

Fund Deficit Management

[GEN011]

Department	:	Finance
Policy owner	:	Chief Financial Officer
Responsible for update	:	Director: Research Finance & Director: Management Accounting
Prior update	:	New policy, formalising current processes & procedures
This policy	:	April 2024
Approved by	:	UCT Executive

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Acronyms

CFO	Chief Financial Officer
ED	Executive Director
HOD	Head of Department
GOB	General Operating Budget (source of funding)
NON-GOB	Non-General Operating Budget (source of funding)
PASS	Professional, Administrative Support & Service
PGWC	Provincial Government of the Western Cape
RIB	Revenue Increasing Budget
S&C	Spend and Claim
SAP	UCT ERP Finance System
UFC	University Finance Committee
URC	University Research Committee
VC	Vice-Chancellor

1. Objective

The purpose of the policy is to:

- manage the financial and reputational risks, both current and future, associated with funds in Deficit;
- provide guidance on the identification of funds in Deficit, and
- define the roles and responsibilities with respect to managing funds in Deficit.

2. Scope

All UCT funds irrespective of the source of funding (e.g. GOB, NON-GOB, Research), including:




- Salary funds
- Miscellaneous funds
- Departmental funds
- Dormant funds
- Funds where fund holders are no longer active staff members

3. Applicable to

All UCT staff, including Joint Medical Staff on PGWC conditions of service.

4. Definitions

Term	Description
Availability Control	SAP function which does not allow spend greater than the Budget reflected on the fund.
Actual Deficit	Total Spend exceeds the Total Revenue reflected on the fund.
Budget Deficit	Total Spend exceeds the Total Budget reflected on the fund.
Central Finance	Central Management Accounting and Research Finance.
Fund Deficit	An Actual or Budget deficit, depending on the type of fund.
Unit Head	Unit Budget holder i.e. Dean/GSB Director, or Executive Director/Director of PASS department, or CFO.

Type of funds	Description
Discretionary funds	Funds where the fund holder has discretion as to spend, with no contractual reporting obligations.
Dormant funds	Non-active funds where no future activity is expected (e.g. where the fund holder with the decision rights has left UCT, or where the funding has come to an end, or the project has ended).
Internal funds	Funds in which Budget is assigned based on a budget process or grant allocation. (e.g. dept or URC fund).
Investment funds	Surplus funds invested in the UCT No. 1, 2 and 3 portfolios.
Maintain Balance	When the Actual Opening balance is reflected on the fund.
Miscellaneous funds	Funds into which different sources of funding are posted, with no direct reporting requirement.  <i>Most Miscellaneous funds are Discretionary.</i>
Revenue Increasing Budget (RIB) funds	Funds where budget auto increases daily, based on invoices raised.  <i>Budget is therefore advanced prior to the funds being received from the customer.</i>
Salary funds	Funds used exclusively for salary postings, either: <ul style="list-style-type: none"> - without any recoveries from other funds (e.g. departmental Salary funds), or - with recoveries from other funds. (e.g. Researcher time is split between projects)
Spend and Claim (S&C) funds	Funds in which Budget is allocated in advance of the Revenue being invoiced in terms of the contract.  <i>Spend and Claim funds, by definition, will always be in an Actual Deficit as invoicing follows spend. The critical follow up on these funds is the timeous invoicing and receipt of the monies.</i> At the end of the S&C project, total Revenue must equal total Expenditure prior to the fund being closed.

5. Policy

- All UCT funds must be actively managed to ensure that Deficits are identified and followed up timeously, to ensure the financial and reputational risks are mitigated.
- The fund holder is accountable for all funds under their control.



For departmental funds, the HOD is the fund holder.

- The HOD is responsible for all funds in their department, for the period of their tenure.
- Deficits unresolved with the funders or external parties are absorbed through a hierarchy process involving escalation from the fund holder to HOD to Unit Head to Central Finance and finally to the UFC, if required.
- The follow up of funds in Deficit must follow the process per the UCT Delegations of Authorities.



