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A8.900 ACCOUNTING FOR RESEARCH & NON-RESEARCH
CONTRACTS & GRANTS

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A8.931 Revolving Fund Service Orders to the Research Corporation of
the University of Hawaii

1. Purpose

To ensure that services directed by the University of Hawaii (UH) to the Research Corporation of the University of Hawaii (RCUH) are consistent with the intent and purposes set forth in §304A-3001 to 3011, HRS, as amended, and the UH/RCUH Internal Agreement dated July 1, 1996, as amended.

2. Objectives

To establish guidelines and procedures for revolving fund service orders to the RCUH.

3. Definition of Terms

- a. **Revolving Fund:** a self-sustaining, income-generating project that is established for the purpose of supporting a specialized service activity, a recharge center, or other sales and service activities.
- b. **Specialized Service Facility:** an institutional service involving the use of highly complex or specialized facilities which supports extramurally and intramurally funded activities on an on-going basis. Specialized service facilities that do not generate at least \$250,000 of revenue per year will be considered a recharge center.
- c. **Recharge Center:** an institutional service involving the use of highly complex or specialized facilities which support extramurally and intramurally funded activities on an on-going basis but which generate less than \$250,000 of

revenue per year.

- d. Other Sales and Services: all other activities which generate income from providing special expertise or services. Typical types of revolving funds classified under the sales and services category include projects for conferences and training, publication sales, and specialized consulting.
- e. Intramural funds: internal sponsorship of a program or activity such as Research and Training Revolving Funds (RTRF) or Tuition and Fee Special Funds (TFSF).
- f. Designated University Official (DUO): the Fiscal Officer (FO) of the UH program requesting RCUH services.

4. Applicability

These guidelines and procedures apply to Revolving Fund Service Orders.

5. Guidelines

- a. The accounting year shall be the fiscal year (July 1 to June 30).
 - 1. Exceptions: The School of Ocean, Earth Science & Technology Ship Operations specialized service facility uses a calendar year, which has been disclosed in the University's cost accounting disclosure statement (CASB DS-2), which has been reviewed and approved by the HHS Division of Cost Allocation.
- b. For specialized service facilities and recharge centers:
 - 1. User fees/billing rates shall be designed to recover no more than the total costs of providing the goods or services. The resulting user fees/billing rates shall not discriminate between extramurally funded (especially federally funded) and intramurally funded programs or activities. Generally, this means all users of the revolving fund, including those using general, RTRF or TFSF funds must pay the same user fees/billing rates, including specialized service facility F&A costs, if applicable.

2. At least biennially, the PI must review revolving fund balances and consider whether to increase user fees/billing rates to eliminate a deficit or lower user fees/billing rates to eliminate an excess surplus. The Chancellor or Chancellor's designee may require this analysis to be conducted more frequently, such as annually, to minimize large deficits or surpluses that might occur.
 - a. Generally, an excess surplus balance of more than 5% of total annual operating costs (after taking into account working capital requirements and equipment replacement set asides as described in #4 and #5a. below) should result in a lowering of the user fees/billing rates.
 - b. The PI may elect to amortize deficits over three to five years to minimize the impact on rates. However, a deficit requiring more than five years to amortize should be written off against school/college/research unit funds.
3. Transfers out of the revolving fund may not be made except to cover operating expenses. Non-operating transfers out of the fund are subject to refund to the Federal Government.
4. No more than a maximum 60 days of working capital to cover cash expenses may be retained out of surplus balances that accumulate. Examples of cash expenses include salaries and fringe benefits of revolving fund personnel; consumable supplies; monthly rental costs; monthly utilities; and items that must be prepaid (e.g. maintenance agreement due in July).
5. Surplus balances may not be retained for equipment purchases; capital expenditures (e.g. major renovations) or debt service.
 - a. Amounts may be set aside for equipment replacement only if the user fees/billing rates include depreciation on equipment purchased with general funds, RTRF or TFSF funds.
 - b. Costs of debt service may be included in the computation of user fees/billing rates only if the HHS Division of Cost Allocation has approved

the inclusion in writing.

