



**Effective Date: March 8, 2010 (revised 4/30/12)**

## **Deficit Resolution Policy**

Responsible Executive: Vice Provost, Office of Planning & Budgeting  
Responsible Office: Office of Planning & Budgeting  
Contact: budget@u.washington.edu

### **Policy Statement**

All funds must be spent in accordance with University policy. Authority to spend funds brings with it the responsibility for effective fiscal management. All units should meet operating needs within their available budget. All deficits in University of Washington budgets must be cleared in a timely way. Depending on the type of budget, deficits must be cleared at either the close of the biennium, the close of the fiscal year, or the end of a grant/contract period.

The procedures available to resolve deficits will vary depending on the type of budget involved. For budgets other than grant, contract and gift budgets, deficits may be resolved by transferring budgeted funds between budgets within the same fund type, or by transferring expenditures between fund types (if allowable).

Under special circumstances approved by the Provost, deficits in non-grant and contract budgets may be carried forward from one fiscal year to the next if an authorized deficit resolution plan is in place and the unit is in compliance with the plan, or if the unit is in compliance with the UW recharge policy. This circumstance is expected to be rare and approval will be on an exceptional basis. Procedures for clearing deficits in grant or contract budgets are outlined on pages 9-10 of this policy.

If deficits are not cleared in a timely manner, the Office of Planning & Budgeting will impose procedures for clearing the deficit as outlined in the "Deficit Resolution Procedures" section of this policy statement.

## Who is Affected by This Policy

- Administrative Officials (including but is not limited to: chancellors, deans, vice provosts, vice presidents, department chairs, program directors, principal investigators and financial administrators)

## Who Administers This Policy

- Office of Planning & Budgeting
- Financial Management
- Administrative officials in units who have financial responsibility and authority for one or more budgets.

## Why We Have This Policy

The Provost has been delegated the authority to allocate resources to assist the institution in meeting its missions of research, instruction, and public service. This policy confirms that only the Provost has the authority to allocate resources to achieve these goals.

University of Washington administrative officials have a responsibility to follow University policies and procedures. This includes maintaining programs in sound fiscal condition. Principal investigators and administrative officials in charge of gift, contract, and grant budgets may have additional terms and conditions to which they must comply. Administrative officials and principal investigators remain accountable for the funds entrusted to them even if they have delegated budget and accounting responsibilities to staff. This policy provides assistance and describes the types of corrective action administrative officials may take to resolve deficits.

## Responsibilities:

### Chancellors, Deans, Vice Provosts and Vice Presidents

- Maintain a financially sound organization and monitor the financial operations of their unit.

- Review written deficit resolution plans submitted by administrative officials within their units.
- Ensure that deficit resolution plans are carried out as proposed.

### **Other Administrative Officials**

- Monitor expenditures for funds under their purview to ensure the funds do not incur deficits.
- Take quick action to eliminate deficits.
- Develop deficit resolution plans and submit them to the appropriate chancellor, vice president, vice provost or dean for approval if unforeseen issues (e.g. regulatory changes, changes in the control environment, etc.) result in a significant deficit that cannot be resolved in the current period.
- Resolve deficits in accordance with approved written plans.

### **Office of Planning & Budgeting and Financial Management**

- Ensure that support tools provide timely information for recognizing budget deficits.
- Monitor adherence to university fiscal policy.
- Work with administrative officials to implement practices that improve accountability and control for budgets that incur a deficit.
- Provide exception reports on a quarterly basis.
- Work with departments to ensure that deficits are resolved in accordance with University policy and any other policies or conditions that apply.
- Work with administrative officials to retire significant deficits or develop solutions for deficits that require an extended period of time to resolve.

- As part of the annual budget close process, the Office of Planning & Budgeting will:
  - Review deficit carry forward balances in non-gift, grant and contract budgets, and work with the appropriate administrative officer to clear the deficit or identify a deficit resolution plan.
  - Review long-term deficit resolution plans for progress in meeting the goals of the plan.
- If deficits have not been cleared at either the close of the biennium or the close of the fiscal year, the Office of Planning & Budgeting is responsible for ensuring that funds from appropriate sources in the unit with the budget in deficit are transferred in order to clear the deficit. (See Grant and Contract deficit resolution procedures on pages 9-10 for clearing grant deficits.)