Refer Attachment B for details of deficit monitoring escalation.

- Where allowed, Invested and Discretionary funds must be used to cover operating fund Deficits.
- All staff appointments, current and future, must be supported with clearly defined funding sources for the period of the appointment.



This is important to manage the potential risks of funds going into deficit.

- All postings to central Salary funds must be cleared timeously.

6. Roles and Responsibilities

Fund holder

- Accountable for all activities on funds under their control, including follow up of:
 - open Purchase Orders which, if cancelled, can reduce the Deficit;
 - monthly postings e.g. Telephone charges;
 - outstanding Forex charges;
 - outstanding PCard postings;
 - invoices to be raised, as per the contractual agreement;



This is critical for S&C contracts, where Budget is advanced prior to invoices raised.

- Bursary commitments made, but not yet processed;

- expected recurring costs; and
- pending journal postings.
- Ensure that Deficits are identified and cleared timeously.



Some funds operate with Actual Deficits, due to the nature of their contracts (e.g. Spend and Claim), but these funds need to be pro-actively managed.

- Ensure queries related to financial transactions are raised timeously.
- Ensure that regular reports (i.e. at least monthly) are received detailing fund balances.
- Ensure invoices are raised only once the deliverables have been met in terms of the agreement.



The invoice will be reversed where the deliverables have not been met, and the invoice was raised in error or prematurely. This will reduce the Revenue on the fund.

- Assist Debtors with the follow up of outstanding debt raised.



This is critical for RIB funds, where budget is automatically increased based on the invoice raised, and not on receipt of the monies.

- Identify and follow up of potential Deficits where refunds are requested by Funders and budget is already spent/committed.
- Ensure dormant funds are closed timeously, with recurring costs (e.g. telephone charges) and balances transferred as appropriate.
- Escalate any potential uncleared Deficits to the HOD and Finance Manager, with a record of action taken to date, and proposed way forward.
- Ensure reconciliations and postings from central Salary funds are performed regularly i.e. preferably monthly, but at least quarterly.



Delays in processing Salary journals will result in misleading financial information and possibly funds being depleted before the postings are able to be processed.

Head of Department



This includes Research Unit Heads e.g. Research Directors and Heads of Divisions.

- Review and follow up funds in Deficit, together with details of follow up action and timelines, for reporting to the Unit Head and Finance Manager.

- Ensure departmental fund Deficits are monitored, followed up and cleared timeously.
- Initiate consequence management where funds in Deficit are not cleared timeously.
- Ensure that all Deficit funds, for which a fund holder is accountable, are cleared before the fund holder leaves UCT.
- Escalate any potential uncleared Deficits to the Finance Manager and Unit Head, with a record of action taken to date, and proposed way forward.

Unit Head

- Ensure adequate governance over identification and follow up of funds in Deficit.
- Review and follow up funds in Deficit with the Finance Manager, together with details of follow up action and timelines.
- Escalate Deficit funds where all internal sources are exhausted, as appropriate, in terms of UCT Delegations of Authorities.

Finance Manager

- Ensure that fund holders are receiving regular (i.e. at least monthly) fund reports.
- Monitor Deficit funds, with a split between Budget and Actual Deficits, and advise on action to be taken, with follow up.
- Facilitating the clearing of funds in Deficit.
- Ensure that all the fund master data is correct, to accurately reflect the fund balances.
- Follow up and closing of dormant funds timeously.
- Maintain an audit trail of the follow up of Deficit funds.
- Ensure all evidence of follow-up is stored and retained for record of follow up.
- Provide quarterly reports of funds in Deficit to the Unit Head, together with action taken to date, and proposed way forward.
- Provide quarterly reports of funds in Deficit to Central Finance, for reporting to the Executive and UFC, if required per the Delegation of Authorities.

