

Guidelines for Deficit Management and Monitoring in Campus Units

RATIONALE FOR GUIDELINES

A recent audit by Audit and Management Advisory Services determined that, “there is no formal guidance from central campus to campus units that clearly defines financial deficits and establishes criteria for reporting and addressing them.”¹ As a result, Finance Operations, and Administration was tasked with, “developing a comprehensive policy that clearly defines financial deficits, as well as roles and responsibilities for identifying, monitoring, and responding to deficits.”²

Beyond these requirements, it is critical that the university ensure that financial resources are managed responsibly, proactively, and in a manner that supports financial sustainability goals. Allowing deficits to occur without identification and mitigation puts the university mission and programs at risk. When units incur operating deficit balances, they are engaging in unauthorized utilization of the campus’ cash assets, and without mitigation, an unauthorized implicit resource allocation. As noted in the audit, “cash reserves used to cover deficits could otherwise accrue interest in a number of different investment vehicles. . . or be used to fund other strategic initiatives of the university, so there can be significant opportunity cost to this type of informal borrowing.”³

PURPOSE

These guidelines are intended to document standard practices for identifying, monitoring, and addressing deficits in campus units. Formalized guidelines will ensure there is a consistent understanding of roles, accountability, and expectations for addressing deficits when they occur. They will also provide guidance on best practices, escalation procedures, and establish consequences for deficit spending that is not resolved in a reasonable time period.

These guidelines rely on the use of the current chart of accounts and currently available systems, reports, and monitoring tools. The campus is embarking on implementation of the common chart of accounts and a new enterprise financial system. When fully implemented, these guidelines will be updated to align with the new chart of accounts structure and financial system. It is expected that the new system will provide enhanced tools and reports to support monitoring and projecting deficits.

¹ AMAS Project #20-04; p. 1-2

² AMAS Project #20-04; p. 3

³ AMAS Project #20-04, p. 2

EXCLUSIONS

The following fund types and entities are explicitly excluded from these policies:

Medical Center: Except as noted, the Medical Center, or Chart H, is excluded from these guidelines as they use different systems and follow different accounting and budgeting procedures. The Medical Center *is* expected to provide the required unit procedures for deficit monitoring and resolution.

Contracts and Grants (SFGT B,C,D,F,H,J,L,N,P,S,V,W,X): Contract and Grant fund types are excluded since they are generally cost-recovery and any deficits will be limited-term due to the timing of reimbursement from sponsors.

Self-Supporting Activities (SFGT Y, M, and 6): Self-Supporting activities, also known as recharge activities, are excluded from this policy at the fund level since there are already policies and guidelines for monitoring and addressing deficits in these activities. These policies and monitoring tools are provided as reference in Appendix D. However, it is still possible to have a department have a deficit that includes a component of self-supporting funds. In those instances, a department-level plan will be required that addresses all components of the deficit, including documenting a plan to resolve the deficit in self-supporting activity funds. Deficits in self-supporting activities should be closely monitored and addressed by the unit, including through the rate review process as appropriate.

DEFINITIONS

The following definitions will apply to these guidelines.

Operating Deficit: An operating deficit exists when total annual sources are less than total annual uses. Annual sources include: the annual amount of ongoing appropriations; the annual amount of reoccurring revenue or income; one-time revenue or income; one-time appropriations; and *planned use* of carryforward.⁴ Uses include all operating expenditures attributed to the entity, fund, or account, within a fiscal year.

Structural Deficit: A *structural* deficit is when ongoing or reoccurring sources are projected to be less than ongoing or reoccurring uses. This can be the case in a current year or in future years based on a multi-year forecast using reasonable assumptions indicates that ongoing or reoccurring sources are projected to be less than ongoing or reoccurring uses. Such a forecast should exclude non-reoccurring one-time sources and uses, including carryforward balances.

Deficit Balance: A deficit balance is the cumulative amount of operating deficits that have accrued at the end of each fiscal year that an operating deficit has existed and was not resolved or offset by carryforward balances existing prior to the accumulation of deficits.

⁴ In current systems, the planned use of carryforward can only be identified based on annual budgets that exceed annual sources, implying the planned use of carryforward.

Deficit Recovery Plan: A plan that documents the ability of the unit to reduce the deficit within a set timeframe. The plan shows estimated progress at reducing the deficit each year and documents specific adjustments to current operations that will ensure that the drivers of the original deficit are resolved, and the deficit will not reoccur. It should also show how any outstanding deficit balance will be retired.

