximum amount of summer salary allowed at three months, some universities have restricted it to two and a half months and we didn't want to do that because we think we have a history and a culture of people being able to take three months and that would just be, I think, not something that anybody would have wanted try and push, but what we do want to do is lower the amount of federally funded effort for which faculty can be compensated from three months to two and a half so the maximum amount of summer salary you can take off of a federal grant is now going to be two and a half months. Now that leaves you half a month short if you are trying to get three months worth of salary. So the additional half month will basically be work that you are going to perform during the academic year. A half a month worth of your grants, basically a half a month's salary is going to be used. It could be a half of one month, it could be a fraction spread out over five months. Basically, you are going to have to expend a half a month of salary money into the academic year and therefore formally commit that half month of effort' however it is spread out, to the grant. Then basically, when you do that of course it frees up a pool of funds in the dean's coffers, if you will, because they gained a half a month of salary if you will, what they're saying is that that money will be put into a pool that will then be moved 100% into the Faculty Discretionary Fund so that the faculty can now, come the summer, pull out that extra half month out of their discretionary pool, they don't have to, but they have that option of being able to pull that half month out of your discretionary pool and pay yourself a half month's salary and again, because it is your discretionary money the Fed doesn't care, you can go to, you know, the beach, if you want to assuming that you are working on your project. So what we are doing is basically triangulating that extra half month through the academic year in order to free up a half month's worth of salary to basically get you the last half month of the three months.

McClain: What is our discretionary account? Is that a research account? Can we take salary off of a research account?

Siedow: You can. In this case you certainly can. You can have it so that it doesn't need to be your research account, you can set up a separate discretionary account that you call your summer salary account. It doesn't have to go into that pool. The thing I want to get across here, I know the Arts and Sciences and Pratt both deans have incentives where you can put some of your grant money into your academic year. The deal there is that you get most of that money back but you don't get all of that money back, what we want to do and what we need from the Academic Council is we want to change the Faculty Handbook, so that first half month, if the money that is going into the dean's pool if you will is coming from that extra half month that you need to make up between two and a half and three month salary, it in essence guarantees that you will get 100%. You'll get the entire salary and the fringe benefits, the dean won't break anything off as part of the incentive program. We are basically fencing that stuff, putting it out of the incentive program and saying that this money is protected, but only that first half month.

Franzoni: For how long is it protected?

Siedow: For as long as the Faculty Handbook has life.

Franzoni: What I mean is that operating budget, if you don't spend it by June 30th, it's gone so is it going into an account that will carry over?

Siedow: Yes. Once it's in your discretionary fund.

Franzoni: So you wouldn't have to use it that month or wait until the grant expires?

Siedow: No, you wouldn't have to but remember you can't get it until you have already basically obligated two and a half months.

Franzoni: Right. But you have essentially converted to unrestricted essentially?

Siedow: Converted is a much better word than laundered (laughter)

Franzoni: You're converting money that is designated for salary, you're converting it by spending it on your salary during the academic year, you're converting it to unrestricted funds that you can use later on for anything?

Siedow: That's right. But from the standpoint of the federal agency, you were going to use it for salary, you used it for salary.

Franzoni: Otherwise, uncommitted, voluntarily cost-sharing your time.

Siedow: That's right. That is what you would be doing but in this case you are formally committing a half a month's effort that is being paid for by the grant, which is perfectly legit. I might add that is going to be basically one sixth of what you had budgeted so it is well within the 25% that Duke University can give you permission to do that re-budgeting. You don't have to get the permission of your program officer up in Washington.

Bill Seaman (Art, Art History, and Visual Studies): Couldn't it be percentage per week?

Siedow: Oh yeah. You could spread it out over the whole academic year if you wanted to.

