

**(Current)**

**1 Introduction to Business and Financial Functions at the University of Illinois**

**1.1 Introduction to the unique business environment at the University**

- 1.1.1 How the University Measures the Financial Health of Units
- 1.1.2 How the Unit Financial Report Calculates Unit Flexible and Inflexible Fund Cash
- 1.1.3 How the University Compiles its Annual Financial Report
- 1.1.4 How the University Reports Tuition and Fee Waivers
- 1.1.5 How Accounting is Conducted at the University of Illinois
- 1.1.6 How the President Certifies Fiscal Compliance

**1.2 Responsibilities**

- 1.2.1 Business and Financial Responsibilities
- 1.2.2 Introduction to Unit Head Financial Responsibilities
- 1.2.3 Exceptions to Business and Financial Policies, Procedures, and Processes

**1.3 Financial Documents**

- 1.3.1 Approval of Financial Documents
- 1.3.2 Initiation, Review, and Approval of University Contracts and Leases
- 1.3.3 What Approving or Signing a Document Means
- 1.3.4 Funding Language for Board of Trustees Roll Call Items and Contracts
- 1.3.5 Electronic Signatures

**1.4 Records Management**

- 1.4.1 University Business and Financial Records Management

**1.5 Conducting Business Outside of Illinois**

- 1.5.1 How to Conduct Business Outside the State of Illinois

**1.6 Ethics and Compliance**

- 1.6.1 Comply with Anti-Bribery Laws
- 1.6.2 Reporting Fraud or Misconduct, Whistleblower Protection, and Investigations

**(Proposed)**

**1 Fiscal Environment**

- 1.1 System Annual Financial Report
- 1.2 Conducting, Recording and Reporting Financial Activity
- 1.3 Unit Financial Health and Reporting
- 1.4 University and System Offices Deficit Reporting
- 1.5 Conducting Business Outside of Illinois
- 1.6 Exceptions to Business and Financial Policies, Procedures, and Processes

**Ethics and Compliance**

- Comply with Anti-Bribery Laws
- Reporting Fraud or Misconduct, Whistleblower Protection, and Investigations
- Employee Gift Policy
- Fraud Prevention and Awareness

## 1.1 System Annual Financial Report

### Policy Statement

The University of Illinois System must publish an annual financial report. The report contains basic financial statements, supplementary schedules, and the independent auditor's opinion of these statements issued by the Special Assistant Auditors for the State Auditor General.

### Reason for the Policy

The University of Illinois System is subject to and complies with the reporting requirements mandated by the State Comptroller Act (15 ILCS 405/19.5), which in part requires that reports be published so the public and members of groups responsible for the system's support have necessary information about its financial affairs.

### Applicability of the Policy

The annual financial report consolidates all university and System Office activities for the fiscal year which ends on June 30.

### Procedure

The annual financial report is compiled from system and university accounting records, which are maintained using fund accounting principles. The report covers the annual operating activity for the entire fiscal year and the financial position at the end of the fiscal year. It also includes information from the prior year for comparison. Required components of this report include:

#### 1. Basic Financial Statements

**Statement of Net Position** - Reports the financial position of the system at the end of the fiscal year, which includes all its assets and liabilities using the accrual basis of accounting.

**Statement of Revenues, Expenses, and Changes in Net Position** - Reports the system's revenues, expenses, and resulting change in net position for the fiscal year.

**Statement of Cash Flows** - Reports the major sources and uses of cash during the fiscal year.

#### 2. Supplementary Materials

Schedules, notes, and materials that provide details in support of the basic financial statements.

#### 3. Independent Auditor's Report

A statement by the external auditors that they have reviewed the basic financial statements and determined that they are fairly presented in accordance with Generally Accepted Accounting Principles (GAAP).

#### 4. Other separate institutional reports, as required by law or bond indentures, are also published and distributed.

### Additional Resources

[University Accounting Fund Types](#)

[University of Illinois Annual Financial Reports](#)

[Legislative Audit Commission Guidelines](#)

## 1.2 Conducting, Recording and Reporting Financial Activity

### Policy Statement

Unless otherwise stated in the Business and Financial Policies and Procedures Manual, all business and accounting of the system must conform to Generally Accepted Accounting Principles (GAAP) and practices for educational institutions established, in order of precedence, by:

1. [Statewide Accounting Management System \(SAMS\)](#), Illinois State Comptroller
2. Officially established accounting principles of the Government Accounting Standards Board (GASB)
3. GASB Technical Bulletins, applicable, American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guides, and AICPA Statements of Position
4. AICPA Practice Bulletins, applicable to Colleges and Universities
5. GASB Implementation Guides (Q&As) published by the GASB staff, as well as practices that are widely recognized and prevalent in the College and University environment
6. Financial Accounting and Reporting Manual, National Association of College and University Business Officers (NACUBO) and other accounting guidance provided by NACUBO.

The Banner General Ledger and Operating Ledger systems constitute the official financial record of the University of Illinois System. The system reports financial activity using the accrual accounting method.

