

University of California, Berkeley
Policy Issued: September 15, 2005
Policy Revised: June 7, 2013 (See end for explanation)
Effective Date: July 1, 2005
Supersedes: None, New Policy



Deficit Resolution

Current Responsible Executive: Vice Chancellor-Administration & Finance

Original Responsible Executive: William Webster
Acting Vice Chancellor, Budget and Finance

Responsible Office: Campus Budget Office

Contact: Associate Vice Chancellor - Budget
budget@berkeley.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 California, Berkeley current, loan, and plant funds should be cleared throughout the year and must be cleared by the close of the fiscal year. Deficits may be resolved by either transferring budgeted funds between chartstrings within the same fund group or by transferring expenditures between chartstrings, if allowable.

Under special circumstances approved by the Chancellor, deficits may be carried forward 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 campus recharge policy. This circumstance is expected to be rare and approval will be on an exceptional basis, because deficits should be resolved within 90 days or, for deficits arising in the last quarter, by the fiscal year end as a best practice.

If deficits are not cleared by the fiscal year end, the Campus Budget Office will transfer funds and/or expenses from other unrestricted sources within the department, control unit, dean's office, or vice provost's office. If no funds are available in the department, the Campus Budget Office will transfer funds from the relevant vice chancellor's or dean's unrestricted funds to cover the deficit. If no funds are available from the appropriate control unit, vice provost's office, or dean's office, future appropriations will be withheld from the vice chancellor, vice provost, or dean until the deficit has been cleared.

UNIVERSITY OF CALIFORNIA, BERKELEY
Policy on Deficit Resolution

Who Is Affected by This Policy

- Administrative Officials (includes but is not limited to department chairs, principal investigators, vice chancellors, deans, directors, and managers)
- Budget and Accounting Officers

Who Administers This Policy

- Controller's Office
- Campus Budget Office
- Vice Chancellors and Deans
- Administrative Officials and their Budget and Accounting Officers

Why We Have This Policy

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

Campus administrative officials, including vice chancellors, deans, and principal investigators have a responsibility to follow University policies and procedures. This includes maintaining programs in sound fiscal condition. Administrative officials in charge of gifts, contracts, and grants may have additional terms and conditions with which to comply. Administrative officials 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.

UNIVERSITY OF CALIFORNIA, BERKELEY
Policy on Deficit Resolution

Responsibilities

Vice Chancellors and Deans:

- Maintain a financially sound organization and monitor the financial operations of the unit.
- Review written deficit resolution plans submitted by administrative officials.
- Ensure that deficit resolution plans are carried out as proposed.

Administrative Officials (includes but is not limited to: vice chancellors, deans, directors, department chairs, principal investigators, managers, and business/accounting officers):

- Monitor expenditures for funds under their purview to ensure the funds do not incur deficits.
- Take quick action to eliminate overdrafts or deficits.
- Develop deficit resolution plans and submit them to the appropriate vice chancellor 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.

Campus Budget Office and Controller's Office:

- Ensure that support tools (such as the Berkeley Financial System) provide timely information for recognizing fund overdrafts or deficits.
- Monitor adherence to policy.
- Work with administrative officials to implement practices that improve accountability and control for funds that incur a deficit.
- Provide exception reports on an annual basis.
- Work with departments to ensure that deficits are resolved in accordance with University policy and any other policies or conditions that apply.
- As part of the budget process, the Campus Budget Office meets with vice chancellors and deans to discuss deficit resolution actions for existing and anticipated deficits.
- 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 process, the Campus Budget Office:
 - Reviews all deficit carry forward balances and works with the appropriate administrative officer to clear the deficit or identify a deficit resolution plan.
 - Reviews long-term deficit resolution plans for progress in meeting the goals of the plan.
- At fiscal year end, the Campus Budget Office transfers funds to clear deficits in accordance with the rules and procedures outlined in this document.

UNIVERSITY OF CALIFORNIA, BERKELEY
Policy on Deficit Resolution

Procedures

OVERVIEW

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 and unallowable cost transfers;
- Identification of additional funds, if needed.

