

Non-Endowed Spending Accounting Issues

Fiscal Agents, in order to implement stronger internal controls and improve financial reporting, the accounting procedures for Non-endowed spending are being changed.

The purpose is to develop:

1. A more accurate accounting for non-endowed spending transactions.
2. A process with budgetary spending controls utilizing the BANNER NSF function.
3. In general, a process with improved internal controls and oversight that reports available balances and prevents overspending of non-endowed funds.

Summary of proposed changes to the accounting methodology for Non-endowed Spending transactions:

- Eliminate the offset/contra indices. By eliminating the Foundations monthly posting of income to the Departments, the need for an offsetting index is eliminated.
- The contra indices used to cross-walk data from FRS to Banner will be closed to the Department indexes, thus reversing the original cross-walk entry and eliminating the artificial department fund balance.
- Fund balance or net assets should equal zero; net assets should be recorded in the Foundation only.
- Income will be recognized via a monthly accrual based on Department actual expenses. The debit side of the entry will be posted to a balance sheet "Due From" receivable.
- The "Due From" will be zeroed out at year-end when the Foundation transfers cash.
- Department budgets based on the prior year's Foundation available balance will be loaded into Banner and NSF turned on; warning for FY 08 and reject in FY 09.
- NSF will be set to warning in FY08 and reject in FY09, so there will be time to evaluate the new process and how NSF checking will impact departments once the switch is flipped.
- The goal is that Main Campus and Health Sciences Campus work together on the implementation so the transition is seamless and we are consistent with procedures and communications to each other. The Fiscal Agent forum was created in order to facilitate accounting changes like this.
- The means for loading the Department budgets is that once balance forwards post, a Budgeted use of balances (1901) fupload is the best way to get the budgets in Banner for NSF checking purposes and will keep the workload off the departments and the Budget Offices; i.e. we avoid the departments keying the entry in Banner and then having the Budget office reviewing and approving each entry.
- If the BAR's that depts have to do for gifts and bequests received during the current year are numerous, it would be best to do a monthly fupload.
- The Budget Availability Detail and Summary reports in Hyperion will be modified to include Non - endowed spending indices.
- Because of the complexities surrounding the Budget monitoring methodology in BANNER, I will be designing a course/working with the budget office to have a course available that helps departments with monitoring their budgets. With the year-end process in full swing my time is limited but I plan on completing a course this fall.

Problems with the current methodology:

Please refer to Attachment 1

Entries (1) & (2) – These entries are made by the foundation based on gift revenues and interest received, they distort the accounting because revenue recognized by the various department organizations should be based on actual expenditures not revenue received by the Foundation. Although these entries reflect the available revenues to the departments, the offset indices accumulate material debits which are never cleared.

Entry (3) - The monthly accrual entry made by Main Campus should credit the various Departments (SOM, COP, CON) not the Offset index which is under the AFA (Admin) Org. On a monthly basis this entry causes the revenue to be recognized in the HSC Admin Organization, the result is an over-statement of revenue in the AFA org and an understatement of revenue in the department org's.

Entry (5) – This year end entry should credit Department Revenue not the offset index; also the debit is netted against Foundation revenue. As for the credit side of this entry, it creates the same problem as discuss above for Entry (3). The debit nets against foundation revenue which is problematic in that account 1000 should be reporting a gross revenue number. Using a “Department Distributions Expense” account would be more meaningful.

Current state and proposed corrections to be made:

Cross-walk Indices

The following indices were used to cross-walk FRS non-endowed spending balances to Banner:

The Cross-walk Indices are as follows:

# 060158 Non-Endowed Spending Education - debit balance of	\$3,983,294
# 060080 Non-Endowed Spending Research - debit balance of	883,245
# 060081 Non-Endowed Spending Clinical - debit balance of	<u>602,317</u>
Total	\$5,468,856

These balances have not changed since the conversion. A proposed solution would be to close these indices to the various Department Fund balances by means of transfer transactions thus eliminating the balances from the AFA org and distributing them to the proper org's. Keep in mind the actual Department spendable (credit) balances are in Foundation accounts, and reported by the Foundation via monthly statements.

Currently Used Indices

Entries (1) & (2) – In order to correct these issues, a change in accounting method is necessary. In my opinion the use of offset indices should be discontinued because of their accreting debit balances. This problem persists in the offset indices used for current non-endowed transactions.

The Current HSC Offset Indices and balances as of March 31, 2007 are as follows:

#331010 Non-Endowed Spending Education -	debit balance of	\$2,067,232
#331010 Non-Endowed Spending Research -	debit balance of	480,372
#331012 Non-Endowed Spending Clinical -	debit balance of	<u>867,579</u>
	Total	\$3,415,183

Proposed new process:

In this case, the proposed solution would be to close the offset indices to the department revenue accounts, since the offset entries prematurely recognize revenue at the departmental level.

The proposed corrected on-going entries for non-endowed spending are exhibited in the T-accounts below:

<p>Various Dept Indices/Orgs</p> <hr style="width: 100%;"/> <div style="display: flex; justify-content: space-between;"> (1) </div>	<p>Bal Sheet A226</p> <hr style="width: 100%;"/> <div style="display: flex; justify-content: space-between;"> (1) (2) </div>
<p>Main Campus Cash Account</p> <hr style="width: 100%;"/> <div style="display: flex; justify-content: space-between;"> (3) (proposed) </div>	

Legend

- (1) Accrual of Revenue = Expenses - Recorded Monthly
Note: The accrual with reflect Y-T-D activity
- (2) Year-end cash transfer from UNM Foundation

Reconciliations and Budget control:

Staff will perform a reconciliation between the Foundation March 31, 2007 statements and the Department year to date expenses in order to determine the available departmental spending balances or over-expenditures. Department Available Balances = Foundation prior year balances + Foundation current year revenues – Department current year expenses. The reconciled balances can be used to mitigate Department concern regarding the elimination of the debit balance of offset indices.

This reconciliation will again be performed at year end after the Foundation transfers cash to reimburse Main Campus for Department FY 2007 expenses thus disclosing the available spending balances for FY 2008. The available balances will be used as Department '08 budgets; at that point NSF will be activated as a spending control. If the Foundation receives gifts or bequests during FY 08, the respective Departments can issue a Budget Adjustment Request (BAR) in order to spend the extra funds within FY 08 time frame.

Attachment 1

NON-ENDOWED SPENDING ANALYSIS

Current Entries:

HSC					
Offset Indices		Various Dept Indices Orgs		Balance Sheet	
331010 331012	331011			A226	
(1)	(3)		(1)	(3)	(4)
(2)	(5)		(2)		
(4)					

Foundation			
Fund 1A0002		Foundation Cash	
Act 1000			
(5)			(7)
(6)			

Main Campus			
Fund 2U0007		Main Campus Cash	
Act 1000			
	(6)	(7)	

Legend

- (1) Foundation Gift Revenue - Recorded Monthly
- (2) Investment Income - Recorded Quarterly
- (3) Main Campus entry- Revenue = Expenses – Recorded Monthly
- (4) Reversal of #3 - Recorded at Year End
- (5) HSC entry- Revenue = YTD Expenses - Recorded at Year End
- (6) & (7) Cash Transfer - Recorded at Year End