Dean/Vice-Chancellor's Level or "Unit": Top level organization led by a Dean, Vice Chancellor, or, in some cases a Vice Provost or other executive. In the current chart of accounts and financial system these are designated as Organization Level 4.

Department: Operational entities within a unit that are generally one level down from the top level and have reporting lines to the division finance leader. In the current chart of accounts and financial system these are typically designated as Organizational Level 5 or 6. Since the organizational level for department-level entities is not consistent campuswide in the current chart of accounts, units should work with their analyst from Budget and Institutional Analysis (BIA) to confirm the appropriate level for their unit when implementing these guidelines.

ROLES AND RESPONSIBILITIES

The following outlines the roles and responsibilities of administrators in monitoring for deficits, identifying deficits, resolving deficits, and escalating deficit situations. Refer to UCOP policy BFB-BUS-10, Principles of Accountability with Respect to Financial Transactions for additional information.

Department Head: The leader of the unit has the ultimate fiduciary responsibility and accountability for the use of resources within their unit and is responsible for ensuring that deficits are identified and resolved.

The dean or manager of each school or department, while responsible for managing the department's financial resources, will normally delegate the overall administration of financial resources to a Department Administrator (DA). Accountability, however, cannot be delegated.

Deans, vice chancellors, vice provosts, and other top-level executives, in conjunction with their division finance leaders, sign the annual fiscal close certification letter, as described in [PPM 330-65](#). They therefore have the ultimate accountability for the use of resources by all entities under their purview.

Department Administrator (DA): Individuals holding the role of unit administrative leader, typically roles with titles such as Assistant Dean or Chief Operating Officer, are responsible for monitoring the financial status of all departments, including the identification and resolution of deficits. Under these guidelines they are expected to identify deficits, inform unit leadership and Budget and Institutional Analysis (BIA) of significant deficits, and oversee the development, implementation, and monitoring of deficit recovery plans. In addition, they are expected to ensure that there are internal procedures for monitoring and resolving deficits.

The DA is responsible for developing an appropriate structure for handling the department's financial resources. Further, Departmental Administrators have a responsibility to manage and close out all funds in a solvent condition, as described in [PPM 330-65](#).

In the current chart of accounts and financial system this generally aligns with the person responsible for completing the Quarterly Ledger Review.

Fiscal Officers: A fiscal officer oversees all financial and budgetary aspects of an account. This includes ensuring the appropriate use of funds when approving transactions. Fiscal officers also monitor accounts for compliance with funding requirements and promptly resolve overdrafts as described on the [Fiscal Officer Resources webpage](#). Fiscal officers are expected to identify deficit, inform the unit administrative leader of deficits, and work with the unit administrative leader to resolve and monitor deficits.

In the current chart of accounts and financial system, the fiscal officer is responsible for completing the monthly Analytical Ledger Review (ALR). Further, the Management Ledger Review (MLR) is completed monthly at the department level by the MSO/CAO/Manager.

Budget and Institutional Analysis (BIA): BIA will provide campus-level guidelines and oversight and monitoring of any significant deficits that are identified. BIA will review deficit recovery plans and monitor their implementation. BIA will elevate significant deficits to campus leadership and make recommendations about the status of deficit recovery plans and any deficit resolution that requires central campus loans, resources, or direction.

GUIDANCE FOR RESOLVING DEFICITS

Identification and Monitoring

Deficits, both operating and structural, can occur across multiple dimensions within an organization that uses fund accounting. Deficits can be identified within an organizational level, a fund, and by account. Current tools support deficit identification and monitoring at each of these levels.

Monitoring for potential deficits and of areas with known deficits – both operating and structural – should occur throughout the year as part of regular financial and budget monitoring and planning that occurs on a monthly, quarterly, or annual basis. The following describes specific tools, reports, and existing processes available for unit administrative leaders, fiscal officers, and BIA to use to identify and monitor deficits. Units and departments may also have other practices and reports they use for this purpose.

Ledger Review

The ledger review is a critical monitoring tool in ensuring the University's financial information is accurate and that it has shown good stewardship of its resources.

Governed by [PPM 330-11](#), [the ledger review is the](#) required tool to review and certify the department's ledger transactions. The components include the Analytical Ledger Review (ALR - [FIS DS 403](#)), the Management Ledger Review (MLR - [FIS DS 404](#)) and the Quarterly Ledger Review (QLR - [FIS DS 405](#)). All accounts with activity must be reviewed as well as any account in overdraft.