## Procedures

All funds must be spent in accordance with University policy. Authority to spend these funds brings with it the responsibility for effective management. The following are included in this responsibility:

Avoidance of cost overruns, unallowable cost and cost transfers;

Identification of additional funds, if needed.

Unit financial managers are responsible for monitoring financial activity and for reporting deficits to the appropriate administrative official. All institutional units are expected to operate within their budget allocations. The administrative official is responsible for resolving any deficits in a timely manner. Generally, deficits should be resolved within 90 days or, for deficits arising in the last quarter, by the fiscal year end.

Deficits less than \$5,000 may not be carried forward into the next fiscal year unless the activity is covered by, and the deficit falls within, tolerance levels set by the campus recharge policy. Under certain circumstances, multi-year contract and grant funds may also carry forward a deficit. Deficits greater than \$5,000 must be eliminated or reduced significantly by fiscal close and any remainder may be carried into the next fiscal year only if the campus unit has a written deficit resolution plan approved by the Vice Provost of the Office of Planning & Budgeting. Similarly, deficits above tolerance for activities covered by the campus recharge policy, or deficits higher than total future anticipated funding for multi-year contract and grant funds, will require a written deficit resolution plan for approval by the Provost.

The Provost must approve all plans to carry forward deficits into the new fiscal year; otherwise they will be cleared in accordance with the procedures described below. Chancellors, deans, vice presidents, vice provosts, and their delegated representatives are responsible for monitoring funds under their purview. They review and approve written deficit resolution plans submitted by administrative officials. They then monitor the funds in deficit to make sure the deficit resolution plan is followed.

The Provost works with chancellors, deans, vice presidents, vice provosts, and appropriate administrative officials to resolve significant deficits or deficits that will take an extended period of time to resolve.

## Definitions

**Budget Number:** A six digit control number (xx-xxxx) assigned to a particular college, department or entity in order to keep track of revenue and expenditures. Budget numbers are assigned by either the Budget Office, Grant and Contract Accounting or the Treasury Office and are used by the Financial Accounting System (FAS) to facilitate record keeping.

**Budget Type/Budget Class:** Codes (xx/xx) attached to a budget number that are used to designate the funding source for the budget.

**Deficit:** The amount by which expenditures exceed a grant or contract award, a budget allocation, or revenue available in a specified fiscal period (grant period, biennium or fiscal year depending on the type of budget). Does not include negative budget balances resulting from un-liquidated encumbrances.

**Unit:** The term “unit” is used in this document to refer to a UW campus, a college, a school or an administrative Division that reports to the President, the Provost, a Vice Provost or a Vice President.

**General Operating Fund Budgets:** General Operating Fund (GOF) budgets are supported by State General Fund appropriations and the operating fee portion of student tuition. GOF budgets are identified by Budget Type/Budget Class (BT/BC) coding. The primary BT/BC codes for GOF budgets are: 01/11 (Seattle Campus); 01/18 (Bothell Campus); and 01/19 (Tacoma Campus). Certain GOF budgets that are associated with state appropriations that have budget provisos may have special BT/BC coding.

**Designated Operating Fund Budgets:** Designated Operating Fund (DOF) budgets are supported by a variety of local UW revenues including Summer Quarter tuition, investment income, indirect cost recovery revenue and miscellaneous fees. The primary BT/BC codes for DOF budgets are: 01/31 (Local Fund Allocation - Seattle Campus); 01/38 (Local Fund Allocation - Bothell Campus); 01/39 (Local fund Allocation - Tacoma Campus); 01/32 (Research Cost

Recovery - Seattle Campus); 01/48 (Research Cost Recovery - Bothell Campus); and 01/49 (Research Cost Recovery - Tacoma Campus).

Medical Aid Account Budgets: Medical Aid Account budgets are supported by state appropriations from the Medical Aid Account. The BT/BC code for Medical Aid Account budgets is 14/03.

Accident Account Budgets: Accident Account budgets are supported by state appropriations from the Accident Account. The BT/BC code for Accident Account budgets is 14/02.