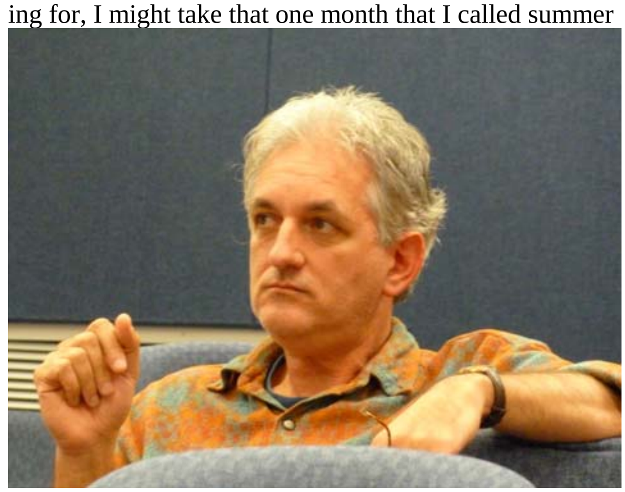
Seaman: Or if it goes longer than half a month?

Siedow: No, if it goes longer than half a month, you can do that but then everything after the half month will be subject to the dean's incentive program so you won't get 100% of it back, you'll get whatever, – I don't honestly know off of the top of my head – but you won't get it all back.

Socolar: I maybe don't understand the current rules. I have a month of summer salary on an NSF grant. Is there a rule in place now that says I'm not allowed to take it during the academic year?

Siedow: No, you basically have to get Duke's permission to re-budget that. If it was in the budget as summer salary you can re-budget it although you can't actually. No, it's a question of whether you get beyond 25% of it. That is what we're doing. We're assuming that you've got three-month's summer salary budgeted.

Socolar: So it's confusing. What Duke pays me is spread out over 12 months and so if I do the accounting properly for actually doing the work that the grant is paying for, I might take that one month that I called summer



salary for the purpose of writing the grant proposal and say, well, the way it actually works is I work on that grant throughout the year and NSF should pay its portion the whole year round just like Duke pays its portion the whole year round so I should take that one month and just take one twelfth of it every month.

Siedow: You forgot one of my three admonitions. You suddenly have taken that out of the realm of summer salary so it doesn't apply anymore. The rule that we are talking about no longer applies.

Socolar: So the difference is whether I call it summer salary in the grant. In other words, I could write the grant to say I want this spread out over…

Siedow: It's how you use it, not what you call it. If you use it as summer salary, that's fine. You're not using it as summer salary. You're spreading it out.

Socolar: Well I'm asking if I'm allowed to do that.

Siedow: That you would have to get re-budgeted from your program director. In any one category we can budget up to 25% without asking the Feds for permission. A category like summer salary, where you suddenly say that I am going to take it all and move it into the academic year, you'd have to get approval.

Socolar: I wrote the grant to say that I want one twelfth of a month of salary through every calendar month.

Siedow: That is summer salary.

Socolar: So that would be no problem?

Siedow: No you can do that, but this system…

Socolar: I understand. But from NSF's point of view, are they not going to let me do that, are they going to see that we are going to do two months worth of salary?

Franzoni: Apparently NSF has changed its rules. NSF used to have the policy that they only gave you summer salary and now I think NSF has changed. So they will let you call it calendar month or whatever you want to call it. So that same faculty salary dollar amount you can put it in the column that says academic calendar or summer.

Socolar: So if I do that will Duke turn around and say, "Oh, NSF is paying your calendar month's salary, we don't have to."

Franzoni: That's the money laundering trick.

Siedow: No but they won't. If you try to put a fourth of a month, then a fourth of the month of your Duke salary will go to the dean.

Franzoni: So it should go into the bank of your discretionary fund.

Siedow: And again, for funds that we are talking about that don't involve this mechanism, the dean will keep a portion of it and you get to keep a portion of it. Again, there is a portion of it and both Pratt and A&S have a portion of it.

Socolar: So let me make sure I understand. You are saying that I should not go write my next NSF proposal saying that I am going to actually take this spread out through the year. That would be bad for me.

Siedow: I think you'll probably have the grant panel scratching their heads.

Socolar: It will also reduce your Duke salary.

Siedow: But remember that's not what we're talking about.

