



State University of New York

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Memorandum to Presidents

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From: Office of the Vice Chancellor for Finance and Business

Subject: Income Fund Reimbursable Program
Policy Revisions - Indirect Cost Assessments

To: Presidents, State-operated Campuses

Executive Summary

In December 1996, revised policies and guidelines for the Income Fund Reimbursable (IFR) programs were issued by Senior Vice Chancellor William H. Anslow (Memorandum to Presidents, Vol. 96, No. 3, dated December 2, 1996). The revised guidelines delegated extensive authority to the campuses for the conduct of activities operating through the IFR funding mechanism. Since that time the State University Business Officers Association (SUBOA) has requested additional authority and flexibility with regards to the assessment and recovery of indirect costs (administrative and maintenance and operations overhead) associated with IFR activities. This memorandum grants campuses additional flexibility in establishing campus-specific indirect cost rates and waiver categories, changes the methodology for the recovery of indirect costs assessed against the IFR program from the current method of assessments based on expenditures to one based on revenues.

These guideline changes will be effective with the 1999-2000 fiscal year, and shall be considered an amendment to the December 2, 1996 Memorandum to Presidents. The IFR programs affected by these changes are: General IFR, Dormitory IFR, Hospital IFR and the State University Tuition Reimbursable Account (SUTRA) program. This policy does not revise the current method of assessing fringe benefit costs. These changes have also been incorporated into the General IFR guidelines and SUTRA guidelines (see Attachments 1 and 2).

Background

Indirect costs, or overheads, are expenses associated with operating IFR programs that cannot easily be identified and charged directly to the programs. Typical examples include support costs for public safety, facilities management, libraries and administrative

services. Since the late 1970's, indirect costs have been charged to individual campus-based IFR programs based on an indirect cost rate that was applied against an IFR program's direct expenditures. The rate developed was intended to ensure the recovery of an appropriate share of costs associated with the administration and operation of the IFR programs. A portion of the indirect costs recovered was retained by the campuses and by System Administration to support the costs associated with these IFR programs. The balance of the recoveries (referred to as the "State share") was pooled with tuition, fees, and general fund revenues in order to support the State University's State-operating budget. This "State share" amount was intended to reimburse the State for any costs it incurred to support the State University's IFR program. These recoveries offset State tax dollar support that would otherwise be required by the State University. In some cases, certain IFR programs did not incur support costs or paid them directly as a program operating expenditure. These IFRs were typically granted special waivers and, therefore, were not assessed indirect costs.

Current Practice

With the intent of providing additional flexibility to the IFR program, an ad hoc committee comprised of SUBOA members and System Administration staff was formed to study the IFR assessment process and develop a plan that would allow campuses to retain or "buy-out" the "State share" of the indirect cost recoveries. This plan, which became effective for the 1997-98 fiscal year, required each campus to take a permanent reduction in its State operating budget in exchange for retaining the corresponding portion of the "State share" of the indirect cost recoveries. The retention of these funds provides the campuses with greater flexibility in deciding how best to manage the funds for various support services or campus activities. Under the current plan, individual campus IFR programs continue to be assessed support costs based on predetermined University-wide indirect cost rates. These assessments, less the applicable amounts that support System Administration costs, are then returned to the campus general IFR fund. Also, System Administration is responsible for the assessment and distribution of indirect costs.

Policy Revisions

As an extension of the campus "buy-out" of indirect costs and in order to provide campuses greater flexibility over IFR programs and resources, the following changes will become effective for the 1999 – 2000 fiscal year.

Each campus will be responsible for establishing campus-specific indirect cost rates, indirect cost waiver categories, and the specific methodology for assessing and recovering indirect costs for the following self-supporting Income Fund Reimbursable

programs: General IFR, Dormitory IFR, Hospital IFR, and SUTRA. Fringe benefits costs will continue to be assessed at the appropriate Statewide rate.

Each campus will have the option of assessing indirect costs at the specific program (account) level or at the overall campus fund level. Campuses will have the option of using the University-wide accounting system or their own local system for assessing and recovering campus indirect costs. Campuses that opt to use a local system will be responsible for processing the necessary transactions to the University-wide accounting system.

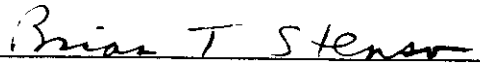
Revenue, not expenditures, will be the basis for charging indirect costs. The revenue basis allows for the recovery of indirect costs at the time revenue is collected. Recognizing that support costs for the administration of the IFR programs can vary between campuses, this policy change allows for the development of a campus-specific rate (as opposed to a University-wide rate) that will more accurately reflect the actual indirect costs associated with operating IFR programs.

