

UC Santa Cruz Budget Policies and Procedures

FINANCIAL DEFICIT POLICY

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SCOPE

This document establishes UC Santa Cruz's Financial Deficit Policy and applies to Administrative Officials, defined herein, with responsibility for financial resources.

POLICY SUMMARY

This policy defines management responsibilities for the monitoring, reporting, and timely resolution of Financial Deficits across UC Santa Cruz.

WHY WE HAVE THIS POLICY

Campus administrative officials, such as vice chancellors, deans, and principal investigators, etc., have been delegated spending authority through budget authorization or revenue production in support of official university business. This authority comes with responsibility to follow University policies and procedures and to maintain programs and services in sound fiscal condition.

Although UC Accounting Manual section C-172-13 Cash: Balances of Individual Funds (<https://policy.ucop.edu/doc/3410198/AM-C173-13>) limits the generation of deficits, it does not define local actions to be taken to prevent or resolve deficits.

DEFINITIONS

Administrative Official – For this policy, the term Administrative Official refers to any UC Santa Cruz employee (including faculty with administrative responsibilities, such as principal investigators) who holds a position with delegated financial, administrative, or managerial responsibility.

Year-end Balance – The sum of prior fiscal year budget or prior fiscal year revenue, less prior fiscal year expenses. Encumbrances/liens (e.g., purchase orders) are not included because they are rolled forward to the new fiscal year.

Carryforward Balance – The cumulative (positive or negative) balance at the close of the prior fiscal year, and represented as the beginning balance as of July 1st of the current fiscal year. A year-end balance that is negative represents an **operating deficit** (or **deficit**) that must be covered.

Deficit Resolution Plan – A written, actionable plan detailing the corrective steps to be taken by a unit to eliminate a deficit within a defined period of time. Principal officers may require additional approvals for Deficit Resolution Plans within their unit/division. An **Authorized Deficit Resolution Plan** is one that has been approved by the Associate Vice Chancellor of Budget Analysis and Planning (AVC–BAP).

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Fiscal Management – Fiscal (or **financial**) management is the process of keeping a unit/division running efficiently (and effectively) within its allotted budget.

Financial Deficit – Also referred to as an **operating deficit**, the situation that exists when a financial unit/business unit spends or is projected to spend more than is available in a particular Fund source. Financial Deficits may be measured by testing balances at any level within the accounting hierarchy; the appropriate level depends on the nature of the Funds and is typically identified by funding source limitations. The measurement of a Financial Deficit largely depends on the financial activity within a particular fund (e.g., revenues may be booked after expenses). Administrative officials should actively monitor for potential financial deficits at the financial unit/fund level.

Fund – The high-level classification of the source of funds for a transaction that aids in tracking restrictions and designations. A **fund grouping** or **fund category** comprises similar fund types with similar restrictions and designations that, with appropriate approvals, can be redirected to cover financial deficits.

Fund Manager – Responsible individual for a financial unit/business unit with an ongoing business mission. The fund manager or fund custodian (i.e., the Principal Officer or an individual to whom such responsibility has been formally delegated by the Principal Officer) is assigned fiscal authority over budget, resources and expenses, an identifiable group of employees, and, generally, physical space.

Principal Officer – The vice chancellor- or dean-level position to whom the Administrative Official reports. The Principal Officer generally reports directly to the Chancellor or the CPEVC and has ultimate fiduciary responsibility and accountability for the use of resources within their unit/division and is responsible for ensuring that deficits are identified and resolved. The Principal Officer will often delegate overall administrative responsibility for financial resources to the unit level (e.g., to a Fund Manager); accountability, however, *cannot* be delegated.

Structural Deficit – The condition that exists when ongoing or recurring resources are projected to be less than ongoing or recurring expenses. This can be the case in a current year or in future years based on a multi-year forecast, using reasonable assumptions, which indicates that reliable ongoing or recurring sources are projected to be less than ongoing or recurring uses. Such a forecast should *exclude* non-recurring one-time sources and uses, including carryforward balances.