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

Deficits 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 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 Chancellor-Administration & Finance. 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 Vice Chancellor-Administration & Finance.** Deficit resolution plans may not be submitted for amounts less than \$25,000. Divisions are required to clear all department deficits under \$25,000 by year end.

Administrative officials are responsible for submitting to their vice chancellor or dean a written plan for eliminating the deficit. See instructions for deficit waiver request submission at the [Campus Budget Office website](#). If the vice chancellor or dean is in agreement, the vice chancellor or dean signs the plan. All approved plans must then be forwarded to the Campus Budget Office for review by the Vice Chancellor-Administration & Finance. The Chancellor has delegated authority to the Vice Chancellor-Administration & Finance to approve deficit recovery plans for deficits under \$1,000,000. Deficit recovery plans for deficits greater than \$1,000,000 are forwarded by the Vice Chancellor-Administration & Finance to the Chancellor for approval.

The Chancellor 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. Vice chancellors, deans, 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 Vice Chancellor-Administration & Finance works with vice chancellors, deans, and appropriate administrative officials to resolve significant deficits or deficits that will take an extended period of time to resolve.

UNIVERSITY OF CALIFORNIA, BERKELEY
Policy on Deficit Resolution

REVIEW/MONITORING PROCESS

Departments should monitor their current and loan funds and plant projects on a regular basis (preferably monthly but at least quarterly) to ensure problems are identified on a timely basis and corrective action taken to ensure there is no unauthorized use of campus funds and to minimize the risk of department funds being centrally reallocated at the fiscal year end to cover deficits. BAIRS reports are updated daily and should be reviewed to identify problem areas.

Current fund deficits are reviewed as part of the annual budget process. Units should review their BAIRS deficit reports on a monthly basis between March and June of each year to identify potential year-end deficit problems and implement resolutions. The relevant vice chancellor or dean should contact the Campus Budget Office with any concerns no later than June 15 to ensure those concerns can be addressed prior to fiscal close. If the deficits are not cleared, or an authorized deficit resolution plan put in place by fiscal year end, the deficit and any additional deficits arising in the June accounting period is cleared against available fund sources as described below (see “Consequences of Not Resolving the Deficit during the Fiscal Year”).

HOW TO CLEAR DEFICITS

In general, deficits arising from current year activities can be cleared either by transferring in resources with the same fund number (using budget journals in the TempBudg ledger or operating transfer accounts in the Actuals ledger, as appropriate for the fund) or by transferring expenditures between chartstrings, if allowable.

All expense transfers relating to current or prior year deficits must be made in accordance with the cost transfer and expenditure procedures listed at <http://controller.berkeley.edu/generalaccounting/PoliciesProcedures/CostTransfer.htm>.

Current Fund deficits

- To transfer resources for contract and grant funds, Temporary Budget journals are used in accordance with campus policy and procedures overseen by Extramural Funds Accounting.
- To transfer resources for non-contract and grant funds, enter and post a financial journal in Actuals using the appropriate operating transfer account number.
- If there is no balance available to clear the deficit in a particular fund, and an expenditure transfer is not desirable, the unit could consider a fund exchange coordinated through its division or control unit budget office (e.g. an exchange of 19900 for 69750 funds).

The Campus Budget Office can exchange certain non-contract and grant Current funds for a division if both funds fall within the same Office of the President Fund Group Code (fund range), subject to any fund or policy (the recharge policy, for instance) restrictions. For a list of OP Fund Group Codes, go to <http://controller.berkeley.edu/generalaccounting/>.

UNIVERSITY OF CALIFORNIA, BERKELEY
Policy on Deficit Resolution

- To transfer current year expenditures (Actuals ledger), departments should prepare adjustments in CARS, prepare payroll expense transfers for payroll items, or prepare financial journals for vouchers, recharges, redistributions, and miscellaneous cash deposits. Expenditures may be transferred between any chartstrings during the current year, provided there are no fund use restrictions on the type of expenditures being transferred.