The ledger review provides:

- An analytical review of the ledger rather than a line-by-line review
- A summary level view with the ability to search by various attributes, such as fund
- Budget to actual comparisons by revenue and expense categories as well as month-to-month comparisons.
- Highlights high risk and high value transactions
- Indicates whether the other ledger review components have been completed timely
- Helps to detect substantial changes in circumstances or business conditions

Sources and Uses Reporting and Variance Review (both Quarterly & Annually)

Most financial and analytical reports available in the campus budgeting tool, AggieBudget, display prior year carryforward in addition to other financial data, which can be explored (drilled into) for analysis by org or fund among other attributes. End user reports can be filtered to report on any organizational level or fund category combination.

Dean/VC Offices are asked to explain budget variances greater than 10% quarterly during the Sources & Uses Workflow. This helps to identify issues that may become or add to deficits earlier in the year by unit and fund category.

Unit Carryforward Reporting

Units are also asked to explain trends in carryforward by unit and fund category annually through the Carryforward Reporting Workflow on the Carryforward Balances report. The Carryforward Balances report can be run at any organizational level.

Deficit Management Report in AggieBudget

The Deficit Management report in AggieBudget displays a three-year carryforward trend and carryforward as a percent of expenditures for each org below and including the selected org and by fund category within each displayed org. This report allows users to quickly identify carryforward and annual deficits by department and fund category. Each year units will be required to review this report in AggieBudget for organizations and funds that have deficits. This report will support the identification of deficits that require a deficit recovery plan, discussed below.

Deficit Type Assignment Utility

There is an AggieBudget utility that identifies accounts that end the prior year with a deficit greater than \$100,000. This utility allows units to determine if a "true deficit" exists and note if a deficit recovery plan is in place. With implementation of the Deficit Management report noted above, units will no longer be required to review this utility in AggieBudget, however it and its related Deficit List report will still be available for analytical purposes.

Annual Budget Planning Process

The annual budget planning process supports the identification of structural deficits based on a forecast. Current tools support a 3-year planning horizon for unit and department budgets. If the annual budget prepared by a unit and submitted to BIA as part of the annual budget process, shows a material structural deficit in the out years either by organization or fund group, the following should occur:

- The unit should identify this known future challenge as part of its annual budget meeting and indicate the drivers of this deficit, key assumptions in the forecast, plans to address the structural issues identified, and implications of those plans.
- BIA will work with the unit to monitor the structural deficit through the regular forecasting and reporting processes.

Unit Procedures

Each unit, including the Medical Center, should develop and maintain documented procedures including internal deficit monitoring and resolution procedures so that fiscal officers know what is expected of them in regard to deficit monitoring and what to do when one is identified. These procedures should, at a minimum, identify the expected frequency of monitoring, when escalation to the unit administrative leader is expected, and ensure that fiscal officers are aware of these campus guidelines.

Deficit Recovery Plans

It is generally a best practice that, when a deficit is identified, a deficit recovery plan be established and implemented over a period of time. Units must establish internal deficit resolution and recovery practices when either an operating or structural deficit is identified within a department or at lower levels of the organization. Operating deficits that reach the following thresholds must be elevated to unit leaders and will require that a deficit recovery plan be submitted to BIA for monitoring.

A deficit recovery plan will be required to be submitted to BIA for any department that ends the fiscal year with an operating deficit of either 10% of total expenditures or over \$500,000. This will be calculated based on the net operating position of all accounts that report to the organizational level as defined in the [AggieBudget Deficit Management Guide](#) (generally level 5 or 6 as defined in the Quali financial system). Departments that meet this threshold can be identified by running the Deficit Management report in AggieBudget. Units will be asked to update these plans annually if the deficit resolution is expected to require multiple years.

BIA will provide the Provost with a report on unit deficits that meet this reporting requirement and the status of deficit recovery plans on at least an annual basis.

Some deficits identified through this process may be stable or declining, indicating that actions have been taken to address the drivers of the deficit, and others may be growing. In both cases a deficit recovery plan will be required. Information on what is required in a deficit recovery plan, how BIA will evaluate deficit recovery plans, and a template that can be used for deficit recovery plans are available in Appendices A-C.

Unresolved Deficits

It is generally our goal to resolve deficits through a collaborative process over multiple years. However, in cases where a deficit remains unresolved for a significant period of time or progress on resolving a deficit is lagging the plan, campus leadership may determine, in consultation with the unit leader and BIA, that one the following actions is required:

- Centrally directed redistribution of unit carryforward to address a deficit balance.
- Establishing a formal internal loan with interest and a repayment plan under the [Central Loan Guidelines](#).
- Adjusting the unit's annual budget allocation to address the deficit. This action could be in the form of either a subsidy to support a critical program, a budget reduction to eliminate a program, or a centrally directed redistribution of allocations within a unit.

