UHCC Policy Chapter 8, Business and Finance
UHCC Policy 8.200, Financial and Operational Oversight of Revenue Generating and Financially Self-Sustaining Programs
Effective Date: March 2016
Prior Dates Amended: April 2018 (recodified)
Responsible Office: Office of the Vice President for Community Colleges
Governing Board of Regents Policy: N/A
Review Date: February 2021

I. Purpose

A. This policy provides additional guidance to campus administrators in carrying out financial and operational managerial oversight of programs and shall apply to all programs that are established to be operationally self-sustaining or ancillary services that are incidental and may be commercial in nature from the educational mission of the University of Hawai‘i (UH) and campus. Such programs shall include, but are not limited to:

1. Art Galleries
2. Automotive Services – provided to the general public for additional learning experience for students
3. Concession/Vending Contracts – beverage dispensing rights, food trucks, coffee, sandwich, hotdog, snack food etc.
4. Conference Center Programs
5. Commercial Enterprise activities
6. Culinary Arts – campus food service operations and catering.
7. Office of Continuing Education and Training (OCET)/Pacific Center for Advanced Technology Training (PCATT)
8. Parking Operations
9. Theatre Operations

II. Definitions

III. Executive Policy

A. Responsibilities

1. Chancellors shall be responsible for ensuring the continued financial and operational success of revenue generating programs at their campus and that they are financially self-sustaining.

   a. The Office of the Vice President for Community Colleges (OVPCC) shall be responsible for monitoring campuses to ensure financial and operational accountability at each campus is being carried out, as well as, provide technical expertise and guidance with implementing generally accepted accounting principles at the campus level.

   b. Chancellors are responsible for the financial and operational management at their respective campus and may delegate their authority to qualified, responsible campus administrators (Vice Chancellors/Deans) in whole or in part.

   c. Vice Chancellors/Deans who are delegated financial authority to manage the daily operations of campus programs by the Chancellor may assign, or be assigned, as the fiscal administrator to assist in meeting campus financial management responsibilities.

   d. Vice Chancellors/Deans shall be responsible for ensuring all University Executive Policies and Administrative Procedures are adhered to at all times, as well as ensure that all subsidiary point of sale, registration, and/or separate accounts receivable system operating on their campus are reconciled against the University's general ledger, the Kuali Financial System (KFS) at least once a month. For additional guidance on accounting procedures specific to Point of Sale systems see Attachment A.

2. Chancellors shall require each applicable program under this policy to develop yearly revenue and expense projections that keep the program financially self-sustaining or project an operational plan to be self-sustaining within an acceptable time frame.

   a. Chancellors or designee shall monitor each program on a monthly and yearly basis, and at minimum, hold quarterly meetings with program deans and department Heads to ensure effective management decisions are being made to keep projected revenue and expenses compared to actual revenue and expenses in close alignment.

   b. At a minimum, revenue and expense reports shall include line item details on all sources of revenue to the program including campus indirect cost recovery. Major expense categories shall include personnel/payroll and other major expense categories for a program.

c. Business Offices shall assist their respective Chancellor or designee, as well as responsible program personnel, in developing monthly revenue and expense, cash flow, and balance sheet reports based on information in the University general ledger accounting system.

d. Business Offices shall carry out the function of reconciling all point of sale, registration, and/or separate accounts receivable sub-systems, and inventory control systems on a monthly basis with information contained in the University general ledger accounting system. Any variance in financial and inventory information identified in the reconciliation process shall immediately be brought to the attention of program personnel in order to determine corrective action(s) that need to be taken for systems to balance with the general ledger.

e. Program personnel shall be responsible for maintaining the accuracy of the information contained in all point of sale, registration, and/or separate accounts receivable sub-systems, and inventory control systems at their campus and ensure the information contained in those systems are reconciled with KFS at least once a month.

3. All programs shall implement effective systems of internal controls and comply with all University policies related to the handling of cash and deposits, accounts receivable, inventory control, and utilizing subsidiary systems to track program revenues and/or expenses.

   a. The Chancellor or designee shall ensure the Business Office conducts regular cash handling and deposit audits of all campus programs applicable under this policy. The goal of the cash handling and deposit audit is to ensure the separation of duties from cash collection and cash deposits are adhered to in order to minimize potential reporting errors. A record of cash handling audits and corrective actions taken shall be kept in the Business Office for review by UHCC System Office and BOR personnel (Office of the Internal Auditor) upon request.

   b. Campus programs shall develop standard operating procedures outlining the separation of duties and responsibilities for cash handling, deposits, recording accounts receivable, and inventory controls where applicable within the purview of departmental personnel.

   c. For cash handling, standard operating procedures shall show a clear segregation of duties for receiving and counting cash, preparation of deposit and the recording of cash receipts on deposit forms, recording cash-related ledger correction or adjustments (journal voucher), making the deposit at the Business Office or via armored car pick-up, and comparing cash deposits recorded in the general or subsidiary ledger to deposit amounts on deposit forms.