Socolar: No, I know.

Silvia Ferrari (Pratt): I also have a question about that because also some sponsors…even if there are the

rules, some program managers are generally against economic year salaries, if it's going to be okay to have three months of summer salary and call it that in the grant.

Siedow: Right

Ferrari: But the other question I have is why two and half months? I mean we have four months in the summer that are not funded by Duke officially, most of which we don't teach so why just not spread the summer salary among those four months so that it is less complicated?

Siedow: That's actually step one, that's what we've done. We've actually said the whole three months of summer salary can be spread out over four months, so you free up a week each month. That was the first recommendation.

Ferrari: So then why do we need to do this half a month?

Siedow: We're actually thinking that four months is probably a little tight in terms of giving faculty flexibility and we're frankly worried, to be honest, we're worried about how the auditors would see that. So, adding another month…there's coming to be a standard around the country of two and half months' federal salary being the max. So, we're kind of in keeping with the rest of the world in that regard. Now that gives you a month and a half over a four month period and you ought to be able to plan your holidays and other activities pretty well around that and still take the two and half months salary.

Ferrari: And the other half during the academic year?

Siedow: And do the other half during the academic year.

Ferrari: The other half goes into this discretionary fund?

Siedow: Yes – as long as you've got three months summer salary budgeted, without any…then we can take a half a month and decide we're going to put that in the academic year and that's okay with the government, NIH and NSF.

Phil Costanzo (Psychology & Neuroscience): Two related questions. So if we have this four month period as you're raising, then we can only take two and half months from NIH /NSF and only these two and a half months, does that mean that each faculty member could then decide to earn another month and half teaching in the summer programs, from other sources in the university?

Siedow: They could from other sources as long as those sources were okay with you – basically recognizing that a month and a half is actually being covered by Duke.

Costanzo: The second question is suppose you're a principle investigator on an entity that requires 40% of your time and you take two and half months as part of that 40% – does the remainder of that have to come out of your Duke salary?

Siedow: I'm not sure that I get the question.

Costanzo: So, most times centers want you here….

Siedow: …and this is 40% during the entire year?

Costanzo: Yes – so if you're a center director, some institutes want you to do 35% or as much as 40% if you are actually conducting something as complex as a center. In the past a third of that, the three months would come out of the summer and be spread across the year, but obviously if you're running a center you're not just running it in the summer, you're running it year-round. So, how does that get dealt with?

Siedow: Again, remember when we say two and half months, that doesn't have to come from one grant – you could get two or three grants to cobble together two and half months worth of salary, so some component of your two and half months would be the 40% time you would have spent during the summer on that project.

Costanzo: 40% is more than two and half months – I'm talking about 40% for the year.

Siedow: The whole year?? Again, Phil, I hate to say it, but once you stumble into the academic year, you stumble out of this policy.

Costanzo; I got it.

Siedow: My initial admonition is not designed to deal with academic year salary beyond the half month – okay?

Franzoni: This is a hypothetical question, I'm sure it will never really apply to me as you'll see in a second. Say you just have one summer month on a grant – and you are so busy teaching and doing other things during the academic year that you really don't get around to doing it and you're devoting the whole month of June to that research grant. And then on July 1st, you're going on world cruise – that's the part that will never apply to me – (laughter) and you're going to be gone until classes start in August, but you really truly put in a summer month in June – you wrote a paper, you did everything. This policy says that you can only charge 75% of the month of June because you're only allowed 75% per month.

Siedow: Okay – you could appeal that to my office and say here's why I need a full month.

Franzoni: So, otherwise you could say 75% in June and 25% somewhere else…

Siedow: No, we're trying to be realistic here. You can basically and we'll note that basically we're putting together now the procedures for rolling this out among business managers – you know, somebody goes to Africa to work for two months – that's fine. As long as there's a case to be made that you're pretty much going to be spending 100% of your time, then that's okay.