In the rare event that the deficit can be cleared only by moving prior year actual expenditures to an appropriate fund source, a transfer can be made at the account level if the transfer is within the same OP Fund Group Code (fund range). If the transfer is outside the fund range and is less than \$100,000, the deficit may be cleared by moving actual expenditures at the account level to an appropriate fund source. If the transfer of prior year expenses is over \$100,000, contact the budget manager in the appropriate vice chancellor's or dean's office for assistance.

By the end of the fiscal year, balances in Current funds must be equal to or greater than zero at the fund/department (L4) (for limited exceptions see next section – “Contracts and Grants Deficits”). Deficits against project and flex fields should be cleared by the unit. If not, they will be carried into the next fiscal year and may distort operating balances at the full chartstring level. Deficits must be cleared before a project or flex field can be deactivated. Any deficits at the fund/department (L4) level not cleared by the unit will be cleared by the central campus using the process outlined in the section entitled “Consequences of Not Resolving the Deficit.”

The Plant Fund includes three minor fund groups which can have deficits:

- Unexpended Plant fund project deficits can be cleared by appropriating additional funds to the project, by transferring expenditures between project chartstrings if allowable, or by adjusting liens, as appropriate. (Expenditure transfers involving state funds or debt funds should usually be coordinated with Plant Accounting.)
- Reserves for Renewal and Replacement fund deficits can be cleared either by transferring additional funds to the project from a Current or Plant fund, or by transferring expenditures to another chartstring in either another Reserves fund or a Current fund, as appropriate. Expenditures should be transferred between chartstrings during the current year.
- Retirement of Indebtedness fund deficits can be cleared by transferring additional funds from the Current fund during the current year.

By the end of the fiscal year, all unit deficits in Plant funds or projects should be cleared.

CONTRACT AND GRANT DEFICITS

Open Funds:

At fiscal year end, contract and grant funds will be reviewed for deficits. Expenditures that are greater than the total future anticipated funding for multi-year contract and grant funds, and whose termination date is more than 120 days beyond fiscal year end, will be cleared or will require a written deficit resolution plan for approval by Extramural Funds Accounting and the Vice Chancellor–Administration

UNIVERSITY OF CALIFORNIA, BERKELEY
Policy on Deficit Resolution

& Finance. (Awards with a termination date in April, May, or June of the current year are handled through the deficit clearing process on closed funds as identified below).

If the deficit is not cleared or if the deficit resolution plan is not approved, the deficit will be cleared in accordance with the procedures identified in the Campus Policy on Deficit Resolution under “Consequences of Not Resolving the Deficit.”

Exception for SubAwards:

An exception to the above policy on Deficit Clearing on Open Funds will be made when the campus is a contract or grant subawardee. Due to the nature of funding of subawards from other institutions, it is out of the campus department’s control as to when funding is received. This does not excuse the department from monitoring spending on subawards, nor from promptly resolving any deficits. However, subawards will not be automatically cleared at fiscal year end.

Closed Funds (Effective July 1, 2007):

After an award closes, the campus allows for an “adjustment period” of 65 days beyond the last day of the final project budget period. For example, if an award was terminated on August 31, 2006, the adjustment period would have begun on September, 1, 2006, and ended on November 5, 2006. The purpose of the adjustment period is to ensure that all final financial transactions that could not be processed during the final month of the budget period are posted to the general ledger.

Overdrafts and expenses deemed unallowable should be cleared during the adjustment period. If the department does not clear unallowable overdrafts and expenses by the end of the adjustment period, the overdrafts and expenses will not be reported to the agency. However, the department will still have to charge the overdrafts and expenses to an appropriate funding source.

If the department still has not cleared unallowable overdrafts or expenses 120 days after the termination date of the award, Extramural Funds Accounting will charge the balance to available fund sources using the process outlined in the Campus Policy on Deficit Resolution under “Consequences of Not Resolving the Deficit.”

As described in the Overview section on page 4, deficits may be carried forward only if the award recipient has a written deficit resolution plan approved by the Vice Chancellor-Administration & Finance. The deficit resolution plan must be provided within 90 days of the termination date to allow for review by Extramural Funds Accounting and the Vice Chancellor-Administration & Finance. Deficit resolution plans may not be submitted for amounts less than \$25,000.