- c. All UH requests to establish an RCUH revolving fund must ensure that the proposed revolving fund Project Manager assigned by the UH is not the PI of UH or RCUH direct projects which will use the services of the revolving fund, and that a UH Department, College, or Institute is responsible for the operational and financial management of the revolving fund.

6. Criteria for Establishing a Revolving Fund

The criteria for establishing a revolving account are as follows:

- a. Projects involving procurement of goods and services on a cost-reimbursable "user fee basis," which could not otherwise be provided due to the uneconomical cost of specialized facilities, personnel, equipment and maintenance (e.g., research vessel and technical shop-type operations).
- b. On-going workshop or conference projects without direct extramural sponsorship involving non-university, out-of-state and international participants that require extensive administrative support due to complex travel, meeting and exhibition arrangements.
- c. Projects involving the production of books, periodicals, monographs, journals, and CDs that would not normally be published through the UH Press; providing access to or publishing research data, including maps for purchase or via subscription; or production of limited quantities of commodities developed under research projects for use by other organizations or institutions to further research or non-research activities.

7. Procedure for Revolving Fund Service Orders

If a revolving fund seems appropriate for specific services or a set of activities, the prospective PI (a faculty or staff member) should discuss the establishment of a revolving fund with his/her fiscal officer. If it is determined that a revolving fund should be established, a request should be made to RCUH following the procedure described below. Refer to sections 8, 9 and 10 for additional submission requirements.

- a. The PI should submit the Revolving Fund Service Order Request Form (Attachment 1) to the Department Chairperson, the FO, Dean or Director and Chancellor or Chancellor's designee (UH Manoa, UH Hilo or UH West Oahu) or Vice President for the Community Colleges (VPCC) for signatures. When approved, the request form shall be sent to RCUH for review and acceptance.
- b. After a Revolving Fund Service Order is approved by the UH and accepted by the RCUH, the revolving fund will be serviced by RCUH until it is terminated or no longer meets the provisions of §304A-3001 - 3011, HRS.
- c. A Revolving Fund Service Order Request Form should include the following information:
 1. Description: A description of purpose of the revolving fund, including a statement of how the proposed revolving fund meets one or more of the criteria stated in #6.
 2. Anticipated Users: Identify present and/or prospective users, including user fund sources (e.g. federal grants and contracts, State contracts, private grants, general funds, RTRF, TFSF, etc.)
 3. Distribution Base: Identify the proposed basis for charging users. The distribution base should be based on a reasonable estimate of the volume of service or goods being rendered or produced. Examples of distribution bases are: labor hours; ship days at sea; per person for conferences; etc.
 4. Annual Operating Budget: Provide an annual operating budget by major expenditure category which estimates the projected annual operating costs. The revolving fund budget should include the RCUH administrative fee.
 - a. For specialized service facilities and recharge centers, operating budgets should:
 1. Not include unallowable costs as defined under OMB Circular A-21.
 2. Comply with sections 5.b.3 and 5.b.5 if operating transfers or set asides for equipment replacement or debt service are

anticipated.

- b. Specialized service facilities should include their allocated facilities & administrative (F&A) costs, as determined in the F&A cost proposal submitted to the HHS Division of Cost Allocation, in the operating budget and resulting annual recharge rate(s).

5. Annual Recharge Rate(s): Establish an annual recharge rate which will equate to the annual operating budget divided by the total anticipated distribution base. For specialized services facilities and recharge centers, such rates must comply with section 5.b.1.

6. Variance Adjustments:

- a. For specialized service facilities and recharge centers, the PI should plan to handle variance adjustments and their affect on recharge rates in accordance with the guidance in section 5.b.
- b. For other sales and service revolving funds, the PI should generally plan to break even and handle variances to achieve break-even status.

8. Amending a Revolving Fund

- a. If a change is needed for a revolving fund such as a modification in the purpose of the account or the addition of services or goods to be provided or a change in PI, the PI should prepare a Revolving Fund Service Order Form indicating the type of change; obtain signatures of the PI, Department Chair, FO, and Dean or Director; and submit to the Chancellor or Chancellor's designee or VPCC for final approval before transmittal to RCUH.
- b. RCUH will review and, if appropriate, approve and accept the form; retain an original of the amended form for its files; and forward copies of the approved form as follows:
 - 1. One copy to the Chancellor or Chancellor's designee or VPCC.
 - 2. One copy to the FO.