Guideline Implementation

The development of required deficit recovery plans, as indicated in these guidelines, will be initiated beginning in fiscal year 2021-22 based on the outcomes of fiscal year 2020-21. BIA will establish a schedule for the submission of initial deficit recovery plans during fiscal year 2021-22 and for new and updated plans as indicated by monitoring each year thereafter.

If deficit monitoring is not already a regular practice, units will be expected to begin the regular monitoring outlined in these guidelines as soon as the guidelines are finalized and published on the BIA website.

Units will also be expected to develop and submit to BIA formal internal deficit monitoring procedures, as indicated above, by no later than January 15, 2022. Any future updates to these procedures should be provided to BIA.

Appendices

The following appendices provide additional information on aspects of these guidelines as well as links to other available information on the use of existing monitoring tools and information.

Appendix A: Creating a Deficit Recovery Plan

Appendix B: Deficit Recovery Plan Template

Appendix C: BIA Deficit Recovery Plan Submission Process Flowchart

Appendix D: Additional Information and Resources

Appendix A: Creating a Deficit Recovery Plan

A template is provided as Appendix B for units to use as a starting point in creating a deficit recovery plan. Since not all plans may fit the template categories exactly, units may modify the template to include more detail, change categories, and adjust to meet the specific business model of the unit or department, but all plans must include the following elements:

- Information about where the identified operating deficit is held, including the department organization, account number(s), fund type, and activities the entity supports
- Deficit balance as of the end of the prior fiscal year
- Drivers that resulted in the operating deficit
- Rate at which the deficit balance has increased or decreased over the past 3 years
- Projections for 5 years of expected sources, uses, and balance
- Any planned use of available carryforward balances to address the deficit balance
- Proposed timeline to eliminate the operating deficit and/or accumulated deficit balance
- Description of changes to business operations within the unit that the unit has in place and is planning to implement. Examples include: reducing operating costs, adjusting rates, investing in revenue generating activities that will benefit the unit, consolidating operations with another operation.
- Descriptions of changes from outside the unit that will impact the deficit that the unit is considering, has requested, or are being implemented. Examples include: additional support provided for the operation from within the overall unit, reallocation of resources within the unit, partnering with other entities, requesting a central campus subsidy or loan.
- Plans submitted to BIA must include the signature of the Dean or Vice Chancellor to confirm that they are aware of the plan and support it.

BIA Evaluation of Deficit Recovery Plans

The following are examples of the types of questions BIA will expect to answer through the review of the Deficit Recovery Plans:

- *What is the purpose of the activity and how does it align with the campus strategic plan and mission?*
- *What units/faculty/programs/students on campus benefit from the activity or project?*
- *How will those who benefit from the activities be impacted by the deficit recovery plan?*
- *Are any proposed operational changes to the business or activity reasonable? How will the changes impact the feasibility of the business or activity?*
- *Is there capacity in the unit to address the deficit balance from carryforward? If not, why not?*
- *Will this plan resolve the drivers of the deficit?*
- *Will this plan resolve the deficit balance that currently exists?*
- *Are the proposed changes from outside of the unit reasonable and achievable?*
- *Has the unit explored all reasonable options?*
- *If the unit is unable to reduce the deficit according to plan, what options remain available to reduce the deficit?*
- *In the case of a deficit on a multi-year plan: How has the deficit changed since the prior year? Did the unit implement the plan as indicated? If not, why not? What has changed since the prior plan review?*

As needed, BIA will work with the unit to evaluate and strengthen their plan and may recommend alternate approaches.

Appendix B: Deficit Recovery Plan Template

Date Submitted:

Unit:

Department Incurring the Operating Deficit:

Description of account(s) holding the deficit:

Fund(s) where the deficit is incurred:

Operating Deficit Amount (Annual):

Deficit Balance (Cumulative):

Purpose of Activity

Please provide information such as:

- *What is the purpose of the department and how does it align with the campus strategic plan?*
- *What units/faculty/programs/students on campus benefit from the activities that the unit supports?*

Background of Deficit

Please provide information such as:

- *What caused the deficit, and did it happen over multiple years?*
- *When was the deficit first identified? Has the account(s) gone in and out of deficit in the past?*
- *What changes to business operations within the unit has the unit already considered, has in place, and/or is planning?*
- *What changes to business operations outside the unit has the unit already considered, has in place, and is planning?*