## **Deficit Resolution – General Operating Fund (GOF) and Designated Operating Fund (DOF) Budgets**

As part of the biennium close process, the Office of Planning & Budgeting will monitor budget versus expenditures for all GOF and DOF budgets for all units. The Budget Office will prepare a report for each unit called the “Biennium Close Monitoring Report by Unit”, which contains budget and expenditure data grouped and sorted by BT/BC codes and budget numbers. These reports provide the units’ authorized biennial budget, actual to-date expenditures, balance to-date, and expended percentage (i.e.: actual to-date divided by the biennial budget). During the fiscal year in which a biennium close occurs, these reports will be updated periodically from March through July and will be available on the Office of Planning & Budgeting website.

Units are required to balance their GOF and DOF budgets at each budget type/budget class (BT/BC) level within the unit. A unit may have many departments, programs and budgets within a particular BT/BC coding. While individual budgets within a particular BT/BC coding may have deficits at biennium close, it is required that no deficits exist when data are summed to the BT/BC level for a unit. While the enforcement of this GOF and DOF deficit resolution procedure is at the unit level, units are required to enforce the GOF and DOF budget deficit resolution procedure at the department/program level.

The Office of Planning & Budgeting will monitor the status of budget versus expenditures for all units for all GOF and DOF BT/BC groupings throughout the biennium close process. As soon as an actual deficit or potential deficit situation is identified, the Office of Planning & Budgeting will work with the finance and administration staff in the relevant unit to insure that the deficit is cleared prior to biennium close.

In the event that a unit has a GOF or DOF BT/BC grouping that is deficit at biennium close, expenditures must be transferred from the BT/BC grouping that is deficit to another GOF or DOF BT/BC grouping that has expenditure authority available. If there is no other GOF or DOF BT/BC grouping that has sufficient expenditure authority available to offset the deficit, the unit’s GOF budget for the upcoming fiscal year will be reduced by the amount of the deficit.

## **Deficit Resolution – Medical Aid Account and Accident Account Budgets**

As part of the biennium close process, the Office of Planning & Budgeting will monitor budget versus expenditures for all Accident and Medical Aid Account budgets for the units that have these budgets. The Budget Office will prepare a report for each unit called the “Biennium Close Monitoring Report by Unit”, which will provide budget and expenditure data grouped and sorted by BT/BC codes and budget numbers. These reports provide the units’ authorized biennial budgets, actual to-date expenditures, encumbrances, balance to-date, and expended percentage (i.e.: actual to-date plus encumbrance divided by the biennial budget). During the fiscal year in which a biennium close occurs, these reports will be updated periodically from March through July and will be available on the Office of Planning & Budgeting website.

Accident and Medical Aid Account BT/BC groups cannot be in deficit at the end of a biennium. Any deficit that is identified must be cleared as part of the biennium close process by transferring expenditures from Accident or Medical Aid Account budgets to any other budget in the unit to which the expenditures can appropriately be charged. Any unexpended balance that exists for the Accident and Medical Aid Account BT/BC groups at biennium close reverts to the State of Washington.



## **Deficit Resolution – Grant and Contract Budgets**

Fiscal responsibility for an award resides with the principal investigator (PI) as referenced in GIM 2. The PI is responsible for initiating charges to a sponsored award.

- The PI is directly responsible to manage and administer the sponsored award according to sponsor and University of Washington (UW) policies.
- Sponsored award budgets must be monitored regularly to avoid incurring a deficit.
- It is not sufficient to review total expenditures only at the expiration of a grant/contract.
- When deficits do occur, they should be resolved in a timely manner.
- It is the responsibility of the PI to identify alternate funding sources for any deficits that occur.

Deficits occur on a sponsored award for three reasons:

- 1) Expenditures exceed budget
- 2) Expenditures exceed reimbursement from sponsor
- 3) A post award audit or communication from the sponsor identifies unallowable costs

PIs and their staff should:

- Monitor deficits using the on-line [grant and contract deficit report](#)
- Access this report at least quarterly
- Transfer deficits to allowable budgets

The PI should notify Grant and Contract Accounting immediately when s/he learns that a sponsor is unable to make payment to the UW. Sponsor payments and receivables information is listed by grant/contract budget number on [GrantTracker](#), <http://www.washington.edu/research/gca/budget/granttracker.html>

Sponsors rarely allow a deficit balance to be transferred to another sponsored award.

