

University of Florida Office of Inspector General

ERP Position Paper #1

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Date: December 20, 2002

Topic: University Accounting Structure

With the implementation of GASB 34 and 35, migration to PeopleSoft's ERP system, and a pending accreditation review, this is a good time to review the university's financial reporting structure.

Currently, when an organizational code is established in FLAIR, the expansion file information is completed to identify the funding source, program activity, FID, and other characteristics. However once established, there is no routine review to ensure the validity of the data entered or to determine if there have been changes over time.

Over a period of time, we noted reporting inconsistencies of similar activities by university units. Revenues and costs related to generating revenues sometimes have been accounted for in multiple organizational codes and sometimes within support organizations such as the University of Florida Foundation making it difficult to generate meaningful managerial reports. Various examples of these types of inconsistencies include:

- IFAS continuing education activities are accounted for in a direct support organization while most other continuing education activities are accounted for in university accounts.
- Veterinary Teaching Hospital facility expenses are charged to the university accounts whereas revenues and other expenses are attributed to the Practice Plan.
- Most employees who are primarily responsible for the sales of goods and services (an auxiliary activity for effort reporting) generally are paid through auxiliary funds and effort reports for them accurately reflect their effort as auxiliary. Effort reporting procedures do not permit auxiliary efforts to be shown for E&G funds. Therefore, effort reports for employees engaged in auxiliary activities paid through E&G funds do not accurately reflect their effort. The effort for these employees is manually adjusted for indirect cost calculations. CITS at the Brain Institute is an example.
- Revenues and expenses for "quasi-auxiliaries" such as the Center for Performing Arts are only partially accounted for in the Auxiliary Fund. Some related revenues and expenses are accounted for in other funds which makes it difficult to determine the entire financial picture for these types of operations.

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- Sales revenues from goods and services sold to the public and to the university community are not accounted for as an auxiliary and sometimes revenues are recorded as expense refunds. IFAS maintains a catalog of publications and clothing for sale. Certain IFAS accounts show a substantial number of expense refunds.
- Numerous services to support research have been established within colleges. When these services are made available university wide, the related revenues and expenditures should be accounted for as auxiliaries to comply with NACUBO's definition of an auxiliary. Several research services have been established and are accounted for within the College of Engineering.
- Varying models exist for accounting for sale of products/services incidental to research. One department/college may use MG&G funds, others may direct the activity to UFRF.

ICOFA's Financial Statements Policy Manual provides for reporting of **Sales and Services of Educational Departments** to include:

- (1) *revenues that are incidental to the conduct of instruction, research, and public service, and*
- (2) *revenues of activities that exist to provide an institutional and laboratory experience for students and that incidentally create goods and services that may be sold to students, staff and the general public.*

Sales and Services of Auxiliary Enterprises are revenues generated by auxiliary enterprises that exist:

to furnish goods or services to students, faculty, or staff and that charge a fee directly related to, although not necessarily equal to, the cost of the goods and services. This category includes revenues (net of refunds) generated by operations.

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NACUBO's Advisory Report 99-2, defines auxiliaries with two subcategories, Auxiliary Enterprise-Other and Other Self-Supporting Enterprises. Under these definitions, an auxiliary exists to furnish goods or services to students, faculty, staff, or incidentally to the general public. It is managed as a self-supporting entity and fees are directly related to but not necessarily equal to the cost of providing goods or services sold. Activities established primarily to provide goods/services on a fee basis to internal units university-wide are included as auxiliaries. Activities to furnish goods or services related to the mission of the university primarily to customers other than students, faculty or staff would also be included as auxiliaries. See the attachments for the complete definitions.

Conclusion

Current changes in governance, financial reporting, and transition to a new accounting system provide unique opportunity to re-evaluate accounting for certain activities in a way that will lead to a more complete and consistent reporting. It may be timely to establish a committee representing the University Controller, ERP, IFAS, the Health Science Center, the University of Florida Research Foundation, Auxiliaries accounting, EIES, and the Office of Inspector General to develop guidelines and procedures to address these issues.