

# **UIC Administrative Operational Guidelines**



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**GUIDELINE TITLE:** Deficit Reduction Guidelines |

**EFFECTIVE DATE:** 11/2/2021

**APPROVED BY:** **Janet Parker, Vice Chancellor Budget, Human Resources, and Financial Administration**

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**I. PURPOSE / SCOPE** UIC leaders have an important fiduciary role to assure university assets under their control are appropriately expended and commitments are within the allocated budget and collected revenues. Units should monitor and evaluate the financial health of their unit to ensure the University of Illinois System financial resources are properly managed. Hence, it is critical that the university and individual operating units maintain balanced operating budgets. Overspending is deleterious to the university's overall financial health and if not addressed, the compound effects will impact a unit/college for multiple years.

This guideline is written to address the (a) and impact of deficit balances on the university's financial records; (b) criteria used to identify deficit balances in accounts managed by the college/unit; (c) procedures for management of deficits; and (d) roles and responsibilities related to deficit management. This guideline applies to any deficits within the following fund types: *State, Institutional, Self-Supporting/Auxiliary Services, Service Plan, and Gifts*. This guideline does not apply to deficits in sponsored project (grants & contracts), plant, custodial, or loan funds.

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**II. AUTHORITY** State regulations and University of Illinois System policies require *Deficit Reduction Planning* (DRP) for deficit balances greater than \$10,000. Any deficit balance greater than \$10,000 within these fund types require a formal Deficit Reduction Plan approved by BFA.

This guideline is administered by the Office of Budget & Financial Analysis (BFA) under the direction of the Vice Chancellor for Finance, who has oversight responsibility for the University's financial health.

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Accordingly, BFA regularly monitors cash and fund balances to ensure compliance with State of Illinois statutes such as the State Finance Act and Fiscal Control and Internal Auditing Act (FCIAA), which specifically requires the prudent financial management of public funds.

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**III. APPLICABLE UNIVERSITY GUIDELINES** Section 22 of the Office of Business and Financial Services (OBFS) Policies and Procedures states: "*Funds that operate at a deficit are in effect borrowing from the University of Illinois System's pool of funds to help finance their operation.*" Deficits may be reported to the University's Chancellor and President or referred to the Office of University Audits. Large deficits can adversely affect the University's bond rating, thereby impacting the University's ability to issue debt. Deficits also impact cashflow and reduce available discretionary resources to augment strategic investments or future commitments.

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## **A. Procedures**

1. Identification of Deficits
  - a) State funds: The unencumbered budget balance is reviewed in aggregate by Banner college code and a reportable deficit exists when the amount is <\$10,000> or greater. Note that the College of Medicine is evaluated at an Administrative Roll-Up level which includes all units: Basic Sciences, Clinical Sciences, Rockford, Peoria, the Dean's Office, and Urbana (until it is decommissioned).
  - b) Institutional funds (ICR, TVS, Admin Allowance, Royalties): The unencumbered budget balance is reviewed in aggregate by 3-digit department code and a reportable deficit exists when the amount is <\$10,000> or greater.
  - c) Service Plan, Gift/Endowment, and Self-Supporting: The fund balance is reviewed by individual fund and a reportable deficit exists when the amount is <\$10,000> or greater. The Service Plan portfolios for Rockford and Peoria are evaluated at the College level.
2. Deficit Management Cycle
  - a.) Quarterly: BFA disseminates a link to dashboard reports for review by financial managers and university leadership. These reports are intended to detect deficit balances so they may be timely addressed. The information may also apprise financial decision-making regarding one-time expenditures.
  - b.) Year-End Closing: As part of UIC's year-end closing process, BFA works with each unit that has deficit balances. BFA begins by sending emails requesting that

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reasonable actions be immediately taken to resolve the deficits and that the unit confirms if the deficit will be resolved prior to the close of the fiscal year.