9. Renewing a Revolving Fund

Colleges, schools, and organized research units should review the performance of revolving accounts on a periodic basis because they are financially responsible for covering financial deficits. At least biennially, the PI should prepare a Revolving Fund Service Order Form for routing and signature as described under #7.

- a. For specialized service facilities and recharge centers, the PI shall review and:
 1. Prepare a schedule summarizing the revenue, expenditures and surplus/deficit accumulated over the two-year period. This information should be provided with the operating budget under the section "Annual Operating Budget."
 2. Address the issues under section 5.b.2 through 5.b.3 with respect to surpluses/deficits and describe how they will be handled under the section entitled "Variance Adjustments."
 3. Propose rate(s) in accordance with the plan described under #2 to handle surpluses/deficits under the section entitled "Annual Recharge Rates."
 4. For other sales and service revolving funds, the PI should provide a plan to break-even under the section entitled "Variance Adjustments" if a surplus/deficit occurred during the two-year period.

The Chancellor or Chancellor's designee or VPCC has the discretion to determine whether to require a complete review annually as described above or to establish a streamlined process for renewal.

10. Terminating a Revolving Fund

The PI and Dean/Director should provide advance notice to Chancellor or Chancellor's designee or VPCC and RCUH regarding the intent to terminate a revolving fund. The notice shall include a plan to achieve a zero fund balance on the termination date, including how deficit balances will be resolved and how surplus balances will be distributed.

11. Responsibilities for Management of Revolving Funds

- a. The PI will be responsible and accountable for the day-to-day management of the revolving fund. Responsibilities include the following:
 1. Direct, coordinate and manage the revolving fund to satisfy requests for goods and services.
 2. Appoint, supervise, and terminate revolving fund personnel hired through RCUH.
 3. Review all expenditures and transactions to ensure charges are made in accordance with the user's authorized purchase order or contract and in compliance with the intent and purpose of the revolving fund.
 4. Work closely with the DUO to monitor the timely issuance of invoices and following up on outstanding invoices.
 5. Work closely with the DUO to review, reconcile and monitor budget status reports to ensure the financial stability and solvency of the revolving fund, the proper recordation of expenditures and receipts, and to initiate corrective journal entries as required.

- b. The DUO will:
 1. Be responsible for all financial commitments of the revolving fund and ensure that all goods and services provided and requisitions for materials, equipment, travel and personnel requirements comply with State law and UH policies and are in conformance with the intent and purposes of the authorized revolving fund project.
 2. Work closely with the PI and Dean/Director to ensure the financial stability and self-sufficiency of the fund.
 3. Work closely with the PI to review, reconcile and monitor budget status reports, the proper recordation of expenditures and receipts, and to initiate corrective journal entries as required.
 4. Ensure that any rate computation process is consistent with the guidelines under section 5.a. and 5.b.

5. Work closely with the PI to monitor the timely issuance of invoices and following up on outstanding invoices.
- c. The Dean or Director will:
 1. Be responsible for the overall operation of the revolving fund and ensure that all goods and services provided are in conformance with the intent and purpose of the authorized revolving fund project.
 2. Work closely with the DUO to ensure the financial stability and self-sufficiency of the fund and to take necessary corrective action, including securing the funds, to eliminate deficits that cannot be amortized over five years.
 - d. The Chancellor or Chancellor's designee or VPCC shall be responsible for establishing the review process for revolving funds, including monitoring of surplus and deficit balances, and shall take corrective action as necessary to ensure the financial stability of the units that operate revolving funds on their respective campuses.
 - e. The RCUH shall render specialized administrative support services as provided for in the UH/RCUH Internal Agreement.
12. Payment of RCUH Administrative Fees

The RCUH shall recover the costs of its services via the RCUH administrative fee, which is computed as part of the University's F&A proposal submission to the HHS Division of Cost Allocation.