### Reason for the Policy

Centralized accounting processes maintain the system's chart of accounts and other methods for classifying financial data. These processes also ensure the integrity of the data recorded in the financial record and permit comparison to formal spending authority (budgets, appropriations, etc.) for fiscal control purposes. These centralized accounting systems generate reports that help to safeguard the system's assets.

### Applicability of the Policy

All business and accounting of the system, unless otherwise stated in the Business and Financial Policies and Procedures Manual.

### Procedure

Business and accounting of the system's financial activities must be conducted, recorded, and reported in a manner appropriate to the type of transaction. It also must adhere to additional system-wide standards.

### Basis of Accounting

The system reports financial activity using the accrual accounting method. In accrual accounting, revenues are reported when earned, not necessarily when money is received. Expenses are reported when materials or services are received, not necessarily when money is paid out. Although some revenue and expense transactions are recorded throughout the year, at year-end all must be recorded for inclusion in annual reports. Recording revenue and expenses on the accrual basis requires that:

- Revenue earned at a reporting date, but not yet received, is added and recorded as a receivable.
- Revenue received, but applicable to future periods, is subtracted and recorded as unearned revenue.
- Expenses incurred at a reporting date, but not yet paid, are added and a payable is recorded.
- Expenses paid, but applicable to future periods, are subtracted and recorded as a prepaid expense.

### Accruals and Deferrals

Financial activity may occur before the related transactions have formally processed through the appropriate Banner financial system. In other cases, financial activity that covers more than one financial accounting period may be recorded in Banner. When these situations occur, temporary entries that adjust

for the timing of these transactions may be recorded at the end of a financial period. This provides more accurate financial reporting as of the end of that period.

Entries that add unrecorded financial activity are referred to as accruals. Entries that adjust for activity that belongs to a future period are referred to as deferrals. When accruals and deferrals are recorded at the end of a particular accounting period, they must be reversed at the beginning of the next accounting period so the transactions will not be duplicated or misstated in future accounting periods. Units may initiate accrual and deferral entries only for these fund types:

- Self-Supporting
- Services plans
- Plant

Your unit may—or in some cases must—process accrual and deferral entries at the end of an accounting period.

### **Additional Resources**

[Fund Types](#)

[University of Illinois Annual Financial Reports](#)

## 1.3 Unit Financial Health

### Policy Statement

Units should monitor and evaluate the financial health of their unit to ensure that University of Illinois System financial resources are managed properly.

### Reason for the Policy

Units are expected to be fiscally responsible.

### Applicability of the Policy

All units of the University of Illinois System.

### Procedure

Units should consider the following four standards when evaluating financial health.

1. **Cash Standard**

Each unit is expected to have sufficient and appropriate cash or available budget to pay salaries and operating expenses.

2. **Equity Standard**

Does the unit have equity in its current assets or is it in an unfavorable financial position?

3. **Revenue and Expense Standard**

Does the unit generate operating revenue equal to or exceeding its operating expenses?

Operating revenue generated by a unit in the fiscal year should generally equal or exceed its operating expenses. Operating revenue includes state and institutional funds allocated to the unit, gifts, endowments, grants, contracts, and other revenue generated by the unit. A unit meets the revenue and expense standard if:

- The unit has an operating gain for the fiscal year, or,
- The unit has sufficient carry-forward funds from prior fiscal years to cover an operating loss for the fiscal year and the operating loss was the result of planned expenditure of funds accumulated in prior years for a specific purpose.

4. **Balance Reporting Standard**

Does the unit maintain a positive cash balance in each fund type?

Each unit should have and maintain a positive balance in each of its operating funds and on a roll-up basis for its institutional funds. All inactive funds should be reviewed and closed if no longer necessary.

### Overdrafts and Deficits: Remedial Business Plans

The determination of overdrafts for individual fund sources are at the discretion of the university budget offices, or the Controller for units of the System Offices. Each year, units with a deficit may be notified by the appropriate office and may be provided with forms, instructions, and a deadline for submitting a remedial business plan.

Units may not have to file a remedial business plan to eliminate a deficit if one of the following exceptions is met:

1. A unit has a planned deficit which could be a mechanism for overall system or university funds management purposes.
  - Units must have prior written approval the university budget offices or the Controller for units of the System Offices.

- Units must also have other funds available to cover the deficit or a known June 30 deficit is inherent in their business cycle.
2. University storeroom and certain departmental activity funds approved by the university budget offices or the Controller for units of the System Offices, where all the following apply:
- Inventory of goods available for sale is equal to or greater than the amount of the cash deficit.
  - Inventory is not more than 10% of the annual revenue or an amount determined to be appropriate by the university budget offices or the Controller for units of the System Offices.
  - University funds have a positive fund balance.
  - Cash deficit for the fiscal year is approved in advance in writing by the university budget offices or the Controller for units of the System Offices. This approval may be renewed under the same terms and conditions, provided the cash deficit meets the goals mutually agreed upon in the business plan.
3. University clearing funds with a deficit where all the following apply:
- The nature of the fund is to periodically have a deficit.
  - The deficit has the prior written approval of the university budget offices or the Controller for units of the System Offices.
  - The fund is functioning as intended and being reconciled as a clearing mechanism.