The cost of University-wide services such as accounting, budgeting, audit, legal services, and computer center support will no longer be funded as a percentage of campus IFR expenditure activity. An annual budget will be prepared detailing the actual dollar amount required to fund the workload and costs associated with administering IFR-related activity at the University-wide level. This method will allow for the funding of University-wide services provided to the IFR programs based on the actual work effort. The total amount charged will be distributed among the campuses based on the prior fiscal year's revenue activity in the IFR accounts. Campuses will be billed quarterly for these charges and will have the option of charging the University-wide support costs at the overall campus fund level or at the specific program (account) level.

This policy change authorizes campuses to develop new campus-specific indirect cost waiver categories. Each campus will determine whether a particular IFR program should receive an exemption (waiver) from the indirect cost assessment.

These policy changes do not relieve campuses of their fiduciary responsibility to assess programs for the indirect costs incurred in the operation of these programs. State Finance Law (Article 2, Section 8-b) requires all non-general State funds to be assessed such charges. Each campus is required to develop written policies and procedures to support the methodology used to assess the indirect costs associated with the IFR programs and the basis for granting program waivers.

Questions regarding this policy change should be directed to the Office of Finance and Business.


Brian T. Stenson
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Attachments

Copy: Donald G. Dunn
Chief Academic Officers, State-operated Campuses
Vice Presidents for Administration

This memorandum addressed to:
Presidents, State-operated Colleges

Copies for information to: Presidents, Community Colleges
President Coll
Provost Randel
Deans, Statutory Colleges

General Income Fund Reimbursable Guidelines

Introduction

The IFR policy enumerates the overarching principles governing the operation of IFR activity. The policy delegates extensive authority to the campuses for the conduct of activities through the IFR mechanism. The policy and general guidelines identify those activities and functions for which the campuses and System Administration are responsible. The policy also provides direction to the campuses in the development of their own policies, operating guidelines and procedures. Each campus is expected to develop and maintain its own guidelines and procedures that address both accountability and programmatic uniqueness within a campus.

System Administration Responsibilities

System Administration is responsible to ensure that the financial integrity of the University-wide IFR fund is not compromised. System Administration also establishes the financial and administrative structure within which IFR activity operates, including the policies and procedures of the State University, as well as its system of management and internal controls. The financial structures are provided to accommodate system monitoring and reporting and to supply information to the campuses as needed to manage the IFR activity. System Administration also coordinates the compliance of the IFR fund with State rules and regulations.

System Administration, working with the campuses, will maintain a streamlined budget request and financial plan process. The financial plan will include undistributed IFR allocation maintained by System Administration to be made available to campuses based on available allocation and a justification of need.

Financial reporting of the separately appropriated IFR funds will be generated from the State University's general ledger upon completion of its annual independent audit. The State University's accounting system will be used for reporting to external parties and for internal management and monitoring on a periodic and ad hoc basis.

System Administration will issue guidelines governing the fiscal management and administration of the IFR fund's indirect cost components. Campuses will assess and recover overheads in accordance with these procedures.

State University policies and procedures govern the establishment of fees, fines, deposits and other charges. System Administration conducts an annual inventory of all fees, fines and charges assessed by the campuses and consolidates that information periodically. Certain fees charged to students require approval of the Vice Chancellor for Finance and Business.

The IFR funds are part of the State University financial reporting entity and are included in the annual audit performed by the State University's independent auditor. Audit tests and other procedures consistent with the nature of IFR activity are part of that engagement. In addition, the IFR funds may be included in the audit plans of the State University's Internal Auditor and the Office of the State Comptroller.

Campus Responsibilities

Campuses are responsible for developing and implementing local policies, guidelines and procedures. These form the focal point of contact and communication with individual IFR account managers and should address such areas as budgeting; accounting, financial management and reporting; financial and internal controls; and fees and charges.

Budgeting - Campus guidelines relative to budgeting should include procedures for initially allocating funds and revising allocations so that control at the account or campus organizational level is maintained.

Accounting, Financial Management and Reporting - Campuses will be responsible for the recording and reporting of activity at the account level consistent with the restricted, unrestricted, system-wide or campus designated nature of the funds involved. Consistent with the concept of self-sufficiency, each IFR fund will support all costs reasonably attributable to its operation, including the indirect costs of applicable overheads. Campuses will be responsible for determining and assigning waivers for IFR accounts related to fringe benefit and overhead charges in accordance with IFR indirect cost assessment policies. Waivers will be reviewed in the IFR post audit process to determine the appropriateness of campus assigned waivers.