Financial Summary

Please provide information such as:

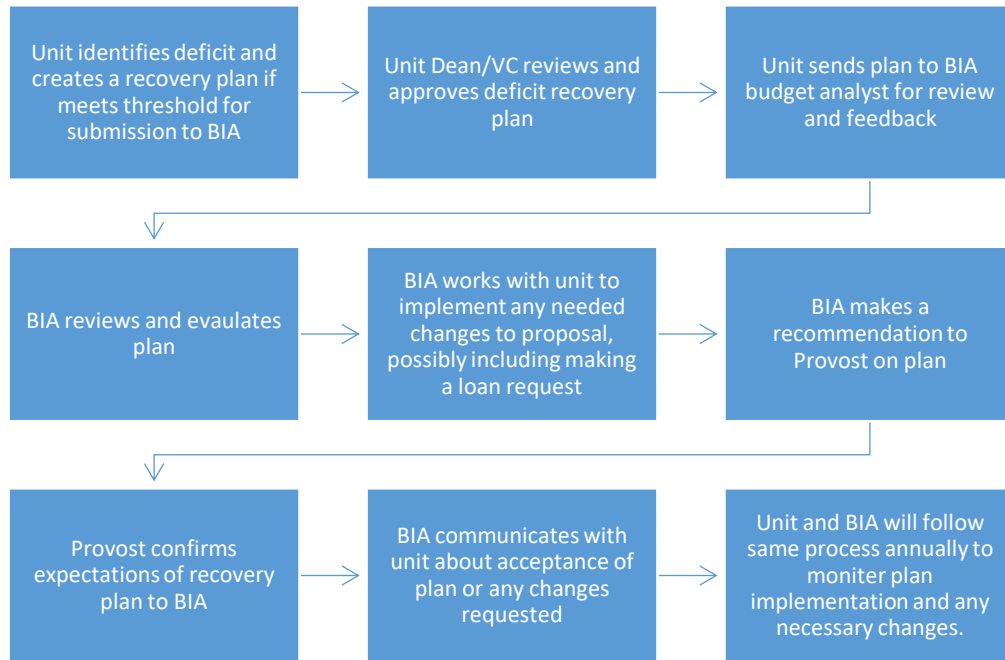
- *Can available CF/reserve funds from another part of the organization offset or fully cover the deficit balance? If not, please explain why not.*
- *How will this plan not only eliminate the deficit that currently exists, but resolve the drivers of the deficit?*
- *If the unit is unable to fully reduce the deficit per its plan, how will the unit meet its goal to eliminate the deficit?*
- *Are partnerships with UC Davis, within the UC System, and/or external entities available to fund this activity?*
- *What other funding options have been explored that could reduce or eliminate this deficit?*

Attach the detailed deficit recovery plan associated with this request, including a five-year forecast of sources, uses and balance. Indicate what assumptions have been made in your forecast and where adjustments will be made to sources and/or uses to address an operational deficit and retire any deficit balance. If the deficit is only a deficit balance (i.e., no ongoing, annual operating deficit), indicate what actions will be taken to retire this deficit.

Dean/Vice Chancellor Review

Signature and Date

Appendix C: BIA Deficit Recovery Plan Submission Process Flowchart



Appendix D: Additional Information and Resources

Annual Budget Planning Process

[Overview and Communications](#)

[AggieBudget | Finance & Business \(ucdavis.edu\)](#)

Carryforward Guidelines and Reporting:

[Carryforward Fund Management Guidelines](#)

[Budget Monitoring Tools in AggieBudget](#)

Deficit Management Reporting:

[AggieBudget Deficit Management Guide](#)

[AggieBudget Deficit Type Utility User Guide](#) (no longer required)

Fiscal Officer Resources: [Fiscal Officer Resources | Finance & Business \(ucdavis.edu\)](#)

Ledger Review: [Finance & Business - Ledger Review Process Overview \(ucdavis.edu\)](#)

Principles of Accountability with Respect to Financial Transactions: [UC Policy BFB BUS-10](#)

Self-Supporting Activities:

[Finance & Business Website: Recharge Activities & Rates](#)

[Policy and Procedure Manual Section 340, Rates, Recharges, and Sales Activities](#)

[Self Supporting Activities – Compliance Report \(FIS 193\) | Finance & Business \(ucdavis.edu\)](#)

Sources and Uses Variance Reporting: [Budget Monitoring Tools in AggieBudget](#)