4. Chancellors or designee shall vet, on a yearly basis, all campus programs covered under this policy to ensure that their program related activities have been, and continue to be, properly reviewed for issues that may arise with respect to Unrelated Business Income Tax (UBIT).

    a. As a state instrumentality, UH is generally tax-exempt under Internal Revenue Code (IRC) Section 115. However, IRC §511 and corresponding Treasury Regulations place a tax on income that is not related to the University's exempt purposes. For income to be UBIT, the activity generating the income must be:

        (i) A trade or business – conducted with intent to generate profit;

        (ii) Activity that is regularly carried on determined by looking to frequency, continuity, and whether the manner the activity is conducted is consistent with the manner of a commercial taxable organization; and

        (iii) Not substantially related to the exempt purpose of the organization – does not contribute importantly to furthering the University's purposes, motivated primarily for the production of income.

    b. If it is determined by campus administrative review, independent or internal audit that a campus program related activity may be subject to paying UBIT, the Fiscal Administrator shall be responsible for conducting an analysis to determine "net profit" (net of related expenses) of program activity deemed subject to UBIT.

    c. Related expenses that need to be considered include allocated salary of personnel involved in the UBIT activity (based on time spent and the allocated salary for respective personnel), allocated depreciation (i.e., if using a campus facility, what is the pro-rated depreciation for that particular square footage of the facility), and possible indirect costs associated for the duration of the UBIT activity.

    d. If after conducting a financial analysis of campus program activity the Fiscal Administrator determines the activity has generated a net profit, the campus shall contact the University's FMO - Tax Services Specialist to determine and calculate any UBIT tax payments that need to be made to the IRS. All payments of UBIT shall be processed through the UH Disbursing Office.

e. Determining whether a program may be subject to reporting unrelated business income and related tax implications should not in itself prevent the campus from determining whether or not to undertake an activity in support of a program. It is the responsibility of program Deans/Directors and Department Head to review and ensure that all activity undertaken by a program is related to the educational mission of the program and institutional mission of the campus.

5. Chancellor or designee, shall conduct a thorough review of all program activity covered under this policy to ensure such activities do not require the need for additional insurance coverage to protect the University from undue exposure to liability.

   a. Chancellor shall be responsible for conducting, at minimum, yearly review of all programs covered under this policy to assess the level of risk a campus program's activities may leave the University exposed to with regard to increased liability.

   b. Vice Chancellors and Deans with direct oversight of programs shall assess all activities of their programs on a regular basis to reduce the possibility of exposing the University to increased risk of liability and bring any such concerns to the attention of the Chancellor for further action.

   c. Department Head and program managers shall review UH EP 8.207, Risk Management, and bring any risk of exposure to liability for activities contemplated by the program, to the attention of their supervisor and/or Chancellor for further review and action.

6. All revenue generating programs shall account for campus indirect costs for services and facilities used by the program. Accounting for these costs shall be done by campuses establishing a Campus Administrative Cost Rate and shall be applied to all gross receipts of revenue generating, non-general funded programs and accounted for separately from program costs. In establishing a Campus Administrative Cost Rate, the campus shall take into consideration the indirect cost of providing campus services, the use of facilities and assets tied to an asset replacement or renewal schedule for facility major repair and asset life cycle replacement costs, as well as, account for a programs fair share of the utility costs of the campus.

   a. Vice Chancellor for Administrative Services, in consultation with the Chancellor, shall establish a Campus Administrative Cost Rate that shall be applied to the gross receipts of all for-credit sponsored/sheltered agreement classes, as well as non-credit classes and other revenue generating program activities.

b. Campus Administrative Cost Rate shall be between 10% – 15% of a revenue generating programs total gross receipts and shall be reviewed on an annual basis and calculated based on previous fiscal year campus wide indirect cost expenses, as well as any major future year expenses, to ensure programs covered under this policy are accounting for their equitable share of expenses of the campus.

c. For programs where Federal contract or grant funds are used to pay for tuition of eligible participants in a non-credit program or class, and that expenditure is subject to the indirect cost assessment, the tuition charged against the Federal contract or grant shall be discounted by the amount of the Campus Administrative Cost Rate for that program or class.

7. Fiscal Administrators shall ensure programs covered under this policy that generate revenue via contractual rebate/commission payments follow accounting procedures contained in Attachment B, regarding proper receipt, posting of revenue, and reconciliation tasks are accomplished in a timely manner.

IV. Delegation of Authority

V. Contact Information

Subject Matter Experts

Office of the Vice President for Community Colleges, telephone number 956-7038 or email at jmorton@hawaii.edu

VI. References

A. University Systemwide Executive Policy, EP 1.102, Authority to Manage and Control the Operations of the Campus

B. University Systemwide Executive Policy, EP 10.201, Use of University-Owned Facilities

C. University Systemwide Executive Policy, EP 8.207, Risk Management

D. University Systemwide Administrative Procedure, AP 8.025, Fiscal Responsibilities within the University

E. University Systemwide Administrative Procedure, AP 8.400, Risk Management Guidelines and Procedures

F. University Systemwide Administrative Procedure, AP 8.602, Accounting-General Ledger

G. University Systemwide Administrative Procedure, AP 8.636, Supply Inventory

H. University Systemwide Administrative Procedure, AP 8.641, Journal Vouchers

I. University Systemwide Administrative Procedure, AP 8.651, Accounts Receivable

J. University Systemwide Administrative Procedure, AP 8.701, Receipting and Depositing of Funds Received by the University

K. University Systemwide Administrative Procedure, AP 8.750, Establishment of Change Funds

L. Policies and Guidelines for Kuali Financial System (KFS) Process Documents www.fmo.hawaii.edu, Financial Systems

For additional information on all Financial Management Office policies and guidelines that campuses are required to adhere to, visit www.fmo.hawaii.edu

VII. Exhibits and Appendices

A. Attachment A--UHCC Accounting Procedures for Campus Programs Operating Point of Sale Systems
B. Attachment B--UHCC Accounting Procedures and, Handling of Rebate/Commission Payments from Foodservice & Vending Contractors

Approved:

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John Morton Date
Vice President for Community Colleges