- c.) Final Year-End Balances: Units determined to have a reportable deficit for a particular fiscal year receive notification from BFA and are required to submit a deficit reduction plan.
  - d.) Plan Submission: Units must submit deficit reduction plans to BFA. BFA reviews the deficits (see also “Parameters for Evaluating Deficit Reduction Plans”).
  - e.) Plan Approval: BFA provides recommendations to the Vice Chancellor for Finance regarding the disposition for each Deficit Reduction Plan. BFA will then communicate to each College / Administrative Unit the final decision for the deficits within their areas – outcomes may include but are not limited to:
    - ii. The plan is approved.
    - iii. The plan is conditionally approved. Any conditions are defined.
    - iv. The plan is not approved. The basis for the disapproval is noted and an appropriate course of action is recommended, which requires elevation to the next higher level in the organization. For very large deficits, this may include the Chancellor, Provost, and/or Vice Chancellor for Health Affairs.
  - f.) Deficit Meetings: Under some circumstances, especially if required to better understand the plan or explain why the plan is not acceptable / approved, meetings will be held with the unit. Participation may include: the Dean / Vice Provost / Vice Chancellor; the unit’s Academic Fiscal Officer; Vice Chancellor for Finance & BFA staff; and in some circumstances the Chancellor, the Provost, and/or the Vice Chancellor for Health Affairs.
  - g.) BFA Discretion to deviate from using the prescribed forms/format: Because of the wide variation in the causes for deficit spending, a modified unit-specific deficit reduction strategy may be implemented at the sole discretion of the Associate Vice Chancellor for Budget & Financial Analysis. Such strategies will be developed in collaboration with the unit and university leadership.
3. Evaluation of Deficit Reduction Plans
- a.) BFA determines the viability of the deficit reduction plans received by reviewing the unit’s cost containment and revenue generation strategies.
  - b.) Additionally, the deficit reduction plan should demonstrate the deficit will be resolved within a reasonable timeframe. If a unit had a deficit in the prior year, the current year plan should demonstrate that benchmarks set in the prior year plan have been achieved.

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c.) Deficits are generally expected to be resolved within three years if less than \$500,000 or within five years if greater than \$500,000. Any deviation from this standard requires approval from the Vice Chancellor for Finance or BFA designee.

## **B. Responsibilities**

1. The Office of Budget & Financial Analysis (BFA): State, Institutional, Self-Supporting, Service Plan, and Gift fund deficits are managed by BFA.
2. The Office of Sponsored Programs (OSP): Grant fund deficits are monitored by the OSP. Contact the [Office of Sponsored Projects](#) for information about overdrafts on grants and contracts.
3. University Accounting & Financial Reporting (UAFR): Custodial and Plant fund deficits are monitored by UAFR in collaboration with BFA.
4. University Bursar's Office: Loan fund deficits are monitored by the University Bursar's Office.

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## **C. DEFINITIONS**

**N/A**

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## **D. REFERENCES/LINKS**

Unit Financial Health:

<https://www.obfs.uillinois.edu/cms/One.aspx?portalId=77176&pageId=246029>

University & System Offices Deficit reporting

<https://www.obfs.uillinois.edu/cms/One.aspx?portalId=77176&pageId=1590593>

<https://www.obfs.uillinois.edu/bfpp/section-22-self-supporting-revenue-generating/address-self-supporting-fund-deficit/>

Internal Control Responsibilities

<https://www.obfs.uillinois.edu/bfpp/section-9-audits-internal-control/internal-control-responsibilities>

Annual FCIAA Questionnaire

<https://www.obfs.uillinois.edu/bfpp/section-9-audits-internal-control/annual-fciaa-questionnaire>

Self-Supporting / Revenue Generating Activities

<https://www.obfs.uillinois.edu/bfpp/section-22-self-supporting-revenue-generating>

Government Costing

<https://www.obfs.uillinois.edu/government-costing/>

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## **VI. FORMS**

[Link to Deficit Reduction Plan Form \(New Website, TBD\)](#) [Link to Deficit Reduction Plan Excel File \(New Website, TBD\)](#) [Link to Deficit Reduction Plan Instructions \(New Website, TBD\)](#)

## **VII. GUIDELINE REVISION STATUS**

Version	Date	Revision Description
1	11/01/21	Initial Draft
2	11/02/21	Final Draft
3	11/02/21	Approved for Publication
4	10/26/23	Revision