John Staddon (Psychology & Neuroscience); I think we all know that this is absolutely grotesque that grown men and women should spend many hundreds of hours on this issue. I'm just curious whether any discussion in the government of the difference between making hamburgers and knitting versus doing basic research? Has there been any discussion of the difference in these activities? I mean it's not like making widgets, you know – it's not like that! Has there been any discussion of that?

Siedow: The problem is, John, is the very thing that we heard of. Basically, Congress is getting wind of… the OIG [Office of the Inspector General, H&HS] goes out to some university and finds out we were paying some faculty member for the month of July and the guy was at Martha's Vineyard the whole month. That really gets congressmen – they start thinking that we're wasting their money.

Staddon; So, it's all political?

Siedow: It's all political, yes and well, Jim you know more about this than I do.

Jim Luther (Assistant Vice President, Financial Services): I would agree with that. I think there's a lot of discussion in DC among AAU and some of the other professional groups that talk about the administrative burden and that something's got to change. But I think that Jim's point that there's a disassociation from the auditors – their job is to come in and ding the university and put a big price tag on it. So, it's truly a disassociation from the program side of this. And it's unfortunate but I think that the AAU and other representatives are trying to address this and say at some point it's got to stop, it's killing the research.

Siedow: That same group of people is going to meet again this year to try and do cost-sharing because if we're working on the grant during the course of the year why aren't we getting credit for that? That's real work done on the real grant.

Staddon: You could be on a cruise and still working…

Ferrari: Also, I mean most of the faculty I know do most of their work on vacation (laughter)…away from the office.

Siedow: Then don't call it vacation would be my recommendation (laughter)! The silliness of this has not been lost on me.

Don Taylor (Sanford School of Public Policy): Is there a technical definition model at NIH as to what an actual work week is, like number of hours?

Luther: The Feds are very explicit there in that there is no definition for that, so it might be 30 for some and 80 hours for others and we actually have a copy of the audit questionnaire and what they'll do is sit down and say think through the last month, they'll have your funding and say, how often did you meet with graduate students, how often did you teach, how often did you do x, y and z? They add up the hours and say well, how could you have been 100% funded under NSF for the month of June when you were doing these other types of things? It really is ridiculous because the reality of it is over the year you probably spent far more time than just one month's time of the amount you've been compensated.

Taylor: But that's a non-responsive answer to the question – you've defrauded them – that's not a defense.

Siedow: No – but they see it, again, it's your total professional effort for that month.

Luther: The auditors versus the program side and the auditors just don't care.

Socolar: I still just want to get one thing through my thick skull. Is it a Duke problem or is it an NSF problem that you can't take the NSF money – that I can't tell NSF I want a half a month in November?

Siedow: No, you can do that.

Socolar: But if I do that I lose my Duke salary then?

Franzoni: You're going to lose your summer salary.

Siedow: No, you're basically buying out a half month …yes, you lose that

Socolar: That's a Duke policy that says I'm buying out a half month.

Siedow: If we didn't do that then we'd be double-dipping for that half month.

Socolar: No, because I would just say that Duke is paying me – they're spreading out my salary.

Siedow: That's a convenience – Duke is basically paying you nine one-months – eight of which are during the academic year and one is in the summer.

Socolar: Basically, but it's not really.

Siedow: That's formally how they're paying you.

Henriquez: We've had this argument in terms of what you can do. You can put in a month of academic year salary – in principle, that could be returned back to you in some form, back to your discretionary account and you could use that money to pay your summer salary. Just like this half a month is – but that's a policy decision of the dean. I argue that the policy decisions of the dean could be changed in response to this new policy and I think it can be worked out. But right now, it's not set up to do that, but it should be changed. I think the policy decisions need to be revisited in light of this new policy.

Siedow: Let me try one more time. Unlike, the federal government where the federal government is effectively saying that if you're going to get paid for effort, then you have to get paid at the same time the effort is expended. Duke is basically saying with respect to your nine month salary, that's not true in our case. If you want that nine month money arbitrarily spread out over the twelve months for convenience sake, they'll do that. The fact that you're getting paid more than a ¼ of a month's salary in the summer is again not relevant to what the actual salary distribution is.