POLICY STATEMENT

UC Santa Cruz receives financial support from a number of external stakeholders and has a stewardship responsibility to its students; federal, state and private funding agencies; donors; and the public. That stewardship includes prudent financial management of resources entrusted to the University and the Administrative Officials in each financial unit/business unit. All funds must be spent in accordance with University policy. Administrative officials in charge of gifts, contracts, and grants may have additional terms and conditions or fund restrictions with which to comply.

Authority to spend funds brings with it the responsibility for effective fiscal management. All units are to meet operating needs within their overall available budgets or revenue sources. All deficits that arise or are projected to arise in UC Santa Cruz current-year funds should be cleared throughout the fiscal year and must be cleared by the close of the fiscal year.

This administrative official responsibility may be accomplished by

- (1) Regularly monitoring financial activities;

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- (2) Ensuring that recurring expenses are matched with reliable recurring revenue sources or with sufficient one-time resources for the period over which those expenses will accrue;
- (3) Regularly monitoring one-time resources, as well as revenue sources that are highly variable, to ensure expenditures against those resources do not result in a deficit;
- (4) Avoiding cost overruns relative to approved resources;
- (5) Avoiding unallowable or unreasonable costs against various fund sources;
- (6) Avoiding unauthorized cost-transfers or expenditures and promptly resolving improper charges; and
- (7) Immediately resolving any deficit by reducing/deferring spending, redistributing resources, and/or initiating a proactive, timely, and realistic pursuit of additional funding.

Monitoring for potential deficits (and in areas of known deficits) — both operating and structural — should occur throughout the year as part of regular financial and budget monitoring and planning (see [UCSC Ledger Review Guide](#)). Guidance regarding deficit monitoring/assessment may vary by fund grouping; some budgeted fund sources are *estimates* of recurring resources (e.g., self-supporting funds such as recharge income, indirect costs recovery from sustained levels of contracts and grant activity, income from recurring student fees, pass-throughs, agency accounts, etc.) and as such may be permissible to spend in advance of revenue receipts so long as the revenue is realized timely. Administrative officials should regularly (e.g., monthly, quarterly) verify that these estimates of revenue/income are both reliable and realistic and, as appropriate, make expenditure adjustments to stay within available revenue/income levels.

Financial Deficits should not occur and must be remedied in a timely manner when they do occur. The appropriate resolution will differ by Fund and circumstance. Fund Managers and Administrative Officials are responsible determining appropriate methods for eliminating the deficit and may seek Budget Office staff consultation in developing an appropriate plan. Fund Managers and Administrative Officials should be aware that, [per campus policy](#), interest is charged on negative balances.

Should a Financial Deficit occur, or be projected to occur, this policy requires that the Fund Manager and Administrative Official immediately develop a **Deficit Resolution Plan** and submit it for review and approval within 90 days of the realization a deficit is foreseen or the actual deficit occurs. The review for approval process is as follows:

- All Deficit Resolution Plans, regardless of amount, must be reviewed for approval by the relevant Principal Officer, ideally within 30 days of receipt of the plan.
- Any unit that identifies a **potential deficit exceeding \$100,000** that cannot be resolved within the same fiscal year must submit the Deficit Resolution Plan, within 30 days of the Principal Officer's approval, to Budget Analysis and Planning for further review for approval by the AVC-BAP. Once the AVC-BAP approves the plan it becomes an **Authorized Deficit Resolution Plan**.
- Any unit deficit of \$25,000 - \$99,999 that persists or is foreseen to **persist into a second year** must submit the Deficit Resolution Plan, within 30 days of the Principal Officer's approval, to Budget Analysis and Planning for further review for approval by the AVC-BAP to establish it as an **Authorized Deficit Resolution Plan**.
- Should the unit become aware the Authorized Deficit Resolution Plan cannot be followed or should the deficit grow or be projected grow, an updated plan must be submitted through the same review and approval processes and timelines. In this case an additional review for approval step may be conducted by the Campus Provost and Executive Vice Chancellor (CPEVC).

