

UNIVERSITY OF HAWAII

COMMUNITY COLLEGES POLICY

UHCCP # 8.200 Financial and Operational Oversight of Revenue Generating and Financially Self-Sustaining Programs

March 2016

I. Purpose

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:

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

II. Related University Policies

- A. University Systemwide Executive Policy EP 1.102, Authority to Manage and Control the Operations of the Campus <http://www.hawaii.edu/policy/ep1.102>
- B. University Systemwide Executive Policy EP 10.201, Use of University-Owned Facilities <http://www.hawaii.edu/policy/ep10.201>
- C. University Systemwide Executive Policy EP 8.207, Risk Management <http://www.hawaii.edu/policy/ep8.207>
- D. University Systemwide Administrative Procedure AP 8.025, Fiscal Responsibilities within the University <http://www.hawaii.edu/policy/ap8.025>

- E. University Systemwide Administrative Procedure AP 8.400, Risk Management Guidelines and Procedures
<http://www.hawaii.edu/policy/docs/temp/ap8.400.pdf>
- F. University Systemwide Administrative Procedure AP 8.602 Accounting-General Ledger <http://www.hawaii.edu/policy/docs/temp/ap8.602.pdf>
- G. University Systemwide Administrative Procedure AP 8.636 Supply Inventory
<http://www.hawaii.edu/policy/docs/temp/ap8.636.pdf>
- H. University Systemwide Administrative Procedure AP 8.641 Journal Vouchers
<http://www.hawaii.edu/policy/docs/temp/ap8.641.pdf>
- I. University Systemwide Administrative Procedure AP 8.651 Accounts Receivable <http://www.hawaii.edu/policy/docs/temp/ap8.651.pdf>
- J. University Systemwide Administrative Procedure AP 8.701 Receipting and Depositing of Funds Received by the University
<http://www.hawaii.edu/policy/docs/temp/ap8.701.pdf>
- K. University Systemwide Administrative Procedure AP 8.750 Establishment of Change Funds <http://www.hawaii.edu/policy/docs/temp/ap8.750.pdf>
- L. University Systemwide Administrative Procedure AP 8.751 Cash Count of Change Fund <http://www.hawaii.edu/policy/docs/temp/ap8.751.pdf>
- M. Policies and Guidelines for Kualii 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

III. Responsibilities

- A. 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.
 - 1. The Office of the Vice President for Community Colleges (OVPC) 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.

2. 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.
 3. 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.
 4. 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.
- B. 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.
1. 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.
 2. 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.
 3. 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.
 4. 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.

5. 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.
- C. 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.
1. 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.
 2. 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.
 3. 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.
- D. 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).
1. 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:

- a. A trade or business – conducted with intent to generate profit;
 - b. 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
 - c. 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.
2. 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.
 3. 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.
 4. 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.
 5. 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.
- E. 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.
1. 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.

2. 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.
 3. 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.
- F. 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.
1. 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.
 2. 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.
 3. 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.

- G. 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.

University of Hawai'i Community Colleges Accounting Procedures for Campus Programs Operating Point of Sale Systems

Campus programs shall be responsible for ensuring that all stand-alone Point of Sale (POS) systems used at their campus are fully capable of meeting the operational, financial and security information requirements of the University. The Vice Chancellor for Administrative Services and the Fiscal Administrator of the Business Office shall review all POS Systems to ensure adequate financial information, cash handling, and access (prevent unauthorized access and track changes made in the system) controls can be implemented through use of the system before allowing the purchase of the POS System and use at their campus.

The Business Office will be responsible for reconciling all campus program POS Systems with program account information (sales, cost of sales, A/R, purchases, inventory, etc.) in Kuali (KFS) on a monthly and annual basis.

The campus program shall be responsible for recording all cash/credit card/accounts receivables in their POS System on a daily basis.

- Daily sales recorded in the POS System should be reconciled to the cash registers by campus personnel independent of sale transactions (cashiers should not be performing the reconciliation). Discrepancies should be resolved immediately.
- Sales proceeds should be deposited daily with the bank. Bank deposit slips should be prepared by campus personnel independent of the sales transactions with a copy forwarded to the Business Office.
- All sales adjustments (discounts, voids, etc.) must be approved by the Campus Program Department Head or their designee.
- Campus program shall be responsible for recording all cash/credit card/accounts receivables in their program account(s) on KFS on a daily basis.