Henriquez: But also the money that you pay into your academic year salary, what is done with that money is a Duke decision – that's a Duke decision, so that money could go back to you.

Siedow: And it does – and again those are the incentive programs that exist.

Henriquez: Some do, some don't – the way its set up it could be – they're set up differently in different schools so I can't speak to Arts & Sciences. I think these all need to be revisited and they should be revisited at the local school level as to what to do with those policies.

Siedow: But, it's not summer salary guys!

Socolar: But the point is that what NSF wants is a rational accounting of where you spend your time on projects. If you could write your grant and say that I am putting one twelfth of my salary or one ninth of my salary is going to be devoted to this project and I'm going to spend some of it in October and some of it in March or whatever, NSF would say well, that's basically what we've been doing all along anyway. Duke is the one who is going to say, "Oh, if you tell NSF you're taking it in November, then we're not going to give you your November salary"

Siedow: …and NSF would find that really strange, if you said it that way, because they don't want you being paid double for the month, half a month, whatever that they're covering you. They basically don't want you also being paid by Duke…

Socolar: …what is really happening and it could be codified somehow, Duke is saying, "Look, we're willing to pay you for nine months, if you get anything else covered then we won't pay you at that time, then we'll pay you for your nine months, whenever that happens to be."

Henriquez: I agree with you. It's just replacing money and moving money around. They have the ability to move their academic year salary any way they want. They already spread it argue that what you are saying, that if you really wanted to be ultimately compliant, we could take our money and spread it all the way around the whole 12 months, we can do that, but it presents some other problems in terms of accounting and the way we do our nine month thing. It could generate some other problems, but I think technically you're right, it could in principle be o take our 3 month summer salary spread over the entire year and technically it could all work out.

Socolar: I guess all I really want to say again is that the point is to make all of the accounting for our salaries rational and designate things according to how they are used. It seems like it's not only an NSF problem, it's a problem with how Duke has set up its pay policy and that we might be able to fix it internally if we don't have to just scramble to make it look to NSF like its coming out of it.

Staddon: Well, let's just call our salary a bonus and this is the salary (laughter).

Socolar: Your percentage of your annual salary would be very small.

Siedow: You think that will stand up to audit, Jim?

Taylor: If you do this half month during the year and it goes into your research project then the indirect flow that flows into your research fund or does it flow when you take a salary because the University has got a big stake?

Luther: It flows when you take a salary.

Siedow: But you could again say that I want it moved.

Taylor: I know but I am saying that the bottom line of this is that it incentivizes people getting external research grants as bad things for the University to do right now. To me, if it's in the New York Times that you worked really hard during the year and you took it in the summer but you went on a vacation, I get why people would be mad, but the whole bit where we put it into the account and trigger it, that sounds even sneakier.

Siedow: I know, but the whole point here is that the reason we are doing that is because we've got this problem and we want to try and solve it but we didn't want to harm the faculty who are able and want to get the three month summer salary. The easiest thing would have just been to cap it at two and a half months.

Henriquez: There are a number of universities that just said two and a half months for summer. We don't know whether or not the other half goes through the same cycle. They explicitly say that it is two and a half months.

Siedow: As contorted as this sounds, we are doing this for you guys.

Henriquez: I think it's okay to do this because the University has the ability to return that to the back however they want to return it.

Socolar: So here's another question.

Siedow: Does it involve summer salary again?

Socolar: Yes, I'm thinking about vacation and when you can take it. If I can only take 75% of each month, suppose I want a two week vacation in July, do I have to arrange it so that it straddles July and August?

Siedow: You run your half month freebie in July. You just have to plan ahead. You take the half month that you use for the academic year, put it in July and say that you have three quarters of a month or you could even back up June and July and take a whole month there.

Steffen Bass (Physics): You have one and a half months where you can allocate your vacation. You just need to make sure you know beforehand so when you tell the administrator when you want to have your summer salary paid out that it does not coincide with the time you went to the beach.