Sponsored project deficit balances are excluded. Contact your university Office of Sponsored Projects for information about overdrafts on sponsored projects.

The measure for state deficits is at the unit level. Unit state deficits at the end of a fiscal year are carried forward as F&A or state deficits in the next fiscal year.

**Additional Resources**

[Urbana Business Plan to Eliminate Deficit](#)

[UIS Unit Plan to Eliminate Deficit](#)

[System Offices Business Plan to Eliminate Deficit](#)

## 1.4 University and System Offices Deficit Reporting

### **Policy Statement**

Units should monitor and evaluate the financial health of their unit to ensure that University of Illinois System financial resources are managed properly.

### **Reason for the Policy**

The Vice President, Chief Financial Officer & Comptroller provides fiscal oversight through review of deficit remedial business plans.

### **Applicability of the Policy**

Each university and the System Offices of the University of Illinois System.

### **Procedure**

University budget offices and/or the Comptroller may periodically request units to prepare deficit remedial business plans.

### **Additional Resources**

[Urbana Business Plan to Eliminate Deficit](#)

[UIS Unit Plan to Eliminate Deficit](#)

[System Offices Business Plan to Eliminate Deficit](#)

## 1.5 Conducting Business Outside the State of Illinois

### Policy Statement

Units conducting business outside the State of Illinois must abide by the relevant laws, which are state or country specific.

### Reason for the Policy

Units may need to conduct business outside the State of Illinois.

### Applicability of the Policy

Conducting business outside the State of Illinois may include, but is not limited to, opening new locations, allowing employees to work remotely (even if on a temporary basis), off-site teaching and research activities, and internet sales.

### Procedure

Before conducting business outside the State of Illinois, consult the units below to ensure that the University of Illinois System complies with the applicable laws.

1. [Office of University Counsel](#) determines the applicable legal requirements. They may find it necessary to obtain the assistance of local legal counsel to interpret these laws, at the unit's expense.
2. [Tax Compliance and Analysis](#) ensures compliance with tax and other related business laws. They assist with registration requirements for employment tax, sales tax, and other applicable tax obligations. They also obtain sales and use tax exemptions in other states and coordinate foreign tax issues.

Related policy: [18.16 Implications of Conducting Business Outside the State of Illinois](#)

3. [Contract Offices](#) develop contracts for units wanting to provide goods or services to other parties. Do not provide goods or perform services until the required contracts have been fully executed.

Related policy: *19 Contracts*

4. [Purchasing Divisions](#) secure any services and goods, including services of an independent contractor. Do not begin any work until the required contracts have been fully executed.

Related policy: *19 Contracts*

5. [System or university human resources \(HR\) offices](#) provide guidance before beginning any search, recruitment effort, or hiring. HR will also determine impacts on bargaining units. Contact HR before using the services of a system employee. Do not begin any work until HR ensures that appropriate employment documents are completed. Refer to [17.2 Classification of Independent Contractors Versus Employees](#) to determine the proper worker classification.
6. [University Payroll and Benefits](#) ensures that relevant employment taxes are properly withheld.
7. [Cash Management](#) establishes all banking relationships and should be consulted before banking outside of the United States.

Related policies: [14.2 Open or Close a University Bank Account](#) and [14.4 Manage Foreign Bank](#)



### Accounts

8. [University Risk Management](#) assesses risk management issues and determines whether insurance coverage is required. Inform Risk Management if leased space is needed. Inform Risk Management if any system vehicles will be used for system business, as special insurance may be required.
9. [Real Estate Services](#) processes transactions including leases, licenses, easements, acquisitions, and dispositions on behalf of the Board of Trustees and should be consulted at least six months in advance of needing off campus leased space.

For additional information, refer to [18.16 Implications of Conducting Business Outside the State of Illinois](#).

## 1.6 Exceptions to Business and Financial Policies, Procedures, and Processes

### **Policy Statement**

The Vice President, Chief Financial Officer & Comptroller has the authority to grant exceptions to business and financial policies, procedures, and processes, when necessary to meet special circumstances and when it is in the best interest of the University of Illinois System and the State of Illinois.

### **Reason for the Policy**

Special circumstances may require the system to temporarily adjust policies, procedures, and processes.

### **Applicability of the Policy**

This policy applies to all financial functions and activities for which the Comptroller has management oversight and responsibility.

### **Procedure**

The Comptroller will provide notification to units when necessary to enact changes to policies, procedures, and processes.

**Ethics and Compliance**

Comply with Anti-Bribery Laws

Reporting Fraud or Misconduct, Whistleblower Protection, and Investigations

Employee Gift Policy

Fraud Prevention and Awareness