HANDLING DEFICITS FOR RECHARGE AND PASS-THROUGH ACTIVITIES

Deficit balances for all recharge or pass-through activities can be allowed when:

- the balance is within operating tolerance as defined in Section G of the [campus recharge policy](#),
- or

UNIVERSITY OF CALIFORNIA, BERKELEY
Policy on Deficit Resolution

- the balance is within approved deficit resolution plan goals

Recharge or pass-through activities already listed on the [Recharge Centers Department Contact List](#) may carry deficits into the next fiscal year provided they are in compliance with at least one of the two bullet-pointed conditions listed above.

All other recharge or pass-through activities must receive permission to carry a deficit into the next fiscal year by sending the following information to recharge@berkeley.edu:

- Unit name and contact information
- Brief description of activity
- Chartstrings for recording recharge or pass-through activity
- Estimated annual recharge income/revenue

These other recharge or pass-through activities must also either:

- maintain a deficit balance within the operating tolerance defined in Section G of the [campus recharge policy](#), or
- maintain a deficit balance within approved deficit resolution plan goals

Units that cease recharge or pass-through activities should promptly notify the Campus Budget Office by sending an email to recharge@berkeley.edu.

Deficits in excess of an approved resolution plan will be cleared under the terms of the deficit policy. For example, a recharge or pass-through activity with a \$120,000 deficit but approval to carry only a \$100,000 deficit will have the extra \$20,000 deficit cleared in accordance with the terms of the “Consequences of not Resolving the Deficit” section below.

CONSEQUENCES OF NOT RESOLVING THE DEFICIT

In the Current Fund group, the actions specified below will be taken where:

- A unit has a deficit in a non-contract and grant fund at the fund/department level (level 4 node on the master org tree) at fiscal year end; or
 - A unit has a deficit in a contract and grant fund under any of the circumstances specified in the “Contracts and Grant Deficit” section above:
1. Financial journal expense transfers will be made to available resources within the department to clear the deficit, following this hierarchy:
 - a. 19900 – State General Fund
 - b. Other 199XX UC General Funds
 - c. 65900, 69799, 69798 – Campus Funds
 - d. 07427, 09520 opportunity funds, 05397 ed funds
 - e. 69750, 69749 off the top funds
 - f. miscellaneous sales or services income (not recharge)
 - g. auxiliary funds

UNIVERSITY OF CALIFORNIA, BERKELEY
Policy on Deficit Resolution

- h. other sources
 - i. professional degree fee income
 - j. unrestricted endowments
 - k. endowments unrestricted for department, school or college
 - l. unrestricted gifts
 - m. gifts unrestricted for department, school or college
 - n. lottery (restricted to instructional use - may need post audit review) Fund
2. If no funds are available from any of the above sources, operating transfers will be made from available resources within the appropriate control unit, vice provost's office, or dean's office.
 3. If no funds are available from the appropriate control unit, vice provost's office, or dean's office, future appropriations will be withheld from the vice chancellor, vice provost, or dean until the deficit has been cleared.
 4. The only exceptions to the above methodology are where an approved deficit reduction plan is in place, or where a fund is a recharge or pass-through activity within tolerance levels set for deficits.

Deficits in Loan or Plant funds that aren't cleared by the unit by year-end will carry forward to the next fiscal year. The Campus Budget Office will track these and will follow-up with the division during the first quarter of the new year to ensure they are being addressed in a timely manner.

UNIVERSITY OF CALIFORNIA, BERKELEY
Policy on Deficit Resolution

Web Site Address for This Policy

<http://campuspol.chance.berkeley.edu/policies/deficitresolution.pdf>

Glossary

Administrative Official: A UC Berkeley employee to whom financial, administrative, or management responsibilities have been delegated, e.g. vice chancellor, provost, dean, department chair, principal investigator, director, or manager.

Campus Unit: A department, office, program, institute, center, project, or other academic or administrative entity that is part of the University of California, Berkeley.

