

ADMINISTRATIVE MEMORANDUM

SUBJECT Resolution of the Board of Governors
and Administrative Procedures Relative
to Trust Fund Legislation (Supersedes
Administrative Memorandum No. 113
dated January 25, 1979

NUMBER 302

DATE February 8, 1991

In the 1978 Reconvened Session of the 1977 General Assembly, specific legislation was enacted which addressed the custody and management of federal and other nonappropriated funds held by The University. The legislation identified three specific categories of nonappropriated funds and directed the Board of Governors to adopt uniform policies and procedures for administration of these funds. The three categories of funds addressed in the legislation were identified as institutional trust funds, special funds of individual institutions, and institutional student auxiliary enterprise funds. On January 12, 1979, the Board adopted a resolution which established administrative policies and procedures in accordance with the requirements of the 1978 legislation.

The 1990 Reconvened Session of the 1989 General Assembly enacted legislation which expanded the definition of "institutional trust funds" to include institutional student auxiliary enterprise funds and funds received from the operation and maintenance of institutional forest and forest farmlands, thereby necessitating a revision of the Board of Governors' resolution of January 12, 1979. On February 8, 1991, the Board adopted the attached resolution which revises established policies and procedures

concerning the custody and management of institutional trust funds and special funds of individual institutions.

Due to this expanded definition of institutional trust funds, the Board's resolution of February 8, 1991 now addresses only two categories of federal and other nonappropriated funds which are identified as follows.

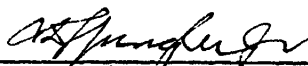
1. Institutional Trust Funds. The Board of Governors is charged with custody and management of these funds. The following receipts are included in this category: gifts, devises, and bequests; federal contracts, grants, and agreements; nonfederal contracts and grants; student extracurricular activities; activities supporting scholarship funds and student activity programs; self-supporting auxiliary enterprises, including institutional student auxiliary funds for the operation of housing, food, health and laundry services; fees for services of health care professionals; proceeds from disposition of real property; and institutional forests and forest farmlands. With the exception of fees for services of health care professionals, these funds are to be deposited with the State Treasurer.
2. Special Funds of Individual Institutions. The Chancellor of each institution is responsible for custody and management of the special funds of his institution. The following receipts are included in this category: intercollegiate athletic program receipts; and funds held by the institution as fiscal agent for individual students, faculty, staff members, and organizations. These funds are to be deposited in an official depository of the institution.

With respect to funds cited in Section II.A. (6), (8), and (9) of the attached Board of Governors' resolution, the following schedule has been established for implementing the Board's regulations.

1. The transfers of all cash balances from Auxiliary Enterprise Funds (budget code 560XX) to Institutional Trust funds (budget code 060XX) should have been completed as directed by the State Controller's memorandum No. 90-19 dated August 1, 1990. This memorandum is provided as an attachment to Chart of Accounts Memorandum No. 40.
2. On or before March 1, 1991, the Chancellor of each institution shall forward a request for approval, by the President, of an agency fund authority as identified in Section II.C. of the resolution and such institutional trust fund authorities as may be required by the institution as identified in Section II.D. of the resolution. The formats for these fund authorities are provided as attachments to Chart of Accounts Memorandum No. 40. The Chancellor's request should be accompanied by a complete list of all accounts in his possession or under his direct control as of July 1, 1990, which contain any institutional trust funds as defined in Section II.A. (6), (8), and (9) of the Board's resolution. This inventory shall be organized in the categories as described in Section II.D. of the resolution and for each separate account shall show the following information.
 - (1) The name of the account and its accounting designation.
 - (2) The amount of cash and investments in each account as of the date of the inventory.

3. The institution will proceed simultaneously to establish any required subsidiary account authorities, as identified in Section II.E. of the resolution, which must be approved by the Chancellor and to modify the internal accounting systems and procedures of the institution to the end that all requirements of the regulations are met no later than March 1, 1991.

A uniform format for a quarterly report on Institutional Trust Funds financial activity has been developed and is provided in a set of Guidelines attached to Chart of Accounts Memorandum No. 40. Also, definitions of Institutional Trust Fund receipts categories have been prepared in order to achieve uniformity in the classification and reporting of receipts. These definitions are also included in the Guidelines.