- Under certain circumstances, and with adequate justification, some agencies may allow the transfer of a deficit balance from one budget period to the next, within the total project period.
- When required by the sponsor, an estimated deficit carry-forward must be stated in the PI's progress report or continuation application.
- Occasionally, it may be possible to transfer a deficit balance to a gift budget.
  - For this transfer to occur, the purpose of the gift budget must either support the same activities as supported by the sponsored budget, or be a discretionary budget (64-XXXX).

To expedite closing of grant or contract budgets, deficits should be moved promptly to non-grant & contract funding.

- It is the responsibility of the PI, in consultation with his/her department, to resolve deficits promptly.
- Deficits must either be cleared within 90 days of budget expiration or the PI must submit a written deficit resolution plan within the same timeframe.

If the deficit is not cleared within 90 days, OPB will, in consultation with the financial administrator, transfer the deficit to a departmental budget.

### **EXAMPLES OF ALLOWABLE BUDGETS TO WHICH DEFICITS AND/OR UNALLOWABLE EXPENSES MAY BE TRANSFERRED**

- State (01-XXXX - 10-XXXX)
- Research Cost Recovery (74-XXXX & 75-XXXX)
- Fixed Price Surplus
- Research and Training (Clinical Income)
- Institutional Allowance
- Royalty Income
- Gifts - department must ensure consistency with donor's intent
- Revenue budgets
- Professorships - unless prohibited by sponsor

## **Deficit Resolution-- Agency Accounts**

Agency accounts are budget numbers (primarily in the 31-XXXX - 38-XXXX range) that the University sets up in the Financial Accounting System (FAS) for non-University organizations, typically governmental agencies and non-profit entities, in order to enable them to use campus services. Departments affiliated with, or sponsoring, agency accounts are responsible for collecting agency reimbursements promptly so that the account balances remain positive. When agency accounts go into deficit, the agencies are using University funds.

Agency budgets that have been in deficit for three or more consecutive months will be assessed an interest charge at the current internal lending program rate.

Once an agency account is inactive for six months and it has a negative balance, the department is responsible for covering the deficit either

- 1) through payment received from the sponsoring agency or
- 2) by transferring expenses from the agency account to a department operating budget number (sometimes called a "state" budget number) or discretionary budget number (64-XXXX).

If the department does not eliminate the deficit in a timely manner, Financial Accounting will charge the department operating budget number for the amount of the deficit.

## **Deficit Resolution – Gift and Endowment Expenditure Budgets**

The Office of Planning & Budgeting will distribute a report each quarter that summarizes the current status of all of the gift and endowment expenditure budgets in each unit. This report will show the balance in each budget at the start of the fiscal year, revenue into the budget in the current fiscal year, expenditures recorded against the budget in the current fiscal year, and the current balance available in the budget as of the date of the report.

Gift and endowment expenditure budgets should never be in deficit. Incurring expenditures that result in a deficit in a gift or endowment expenditure budget in anticipation of either receipt of a gift or an upcoming endowment distribution is not allowed. For any gift or endowment expenditure budget that shows a deficit in one of the quarterly reports to units, the relevant chancellor, dean, vice provost or vice president must resolve the deficit as soon as possible by either transferring expenditures from the budget in deficit to another appropriate budget or by transferring revenue from another appropriate budget into the budget in deficit.

If there is a deficit in a gift or endowment expenditure budget at the end of a fiscal year, the Office of Planning & Budgeting will resolve the deficit by transferring funds, first from any available unrestricted resources at the department/program level, and if sufficient funds are not available there, from any available unrestricted resources at the campus (for UW Bothell and UW Tacoma), college, school, or administrative unit.

While this policy will be enforced centrally at the parent budget level, units are expected to eliminate deficits in any gift and endowment expenditure sub-budgets. Deficits at the sub-budget level should not be sustained.