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Budget Analysis and Planning (BAP) will review campus financial balances for deficits on an annual basis (after fiscal close) and provide a report to the Chancellor, CPEVC, and VC-FOA. For units with known deficit risk and/or Authorized Deficit Resolution Plans, BAP will monitor balances periodically throughout the year.

At the direction of the Chancellor or CPEVC, deficits that are not resolved according to the timeline in the Authorized Deficit Resolution Plan, or continue to grow, may result in the transfer of other funds within the department, unit, or division (up to the Principal Officer level) and/or the withholding of future funding allocations to the department, unit, or division (up to the Principal Officer level) until successful resolution.

ADDITIONAL PROCEDURAL CONSIDERATIONS

A. Deficit Monitoring and Reporting

When working to resolve a Financial Deficit, first consult any specific policies and procedures that may be applicable, beyond this policy, to the specific fund source. Examples include the campus [Carry-forward and Year-End balances Guidelines](#), sponsored award terms, [recharge](#) activities guidance (pass-throughs), etc.

Administrative Officials should be familiar with financial review requirements set forth in the campus's [Financial Accountability Guide](#) and [Ledger Review Guide](#) and take advantage of available campus financial systems (FIS, FMW, etc.) and reporting tools (e.g., *InfoView* reports, *FMW* reports, etc.) to meet their Fund management responsibilities. These are effective tools for monitoring current deficits.

Annually, BAP prepares a current year briefing of carry-forwards and deficits (with an appendix showing a multi-year listing of deficits) for the Chancellor, CPEVC, and Senate Committee on Planning and Budget (CPB).

B. Clearing Deficits

In general, deficits arising from current year activities can be cleared either by transferring budget from another unit or area with the same fund code (using a Transfer of Funds journal) or by transferring expenditures to another fund code that has a positive balance and is applicable (using a Transfer of Expense journal). If a deficit is projected (not yet realized), spending plans should be reconsidered for cost reduction, cost deferment, utilization of other funding sources of the unit, revenue generation options, etc. to prevent the deficit.

C. Deficit Resolution Plan

- Units may use any reasonable format for producing a written deficit resolution document so long as the content includes accurate financial balances, a clearly defined and measurable corrective course of action, a timeline for resolution, and active monitoring requirements. BAP offers this [template](#) as a suggested format.

RELATED INFORMATION

- [University of California Policy – BFB BUS-10 Principles of Accountability with Respect to Financial Transactions](#)
 - [UCOP financial policy](#) (*an example of how UCOP's Office of the Chief Financial Officer implemented financial responsibility and accountability — including deficit monitoring*)
- [University of California Accounting Manual - Balances of Individual Funds](#)

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- C. [University of California Contract and Grant Manual - 6-400 Responsibility for Financial Management and Control of Project Funds](#)
- D. [University of California Academic Personnel Manual](#)
- E. [UC Santa Cruz Financial Accountability Guide](#)
 - [Ledger Review Guide](#) (an example of one of the UCSC tools provided by Financial Affairs to help Fund Managers conduct an analytic review of their finances to detect substantial changes in circumstances or business conditions and to ensure that general ledger transactions are accurately recorded and reasonably funded)
- F. [UC Santa Cruz Carry-forward and Year-end balances Guidelines](#)
- G. [UC Santa Cruz Recharge Policy](#)
- H. [UC Santa Cruz STIP Policy on Negative Balances](#)

FREQUENTLY ASKED QUESTIONS (FAQs)

Additional implementation guidance, report access, templates, and Frequently Asked Questions (FAQs) will be updated periodically at <https://planning.ucsc.edu/budget/guidelines-systems-training/>.

REVISION HISTORY

2023-10-01 New policy published.