C. D. Spangler, Jr.

Attachment:

- (1) A Resolution of the UNC Board of Governors concerning Custody and Management of Institutional Trust Funds and Special Funds of Individual Institutions, adopted February 8, 1991.

A RESOLUTION CONCERNING THE CUSTODY AND MANAGEMENT OF
INSTITUTIONAL TRUST FUNDS AND SPECIAL FUNDS OF INDIVIDUAL INSTITUTIONS.

WHEREAS the 1977 General Assembly (2nd Session, 1978) by enactment of G.S. 116-36.1 charged the Board of Governors of The University of North Carolina with the custody and management of the institutional trust funds of The University of North Carolina and of each constituent institution, and instructed the Board to adopt uniform policies and procedures applicable to the administration of these funds; and

WHEREAS the 1977 General Assembly (2nd Session, 1978) by enactment of G.S. 116-36.2 charged the chancellor of each constituent institution of The University of North Carolina with the custody and management of special funds of that institution and instructed the Board of Governors to adopt uniform policies and procedures for the administration of these funds; and

WHEREAS the 1977 General Assembly (2nd Session, 1978) by enactment of G.S. 116-36.3 charged the chancellor of each constituent institution of The University of North Carolina with the custody and management of institutional student auxiliary enterprise funds of that institution, subject to uniform policies and procedures adopted by the Board of Governors; and

WHEREAS, after due consideration, the Board concluded that moneys received by an institution in respect to fees and other payments rendered by medical, dental or other health care professionals under organized practice plans or under contractual agreements between the institution and a hospital or other health care provider should be deposited in the institution's official depository rather than with the State Treasurer;

WHEREAS the 1990 Reconvened Session of the 1989 General Assembly enacted legislation, Chapter 936 of the 1989 Session Laws, which provides management incentives and budgetary flexibility for constituent institutions of The

University of North Carolina and an expanded definition of "institutional trust funds" to include institutional student auxiliary enterprise funds and funds received from the operation and maintenance of institutional forest and forest farmlands, thereby necessitating revision of the Board of Governors resolution dated January 12, 1979, concerning custody and management of institutional trust funds and special funds of individual institutions;

NOW, THEREFORE, BE IT RESOLVED: That the following policies and procedures are hereby established for the administration of: institutional trust funds, as now defined in G.S. 116-36.1 and special funds of individual institutions, as defined in G.S. 116-36.2.

I. GENERAL PROVISIONS

A. **Funds not to substitute for State appropriations.** Neither the funds covered by these policies and procedures nor the investment income therefrom shall take the place of State appropriations or any part thereof, but any portion of these funds available for general institutional purposes shall be used to supplement State appropriations to the end that the institution may improve and increase its functions, may enlarge its areas of service, and may become more useful to a greater number of people.

B. **Presumption that receipts belong to the General Fund unless shown otherwise.** Except as otherwise provided by or pursuant to law, all moneys received by or accruing to an institution shall be deemed institutional receipts within the meaning of the Executive Budget Act and shall be deposited with the State Treasurer to the credit of the General Fund unless the chancellor can show that the moneys fall within one or more of the following general categories:

- (1) institutional trust funds, as defined in G.S. 116-36.1.
- (2) special funds of the institution, as defined in G.S. 116-36.2.
- (3) endowment funds, as defined in G.S. 116-36.
- (4) funds subject to debt instruments containing special provisions with respect to the deposit of receipts pledged to secure such debt.

C. **Accounting.** The chancellor of each institution, with the approval of the State Controller, shall establish and maintain an accounting system for the funds covered by these policies and procedures in conformity with generally accepted principles of institutional accounting and in accordance with these policies and procedures.

D. **Internal control.** The chancellor of each institution shall institute internal control procedures with respect to the handling of funds covered by these policies and procedures that are necessary or desirable to prevent misappropriation or mishandling of the funds.

E. **Preaudit of disbursements.** No bill or claim against an institution to be charged to an account established hereunder may be paid unless it has been approved by the officer or employee authorized to initiate disbursements from that account. No bill or claim may be paid in any form other than a check or draft on an official depository of the institution or a warrant on the State Treasurer.

F. **Facsimile signatures.** The chancellor may authorize the use of facsimile signature machines or signature stamps in signing checks, drafts, and warrants.