## **Deficit Resolution – Clinical Medicine (Research and Training) Budgets**

Clinical medicine budgets (also referred to as research and training budgets) are designated with budget type 05 and budget class 52. These budgets only exist within a few organization codes. The Office of Planning & Budgeting will distribute a report each quarter that summarizes the current status of all of the clinical medicine budgets in the units with such budgets. This report will show the balance in each budget at the start of the fiscal year, revenue into the budget in the current fiscal year, expenditures recorded against the budget in the current fiscal year, and the current balance available in the budget as of the date of the report.

The Office of Planning & Budgeting will enforce the deficit policy at the parent budget or unit level. However, units are expected to ensure deficits are not sustained at the sub-budget level. Deficits at the sub-budget level can be cleared by either transferring expenditures to another budget or by transferring funds from another appropriate funding source. If there is a deficit at the parent budget or unit level at the end of the fiscal year, the Office of Planning & Budgeting will resolve the deficit by transferring funds to the parent budget from any available unrestricted resources at the school level.

## Deficit Resolution – Recharge, Cost Center, Auxiliary, and Departmental Revenue Budgets

The University has a variety of different self-sustaining and auxiliary activities where revenue generated by charging (to either internal UW customers or to external UW customers) for services supports the provision of the activities. Examples of budgets within this realm include recharge center budgets, cost center budgets, auxiliary enterprise budgets and departmental revenue budgets. Depending upon which of these categories a budget is in, the deficit resolution policy will differ.

### Deficit Resolution Policy - Recharge Centers and Cost Centers

Recharge center and cost center budgets (Local program 14, Funds 44x) are one type of budget that charges for providing goods and services to others; they are distinguished from other self-sustaining budget types because they charge primarily internal customers. Recharge Centers and Cost Centers are defined as follows:

Recharge Center - An organizational unit or activity that provides goods and services primarily to internal university operations. Recharge centers charge more than \$175,000 annually to federally sponsored agreements OR more than \$1,000,000 in total charges.

Cost Center - An organizational unit or activity that provides goods and services primarily to internal university operations. Cost centers charge less than \$175,000 annually to federally sponsored programs AND less than \$1,000,000 in total charges.

Recharge Centers and Cost Centers must have the rates that they charge for services approved by Management Accounting and Analysis. The financial status of Recharge Centers is reviewed by Management Accounting and Analysis as part of the rate approval policy. Recovery of any deficits from a prior year's operations is factored into future rates, consistent with federal policies. For deficits that exceed 20% of annual revenue, consideration should be given as to whether next year's operations would recover such losses.

### Deficit Resolution Policy – Auxiliary Enterprises

Auxiliaries are units that generate the majority of their revenues from external sources. These budgets are typically local program 14, 15, or 16 and in 5xx numbered funds. These operations do not have the same federal costing constraints as cost and recharge centers. However, they are still expected to maintain a positive fund balance.

Auxiliaries, like cost and recharge centers, often require start-up costs or capital expenses. If up front funding is not available from other areas of the division, the investment must be approved by the Office of Planning & Budgeting.

Auxiliary enterprises at the UW have financial statements that are reviewed by independent accounting auditors, Financial Management, the Treasury Office, the Office of Planning & Budgeting, and for the UW Medical Center, by the Board of Regents. Any deficit situation in an auxiliary enterprise will be addressed as a component of the review of the auxiliary enterprise's annual financial statements by groups listed in this paragraph.

#### Deficit Resolution Policy – Department Revenue Budgets

Departmental revenue (or self-sustaining) budgets are typically classified as local program 01-07 & 09 (fund 148).

The Office of Planning & Budgeting will distribute a report each quarter to each college, school and administrative unit that summarizes the current status of all of the self-sustaining budgets within that organization. This report will show the balance in each budget at the start of the fiscal year, revenue into the budget in the current fiscal year, expenditures recorded against the budget in the current fiscal year, and the current balance available in the budget as of the date of the report.

In instances where a particular activity has a number of budgets associated with it (for example, a budget that records revenue, a budget that records expenses, a budget that holds any reserves, an inventory budget), the college, department or program must identify for the Office of Planning & Budgeting which set of budgets are associated with one another. Where appropriate for activities with interrelated budgets, units are encouraged to set up such activities using parent and sub-budget relationships.