Siedow: Bingo, exactly.

Franzoni: If you have less than three months of summer salary, you can work it out.

Socolar: There's something funky about it still because the reason for only being able to take 75% was not so that I could take a vacation, it was so I could justify the fact that I was doing other things at Duke that I needed to do.

Bass: You have one month and it was essentially not paid.

Socolar: But Duke doesn't have a problem with you taking a vacation because they think you are actually working.

Franzoni: So what Josh is saying is that let's suppose there are four weeks in June and he is on vacation for one of them and he charges 75% effort to his grant for that month because Duke says 75%. So what is NSF going to say at that point? He clearly put in 100% in three weeks. In other words, the logic is that NSF wouldn't believe that he had spent 100% effort.

Socolar: In other words, during that three weeks the chances that I spent it all on that research is zero.

Franzoni: According to this…

Siedow: You could make the same argument for a week.

Franzoni: Well that's why we are just saying...

Luther: We would try to respond to NSF philosophically, otherwise we would have to be crazy with the regs and what we are going to say to you and we are not going to go there. If we were audited we would tell the feds this: It's reasonable and if they came and interviewed you and found a technical deviation from that, so be it. We would address that.

Siedow: We can only go so far.

Luther: That's right. We are trying not to be any more burdensome than we have to be because we did have that discussion about saying should we limit, should we say that you have to work from 8 to 5? We could take this to a crazy degree if we aren't careful.

Siedow: And crazy as Vanderbilt, you can still take a three months summer salary, but you have to sign an affidavit that effectively says that I am not taking a vacation or doing any other work.

Luther: We just didn't want to go there.

Siedow: The people at Vanderbilt are lying. What do we do about the vote?

Henriquez: We can't vote now because we have five people that would veto. Jim is actually going to take everyone out for beers. What I thought we would do is actually present this at a separate council which has already been sent out and just vote on it on the change in the bylaws in the Faculty Handbook in November.

Siedow: Can we forge ahead with the plan?

Henriquez: I imagine. It is what it is, is there anything that we can do to change it at this stage?

Siedow: I'd rather that not happen.

Henriquez: We can make a recommendation. What I've heard from the remaining Council members is that there is some confusion about the purpose here, and this idea of how you distribute the money insures full protection against what could be an audit, suggests that there are other alternatives here and the key question is that there seems to be a need, at least at the dean's level, for revisiting the policies and there could be at the University level a revisiting of this policy. In light of potential new audits that decide…they go to Yale and say, no that two and a half months, that's not good enough.

Siedow: One quick note. We've spent a year at this. We have actually looked at a bunch of alternatives. There are alternatives and they are all workable to some extent, but I don't think any of them are going to stand up to the scrutiny of the, when you start thinking about "well I took a vacation here and my mother died there", they are all subject to those same sorts of problems. This one we just felt was the best one we could work at Duke.

Franzoni: So what does the current Faculty Handbook say and what needs to be changed?

Henriquez: He has that on there (slide).

Siedow: I don’t have what the current Faculty Handbook says.

Gary Bennett (Psychology and Neuroscience): The first paragraph is in the revised Faculty Handbook in the second paragraph.

Siedow: I don’t have the first one on here, did I send you a copy with both of them on there? We’re going to vote in November, I’ll send that out to you.

Bennett: I think the first one says three months and the second one says two and a half months.

Siedow: What the new one does is in the first couple of paragraphs it basically says that is if you are not on federal grants so in essence nothing has changed. The third one, the long paragraph is the one that effectively lays out...

Bennett: I’m just wondering if in the new version the issue regarding the remaining half month essentially is around or should be added to the Faculty Handbook.

Siedow: It is. That’s what we’ve got here.

Bennett: Okay, perfect. Thanks.

Siedow: But we haven’t gone into excruciating detail. That’s the implementation.

Henriquez: Okay, thank you everybody, our meeting is adjourned.

Respectfully submitted,

John Staddon
Faculty Secretary, November 13, 2010