Chartstring: A set of numeric codes that comprise the standard means of coding and processing transactions in campus accounting systems. The chartstring is used to track the University's financial transactions and is a combination of these chart fields: account, fund, org code, CF1 and CF2.

Deficit: The definition depends on the type of fund involved, but always involves summing the specified chartstrings to the department (L4) level, by fund.

- For contract and grant Current funds, the amount by which expenditures exceed an award.
- For non-contract and grant Current funds, a debit balance in the sum of all actuals accounts, 30000 and greater as reflected in the Berkeley Financial System (BFS).
- For Reserves for Renewal and Replacement funds, the amount by which Actual expenditures exceed TempBudg appropriations.

Discretionary/Unrestricted Fund: A fund that can be used for any purpose within a unit or has no restriction preventing its use to clear a deficit.

Related Documents

Campus Administrative Responsibilities Guide:
<http://compliance.berkeley.edu/responsibilities-guide>

Campus Cost Transfer Policy:
<http://controller.berkeley.edu/generalaccounting/PoliciesProcedures/CostTransfer.htm>

Campus Fund List by Fund Group:
<http://controller.berkeley.edu/generalaccounting/>

Campus Recharge Policy:
controller.berkeley.edu/recharge/Policies/Rechargepolicy.pdf

UNIVERSITY OF CALIFORNIA, BERKELEY
Policy on Deficit Resolution

Deficit Resolution Plan:
<http://goo.gl/qAJE2>

Revision History

June 7, 2013

The policy was extensively revised to implement the following:

- Technical changes related to the elimination of the temporary budget ledger for most campus funds.
- The order in which funds will be drawn upon to fix campus deficits.
- An increase in the minimum deficit the campus will consider for a waiver request from \$5,000 to \$25,000.
- Change in title for the Responsible Executive from Vice Chancellor-Administration to Vice Chancellor-Administration & Finance.

November 9, 2010

On Page 3, two bullet points under the heading “Campus Budget Office and Controller’s Office” were changed as follows (red indicates deletion, green indicates addition):

- Provide exception reports on ~~a quarterly basis~~ **an annual basis**.
- ~~After the December close~~ **As part of the budget process**, the Campus Budget Office meets with vice chancellors and deans to discuss ~~in-year~~ deficit resolution actions for **existing and anticipated** deficits ~~appearing on the second quarter deficit report~~.

On Page 5, the first sentence of the second paragraph under the heading “Review/Monitoring Process:” was changed as follows: Current fund deficits ~~at the end of March~~ are reviewed as part of the annual budget process.

April 22, 2010

On Page 1, the Responsible Executive was changed from Nathan Brostrom, Vice Chancellor-Administration, to Vice Chancellor-Administration.

This sentence on Page 4 was changed as follows: The Chancellor has delegated authority to the Vice Chancellor-Administration to approve deficit recovery plans for deficits under \$1,000,000 ~~and all deficits related to activities covered by the campus recharge policy~~.

On pages 4 and 9, the link to the Deficit Resolution Plan was updated.

May 29, 2009

UNIVERSITY OF CALIFORNIA, BERKELEY
Policy on Deficit Resolution

The last sentence of the Policy Statement on Page 1 was revised to make it consistent with the July 16, 2008 revision to Page 8.

In two places on Page 8, the term “org code level 4” was changed to “level 4 node on the master org tree.”

The Appendix, which contained the latest version of the Deficit Resolution Plan Form, was deleted. It was replaced with links on Pages 4 and 9 to an electronic version of the Deficit Resolution Plan Form.

The Budget Office provided a new version of the Deficit Resolution Plan Form and two broken links (Campus Cost Transfer Policy, Campus Fund List by Fund Group) were fixed.

July 16, 2008

This sentence on Page 8 was changed as follows: If no funds are available from the appropriate control unit, vice provost’s office, or dean’s office, future **STIP** appropriations will be withheld from the vice chancellor, vice provost, or dean until the deficit has been cleared ~~by allocation of the STIP funds~~.

In addition, the Budget Office provided a new version of the Deficit Resolution Plan Form.