II. INSTITUTIONAL TRUST FUNDS

A. **Applicability.** This Section II applies to moneys within the following categories:

- (1) moneys, or the proceeds of other forms of property, received by the institution as gifts, devises, or bequests that are neither presumed nor designated to be gifts, devises, or bequests to the endowment funds of the institution.
- (2) moneys received by the institution pursuant to grants from, or contracts with, the United States Government or any agency or instrumentality thereof.
- (3) moneys received by the institution pursuant to grants from, or contracts with, any State agencies, any political subdivisions of the State, any other states or nations or political subdivisions thereof, or any private entities whereby the institution undertakes, subject to terms and conditions specified by the entity providing the moneys, to conduct research, training or public service programs.
- (4) moneys collected by the institution to support extracurricular activities of students of the institution.
- (5) moneys received from or for the operation by the institution of activities established for the benefit of scholarship funds or student activity programs.
- (6) moneys received from or for the operation by the institution of any of its self-supporting auxiliary enterprises, including institutional student auxiliary enterprise funds for the operation of housing, food, health, and laundry services.
- (7) moneys received by an institution in respect to fees and other payments for services rendered by medical, dental or other health care professionals under an organized practice plan approved by the institution or under a contractual agreement between the institution and a hospital or other health care provider.

- (8) moneys received from the disposition effected pursuant to Chapter 146, Article 7, of any interest in real property owned by or under the supervision and control of an institution if the interest in real property had first been acquired by gift, devise, or bequest or through expenditure of moneys defined in Section II.A. as 'trust funds', except the net proceeds from disposition of an interest in real property first acquired by the institution through expenditure of moneys received as a grant from a State agency. (Chapter 529 of the 1981 Session Laws)
- (9) moneys received from operation and maintenance of institutional forests and forest farmlands, provided that such moneys shall be used, when used, by the institution for support of forest-related research, teaching, and public service programs.

B. Delegation of authority. The chancellor of each institution, under the supervision of the President, is charged with the custody and management of all moneys within the categories described in Section II.A. now held by or hereafter accruing to that institution in accordance with applicable laws of the State of North Carolina and these policies and procedures.

C. Agency Fund Authorities. The President is authorized to approve and transmit to the State Treasurer an agency fund authority for each institution receiving any of the moneys identified in Section II.A. This document shall contain the following information:

- (1) The name of the institution.
- (2) The categories of moneys as described in Section II.D. to be deposited in the fund.
- (3) The position or individual authorized to approve disbursements from the fund.

The fund authority shall constitute authorization for the State Treasurer to establish and administer such a fund in the name of the institution.

D. **Institutional trust fund authorities.** The President is authorized to approve for each institution for which an Agency Fund is established pursuant to Section II.C. one or more Institutional Trust Fund Authorities for each of the following categories as may be appropriate to that institution's operations:

- (1) Gifts, devises and bequests. This category comprises all receipts described in Section II.A.(1), including income derived from the investment of institutional trust fund balances and gifts and grants for student loans (including federal and State contributions).
- (2) Federal contracts, grants and agreements. This category comprises receipts described in Section II.A.(2), including receipts derived from the sale of surplus federal property originally purchased through a federal institutional trust fund.
- (3) Non-federal contracts and grants. This category comprises receipts described in Section II.A.(3) not properly includable in another category.
- (4) Student extracurricular activities. This category comprises receipts described in Section II.A.(4), including receipts from student activities fees established by the Board of Governors for the support of student organizations, student athletic and recreational activities (other than intercollegiate athletics), student entertainment, student publications and similar activities.
- (5) Institutional auxiliary enterprises and activities supporting scholarship funds and student activity programs. This category comprises receipts described in Section II.A.(5) and Section II.A.(6)

from the operation of self-supporting service enterprises which exist primarily to furnish goods or services to students, faculty, or staffs and institutional programs and for which charges or fees are related to the cost of the goods or services. By way of illustration but not limitation, these enterprises include the operation of housing, food, health, and laundry services, central stores, printing and duplicating services, student stores, student centers, athletic facilities, rental property, utilities systems, and similar operations, specifically including all operations whose profits are dedicated to scholarship support or specific student activity programs.

- (6) Fees for services of health care professionals. This category comprises receipts described in Section II.A.(7).
- (7) Dispositions of real property. This category includes receipts described in Section II.A.(8) of net proceeds from the disposal of any interest in real property belonging to an institution and acquired as described in Section II.A.(8).
- (8) Institutional forests and forest farmlands. This category includes receipts described in Section II.A.(9) of moneys received from operation and maintenance of institutional forests and forest farmlands and used, when used, in support of forest-related research, teaching, and public service programs.

