

Deficit Procedures

Effective Date: revised 4/15/2014

Office of Origin: Associate Vice Chancellor—Budget and Resource and Management

OVERVIEW:

All deficits, defined at the fund and Level 2 Department ID level, in current, loan, and plant funds for non-sponsored activities should be addressed throughout the year and must be resolved by the close of the fiscal year. Administrative officials remain accountable for the funds entrusted to them even if they have delegated budget and accounting responsibilities to another individual. All units have a responsibility to maintain a positive net position and deficits. Deficits that occur must be resolved.

Deficits may be carried forward to the next fiscal year for non-sponsored project funds only in the following circumstances:

An authorized deficit resolution business plan is in place and the unit is in compliance with the plan.

If the deficit occurs on a non-restricted fund in the fund range 500C Sales & Services, it is not an approved recharge and the aggregate balance of the fund at the Level 2 Department ID is not in deficit, then a written deficit resolution business plan may be waived by the control point.

If the deficit occurs on a recharge fund and the unit is in compliance with campus recharge policy.

Deficit resolution business plans are first approved by the control point and then submitted for approval to the Associate Vice Chancellor, Budget and Resource Management who will review the plan(s) on behalf of the Chancellor. The need for deficit resolution plans is expected to be rare and approval will be on an exceptional basis. As a best practice, deficits should be resolved by the fiscal year end.

BUSINESS PLANS:

Units that have an existing operating or capital-related deficit must have a formalized deficit reduction plan encompassed within an overall organizational business plan. Business Plans shall be submitted to their Control Point for their approval. Control Points are responsible for the submission of business plans to the Budget and Resource Management Office (BRM) for approval.

If there is an approved business plan in place and it is anticipated that it will be followed without amendment, then no new business plan needs to be submitted to BRM. If, however, a unit does not anticipate meeting the terms of the existing business plan, then a revised business plan must be submitted to BRM for approval, along with the unit's reduction plan and impact statements.

Those units that currently have business plans and that will sustain a budget reduction should update their plans to show the impact of this reduction.

The elements of a business plan are as follows:

1. **Identification of market demand.** Market demand describes the basic purpose for which the unit exists, as well as who are its clients. The description of market demand should include a five-year historic view of how the market demand has changed, as well as a five-year prospective view of what may happen to affect market demand.
2. **Identification of programs and services in place to meet demand.** Programs and services are the methods used to meet the market that a unit serves. Programs and services should be classified as either required by regulation or law, required by University or campus policy, or discretionary. The description should include a five-year historic view, as well as a five-year prospective view, of how programs and services have changed or may change to meet future demands.
3. **Documentation of operating and capital resources required providing programs and services, and their associated costs.** These include the human, capital (facilities and equipment), and financial resources needed to implement the unit's programs and services.
4. **Explanation of appropriate funding and financing mechanisms, including recharge rates, needed to provide the programs and services to clients within available resources.** Funding sources should distinguish between those paid directly by clients being served (recharges and fee-for-service) and funds provided as subsidies. Recharges/fee-for-service rates and charges must comply with University and campus costing guidelines. An appropriate mechanism for amortizing historical deficits should be included in this section.

REVIEW/MONITORING PROCESS

Departments should monitor their financial balances on a regular basis (preferably monthly but at least quarterly) to ensure problems are identified on a timely basis and corrective action taken.

Control Points and their delegated representatives are responsible for monitoring monies under their purview. They review and approve written deficit resolution business plans submitted by administrative officials and then submit them to BRM for approval. They then monitor the funds in deficit to make sure the deficit resolution business plan is followed.

BRM will review deficits once per year after fiscal close. They will contact the Control Point to discuss any variances from the Deficit Policy.