Campuses will have full allocation transfer authority between individual IFRs within a given special revenue fund (e.g., SUTRA, general IFR, DIFR-IFR, HIFR-IFR). Campuses may, without restriction, transfer revenue or fund balances between individual IFRs (within the unrestricted, campus designated purposes group of accounts).

Except for restricted funds, funded reserves may be established at the account or campus level for program stabilization, facilities rehabilitation and renovation, equipment repair and replacement or, in the case of unrestricted campus designated funds, general campus purposes. Campuses may establish equalization reserves. Generally accepted

accounting principles should guide campuses in the development of policies and procedures for the establishment and use of reserves. Manuals and publications issued by Governmental Accounting Standards Board (GASB), National Association of College and University Business Officers (NACUBO), American Institute of Certified Public Accountants (AICPA), and other authoritative sources in the accounting industry are helpful.

Campuses are responsible for providing information to System Administration, on an accrual basis of accounting, at fiscal year end and on an ad hoc basis so that external financial reporting requirements may be met in a timely manner.

Campuses are also responsible for providing data to campus account managers necessary to carry out their day-to-day management responsibilities. Both State University and campus accounting systems should be used to provide information that supports financial and internal controls.

Financial and Internal Control - Each campus is responsible for maintaining financial and internal control over its IFR fund and ensuring its balanced status. The fiscal condition of a campus's IFR fund will be considered balanced when such fund balance, on an accrual basis, at fiscal year end is zero or positive, including recognition of indirect costs. Included in the campus policies and guidelines should be procedures and standards which address monitoring and control of activity at the account and organizational level. These might include the valuation of allocation levels for accounts or organizational units in comparison with income and expenditure levels.

The nature and diversity of IFR activities make it an area with inherent risk and vulnerability. Since IFR account activities are generally funded from current revenues, there is always the potential for revenue not to meet expectations. Campus policies and guidelines should include procedures for frequent periodic reviews of account status and cash controls so that deviations from planned results or irregularities are detected and prompt corrective action is taken.

In relation to cash controls, the collection of cash also increases the risk of theft, fraud or misuse of funds, especially at decentralized locations. Effective internal controls provide reasonable assurance that all cash that should be received is actually received and is properly recorded and deposited. Campus management should ensure that all cash collection locations follow the basic controls for safeguarding cash.

Consistent with the vulnerability associated with IFR accounts, periodic audit coverage is anticipated. University-wide and campus policies are the standards against which IFR activities and performances are to be compared.

Fees and Charges - Campuses are responsible for adhering to State University policies and procedures regarding fees, fines, deposits and other charges associated with IFR activity. Campus guidelines should provide account managers with information on what fees and charges are permissible and the procedures for obtaining approval of other fees and charges. Each campus is also responsible for maintaining an inventory of its fees and charges and providing System Administration with periodic updates.

State University Tuition Reimbursable Account Guidelines

The State University Tuition Reimbursable Account (SUTRA) program comprises four separate credit bearing income fund reimbursable types of activities:

Summer Session
Overseas Academic Programs
Contract Courses
Academic Year (Fall/Spring) Overflow Enrollment

Summer session, overseas academic programs, and contract courses are all unlimited in the enrollment they may generate. However, all institutional and support costs (library, student services, maintenance and operation of plant, and administration, etc.) must be paid from revenue generated by these instructional activities. Further, enrollment for such programs are to be planned, budgeted, and reported separately from both regular academic-year enrollment and fall/spring overflow enrollment. The amount of tuition revenue associated with any fall/spring overflow enrollment that may be retained by a campus is no longer limited.

Each campus is required to submit annually to the Office of Academic Planning, Policy and Evaluation a comprehensive enrollment plan, including all regular academic year headcount and AAFTE, including overseas academic programs, and contract courses with separately identified headcount and annual academic full-time equivalent (AAFTE) students for each of these categories (regular academic year, overseas academic programs, and contract courses). Plans should also be developed and submitted for summer session.

A. Summer Session

Summer Session is unlimited as to enrollment. It may include instructional activity conducted anytime during the period following spring commencement and ending with the beginning of classes for the fall semester, which is not included as part of the regular academic year. Summer session enrollment and revenue are to be recorded separately from enrollment generated during the regular academic year (fall/spring). Tuition charges are limited to regular tuition; however, summer session revenue is expected to pay both the direct costs of instruction plus the costs of support activities, including libraries and student services, general administration, M&O of physical plant and fringe benefits on all personnel. The overhead charges, (including fringe benefits), will be deducted as a flat charge from revenue.