Given the diversity of organizations and the variety of issues and conditions each unit faces, application of the provisions of the deficit resolution policy will vary slightly for each organization. As such, it is expected that units with self-sustaining budgets will discuss any deficit issues with the Office of Planning & Budgeting staff members in order to clarify these issues and agree upon the necessary/appropriate action steps.

Department revenue budgets (or the appropriate combination of budgets that reflects the financial status of a particular activity) cannot have deficits at the end of a fiscal year. If there is a deficit in a departmental revenue budget at the end of a fiscal year, the Office of Planning & Budgeting will resolve the deficit by transferring funds, first from any available unrestricted resources at the department/program level, and if sufficient funds are not available there, from any available unrestricted resources at the campus (for UW Bothell and UW Tacoma), college, school, or administrative unit.

#### Deficit Resolution Policy - Services and Activity Fee Budgets and Technology Fee Budgets

In most instances, Services and Activities Fee revenue and Technology Fee revenue is transferred to budgets in colleges, schools or administrative units to fund activities specified by

the student fee committees. The budgets in which these student fee supported activities are conducted are monitored under the procedures specified in another section of this policy.

The Office of Planning & Budgeting will prepare monitoring reports on at least a quarterly basis for all activities funding by either the Services and Activities Fee or the Technology Fee; these reports will be shared with the Services and Activities Fee Committee, with the Technology Fee Committee and with the Vice Provost for Student Life.



## **Deficit Resolution Plans**

In rare cases where a deficit is significant and/or cannot be resolved prior to the end of the fiscal year/biennium/grant or contract completion, a deficit resolution plan must be created and authorized. For deficits in amounts up to and including \$1,000,000, authorization approval for a formal deficit resolution plan will reside with the Vice Provost of the Office of Planning & Budgeting. Deficit resolution plans for deficits in excess of \$1,000,000 must be reviewed and authorized by the Provost.

A Deficit Resolution Plan request should be submitted via email to the Vice Provost of the Office of Planning & Budgeting, and must include the following:

1. Date of the Request
2. Name of Unit making request
3. Name of Unit contact person, along with contact phone number and email address
4. Name of Dean/Vice President/Vice Provost/Chancellor in which the Unit resides
5. Budget number(s) for budget(s) in deficit
6. Estimate of deficit (either as of June 30<sup>th</sup> of the current year, or prior to close-out of grant/contract).
7. Description of the project/program/service where the deficit was incurred.
8. Explanation for why the deficit occurred.
9. Portrayal of fiscal year(s) timeline during which the deficit occurred, including incremental annual deficit change (if the deficit extended beyond one fiscal year)
10. Proposed business plan for clearing the deficit(s)

A deficit resolution business plan should include historical perspective as well as future projections, so that the plan is presented in the context of actual operating results. The information must include your analysis of the cause of the deficit and rationale for how it can be eliminated through decreased expenditures or increased revenue:

- a) If you are cutting expenditures, please provide a description of the categories of expenses (salary, equipment, etc) to be cut.

- b) If you are increasing revenue/resources, include a description of the new revenue or resources or assumptions that lead you to project these increases. *Note: You cannot claim an increase in central campus resources.*

You should provide a clear and quantified list of actions you intend to take, their expected financial results and timeline, and their impact on the unit's operation budget and deficit resolution. Show planning for quarterly resolution targets, so that you will be able to ensure your expectations are being met and if not, to make adjustments. Include discussion of contingency actions if projected progress doesn't materialize.

11. Proposed timeline for clearing the deficit(s)
12. Signature and/or email approval from Unit Dean/ Vice President/Vice Provost/ Chancellor of the deficit resolution plan approval.

The Vice Provost for the Office of Planning & Budgeting will review the request and provide a response within ten business days of submittal. Approved Deficit Resolution Plans will be monitored by the Office of Planning & Budgeting and reviewed on a periodic basis for compliance (no less frequently than quarterly).

***Revision to Grant & Contract section on 4/30/12.***