Central Finance

- Review and follow up of quarterly Deficit funds reported centrally, together with proposed action and timelines, with the Finance Managers.
- Consolidate quarterly Deficit funds reported centrally.
- Provide quarterly reports of funds in Deficit to the Executive and UFC, if required per the Delegation of Authorities, highlighting the risk areas.

7. Related policies, guidelines and forms

- Delegated Authority Limits [\[GEN002\]](#)
- Funds deposited at or held by UCT [\[GEN001\]](#)
- Investment portfolios [\[INV002\]](#)
- Purchasing Card (PCard) [\[PUR002\]](#)
- Risk Management [\[GEN007\]](#)

8. Implementation responsibility

The HOD is responsible for ensuring all policies and procedures are communicated to and implemented by the responsible individual(s), including research staff. The Faculty/PASS finance manager is responsible for ensuring reasonable controls exist to support the implementation of policies.

9. Contact

Finance helpdesk

Fnd-finance@uct.ac.za

021 650 2111

Attachment A: Examples of funds in Deficit

Availability Control ensures that spend does not exceed Budget and Revenue.

There are 3 exceptions to this:

- From a contractual perspective, Availability Control does not apply to Payroll postings.
- There are some funds which have Availability Control turned off for operational reasons (e.g. Bursary funds, where student funding is granted once funds are committed, but not necessarily received.)
- For the processing of specific central functions (e.g. Telephone and Printing charges), Availability Control is deactivated.

Salary fund

In this example, all Salaries are posted to one fund and then posted to the various operating fund. As Payroll is posted with no reference to Availability Control, the initial fund goes into Deficit.

- If these Salary costs are not allocated timeously, it may happen that the fund to which the Salaries need to be posted, does not have sufficient budget to cover these costs, and the journal therefore cannot be posted.
- It could be that reporting has happened on the operating fund, excluding the necessary Salary costs.

It is therefore critical that these Salary costs are cleared timeously.

Spend and Claim fund

In this example, budget is allocated to a fund based on the contract, and Revenue is invoiced at the agreed milestones.

- Expenditure will always exceed Revenue, and the fund will usually have an Actual Deficit balance, which needs to be managed.
- Due to the Budget allocation based on the contract, the fund should not be in a Budget Deficit.
- Raising invoices timeously and follow up of amounts owing is therefore critical.

Internal funds

In these funds, the Budget balance is the basis of assessing Deficit funds, as Revenue is not allocated to the fund, and the Actual balance is therefore irrelevant.

Attachment B: Deficit reporting

Reports	Fund in Deficit (Actual or Budget Deficit)	
Regular Fund reports to fund holders	Accountable fund holder takes action and clears the Deficit	Finance Manager facilitates the identification and clearing of funds in Deficit
Departmental Deficit fund reports to HOD	If Deficit fund not cleared, escalated to the HOD for further action	Finance Manager facilitates the monitoring and clearing of departmental funds in Deficit
Deficit funds in Unit reported to Head	If Deficit fund not cleared by department, escalated to the Unit Head for further action	Finance Manager facilitates the monitoring and reporting of departmental funds in Deficit

Funds in Deficit (and action taken) part of quarterly reporting to the Center.

Funds in Deficit (and action taken) reported to Exec and UFC, as required.

Extract from Delegation of Authorities (GEN002 - December 2022)

Writing off Fund deficits (non-recoverable)	NOTE: The Net Debit must be absorbed in the department within which the fund operated. Where the department is unable to carry such a charge, the Dean/GSB Director or ED/Director PASS department/CFO may approach the UFC for (some) relief.
< = R150,000	Dean/GSB Director or ED/Director: PASS department/CFO
>R150,000 <= R5,000,000	CFO on motivation by Dean/GSB Director or ED/Director: PASS department/CFO
> R5,000,000	CFO on motivation by Dean/GSB Director or ED/Director: PASS department/CFO and ratified by the UFC and reported to the COO / DVC Research & Internationalisation.