Billing External Customers of the University

The campus program shall be responsible for creating customer invoices for customers external to the University as accounts receivable using the KFS Accounts Receivable Biller process (KFS capability includes creating a customer, creating a customer invoice, printing a customer invoice, running a customer aging report, etc.).

Business/Cashier Office shall collect and process all external customer accounts receivable payments through KFS Accounts Receivable Processor.

- The Business/Cashier Office should prepare a deposit slip for daily cash receipts. Cash should be deposited daily with the bank.

- On a daily basis, the Business Office should reconcile all deposit slips to cash deposited at the bank. On a monthly basis, the Business Office should reconcile sales (cash and receivables) from the POS System to KFS. Discrepancies should be resolved immediately. The director of the campus program or Vice Chancellor of Administration should review and approve this reconciliation monthly.

Billing Internal University Programs

The campus program shall be responsible for ensuring all internal University programs utilize Interdepartmental Orders (IDO) in KFS when booking services. It is recommended that the campus program that provides the services to be rendered require the requesting department to obtain Account Supervisor authorization on any IDO prior to accepting as a form of payment for services.

- The campus program providing services through the IDO process shall be required to inform their campus Business/Cashier Office on all IDO accepted for services on a daily basis.
- The campus program shall be responsible for working with the Business Office to ensure that account receivables in the POS System are reconciled with KFS on a monthly basis. All discrepancies shall be promptly investigated by the campus program to ensure the accuracy of information in KFS and POS System. The accounts receivable aging report should be reviewed monthly by campus program and Business Office personnel. Follow-up is required by the campus program on all receivables in excess of 30 days outstanding. Documentation supporting the follow-up procedures performed should be forwarded to the Business Office.

The Business/Cashier Office will be responsible for preparing Internal Billing (IB) e-Doc in KFS using accounting information entered on IDO form in order to transfer funds from the expense account to the income account. The IB e-Doc will route to the Fiscal Administrator on the expense account for approval. Following approval of IB e-Doc, Fiscal Administrator for requesting department shall liquidate any Pre-Encumbrance e-Doc (if utilized).

Inventory

Campus program POS Systems shall have the capability to be able to record all program-purchased inventory through a single receiving and central inventory control method and be able to reconcile all purchases on a monthly basis with KFS. POS Systems shall have the capability of tracking the dispersed use of inventory by class/cost/revenue center, and be able to reconcile all inventory dispersed for use back to a central inventory account created in the POS System and recorded in KFS. Campus programs shall establish a centralized and secured inventory stockroom from which all program-purchased inventory is received, used and accounted for in their program POS System and KFS. Campus programs shall have written internal controls that clearly state responsibilities for persons allowed to purchase, a method of inspecting and receiving of inventory, and responsibilities for inputting inventory

quantities and values into the POS System that also include a process to requisition inventory from the central stockroom.

- The campus program shall be responsible for generating an inventory/cost of goods used report in their POS System that will allow the Business Office to properly allocate/transfer inventory from the program's KFS inventory account(s) to transfer inventory costs to the program's KFS operating account on a monthly basis.
- The campus program should perform physical inventory counts on a weekly basis. The counts should be compared to the on-hand inventory recorded in the POS System. Discrepancies should be documented, investigated and resolved immediately. Adjustments (shortage, spoilage, overages, etc.) to inventory in the POS System require written approval from the campus program director.

Campus programs shall standardize their POS System inventory valuation method using the first in, first out (FIFO) method of valuation.

The Business Office and program shall reconcile the POS System and KFS accounts with regard to inventory control on a monthly basis. The Business Office shall work with department chair of the program to create a separate inventory account in KFS to track the purchase and inventory controls of the program's receiving and central inventory accounting in the POS System.

On a monthly basis, the Business Office shall perform an inventory roll-forward calculation based on inventory dollar values in the POS System. The roll-forward should consist of the following:

$$\text{(Beginning Inventory) + (Purchases) - (inventory sold or used) = (Ending inventory)}$$

The calculated ending inventory should be compared and reconciled to the month end inventory physical counts.

Debit/Gift Cards

Campus programs purchasing a POS System shall ensure that such systems have the capability to properly account for and track the use of debit or gift cards. The Business Office shall be responsible for ensuring that such systems have sufficient cash handling and accounting controls in place.

The campus program shall be responsible for ensuring all debit/gift card transactions are properly recorded in their POS System and KFS on a daily basis. A monthly report of POS System debit/gift card transactions shall be made available to the Business Office.

- The campus program shall be responsible to reconcile any debit/gift card balances unused in the POS System.
- For short-term use debit cards the campus program shall reconcile all cards directly following the expiration date to determine remaining balances per card issued and report as revenue to the program with the Business Office.
- Following acceptance of the information from the Business Office the campus program will zero out remaining balances in their POS System on short-term debit cards reported as revenue.

The Business Office shall be responsible for reconciling all debit/gift card transactions with KFS accounts on a monthly basis. The campus program shall investigate all discrepancies promptly. The Business Office will ensure that sold gift cards shall not be recorded as revenues until redeemed.

The Business Office shall ensure that campus programs impose an “account maintenance fee” on all outstanding debit cards with residual value that show no activity in a 90 day period. Such fee to be mutually agreed upon between the program and Business Office, but not to exceed \$25.

The campus program and Business Office shall follow proper state and federal laws with regard to gift cards with residual value that show no activity beyond a one-year period.

University of Hawai'i Community Colleges Accounting Procedures and, Handling of Rebate/Commission Payments from Foodservice & Vending Contractors

The Business Office will be responsible for reconciling all rebates/commissions owed to the University by a Contractor within seven (7) days from the receipt of payment. The Vice Chancellor for Administrative Services shall be responsible for ensuring the Business Office adheres to these procedures. Reconciliation by the Business Office shall include comparing calculations for reported gross sales provided by the Contractor against the percentage of gross sales or flat fees owed to the campus are correctly stated. The Business Office shall also reconcile allowable deductions and/or general excise taxes have been properly accounted for and correctly stated, as well as match the amount remitted by check to the University to ensure accuracy.

For the purposes of ensuring all deductions and calculation reported to the campus are properly accounted for in the rebate/commission check received from the Contractor, the Business Office shall request supporting documents from the Contractor as necessary.

Any discrepancies found in the calculations of determining amounts owed to the University shall be communicated to the Contractor in writing, and in a timely manner, to allow the Contractor the ability to reconcile all discrepancies in the next month's rebate/commission payment to the University. The Business Office shall keep records of all correspondence for reconciliation with the Contractor for audit purposes.

The Business Office shall monitor all rebate/commission checks to ensure all previous month's payments are correctly reconciled. Should a calculation discrepancy be found in the final payment from a Contractor at the end of the term of contract, the University shall request the Contractor correct any discrepancy/error through the reissuance of a final corrected rebate/commission check within 10 working days following notification from the University of the discrepancy/error.

CHECKLIST of Accounting Procedures for the Handling of Commission Payments from Foodservice & Vending Contractors

- ✓ Document if the remittance of rebates/commissions owed to the University, as well as, all monthly sales reports from the Contractor, are received in accordance with terms of payment by contract (example: "The CONTRACTOR shall forward all payments payable to "University of Hawai'i", no later than the 20th of the next calendar month following the end of the month, to each campus.").
- ✓ Verify amounts owed to the University are correct by using the monthly summary sales report to determine reported gross sales, allowable deductions and general excise taxes are properly accounted for in determining the net gross sales and percentage of net gross sales owed to the University as rebate/commission.

- ✓ Verify the percentage amount of net gross sales owed to the University as rebate/commission matches the amount remitted by check from the Contractor.
- ✓ Note any discrepancies found in the above steps in a written correspondence to the Contractor for reconciliation in the next month's remittance of rebates/commissions owed to the campus.
- ✓ Review previous month's rebates/commissions owed to the campus to ensure all discrepancies/errors have been accounted for before processing the current month's rebate/commission check for deposit.