Each Institutional Trust Fund Authority shall contain the following information:

- (1) The name of the institution.
- (2) The source(s) of the moneys to be credited thereunto.
- (3) The purpose(s) for which the moneys credited thereunto may be used.
- (4) The position or individual authorized to receive moneys to be credited thereto and to disburse them.

Upon the approval of the President, the Institutional Trust Fund Authority shall be transmitted to the chancellor of the institution and a copy shall be filed among the permanent records of the President's Office. When established as provided therein, the Institutional Trust Fund Authority shall constitute authorization for the institution to receive and disburse the moneys described therein in accordance with the purposes stated, subject to the provisions of G.S. 143-18.1 with respect to capital improvements projects.

E. Subsidiary Account Authorities. For each subsidiary account within one of the categories described in Section II.D., the chancellor is authorized to approve an account authority containing the following information:

- (1) The Institutional Trust Fund Authority within which the account is established.
- (2) The name of the account and its accounting designation.
- (3) The source of the moneys to be credited thereto.
- (4) The purpose of the account, including any specific restrictions, terms or conditions on the use of the moneys credited thereto.
- (5) The position or individual authorized to accept receipts and initiate disbursements from the account.

Each account authority for institutional trust funds authorized by the chancellor shall be filed among the permanent records of his office and it shall constitute authorization for establishment and operation of the account in accordance with the purposes stated therein.

F. Deposit to and disbursement from institutional trust fund accounts. Except as provided in Section II.I., all moneys within the categories described in Section II.A. that are received by an institution shall be deposited with the State Treasurer in that institution's Agency Fund and credited to the appropriate Institutional Trust Fund and subsidiary account on

the institution's books. Disbursement of such moneys shall be accomplished by warrant on the State Treasurer issued by the person designated in the Agency Fund Authority upon voucher or requisition of the person designated in the Institutional Trust Fund Authority or the subsidiary account authority as appropriate. No disbursement shall be made for a purpose not specified in the appropriate fund or account authority or contrary to any specific restrictions, terms or conditions on the use of the funds.

G. Allocation of investment income. Subject to any restrictions thereon, investment income credited to an institution's Agency Fund by the State Treasurer as provided in Section II.D. may be used for institutional support purposes in such manner as the President shall approve.

H. Financial reports. Financial reports on the Institutional Trust Funds as identified in this Section II shall be submitted by the chancellors to the State Budget Officer, the President and the local Board of Trustees of the institution. The frequency, form and content of the reports shall be prescribed by the President, in accordance with the requirements of the Director of the Budget.

I. Fees for services of health care professionals. Any of the foregoing provisions of this Section to the contrary notwithstanding, funds identified in Section II.A.(7) shall be deposited in an official depository of the institution.

J. Investment of cash balances. Available cash balances shall be invested in interest bearing deposits and investments so that the rate of return equals that realized from the investment of State funds generally and shall otherwise be managed in the manner provided for in Section III.D, E, F, G, and H. Income earned on investment of funds shall be used, subject to any restrictions thereon, in such manner as may be prescribed further in the Institutional Trust Fund Authority.

III. SPECIAL FUNDS OF INDIVIDUAL INSTITUTIONS

A. **Applicability.** This Section III applies to moneys within the following categories:

- (1) moneys received from or for the operation by the institution of its program of intercollegiate athletics.
- (2) moneys held by the institution as fiscal agent for individual students, faculty, staff members, and organizations.

B. **Account Authority.** Effective January 15, 1979, a chancellor shall not authorize the creation or continuation of an account for special funds falling within any of the categories described in Section III.A. until he has established an account authority for that account. Upon approving an account authority for special funds, the chancellor shall file it among the permanent records of his office and it shall constitute authorization for establishment and operation of the account in accordance with the purposes stated therein.

C. **Allocation of investment income.** Income earned on investment of funds covered by this Section III shall be used, subject to any restrictions thereon, in such manner as may be prescribed in the account authority.

D. **Fidelity bonding.** Each officer, employee, or agent of an institution who handles or has in his custody any of the funds described in Section III.A., or who has access to physical inventories constituting assets of accounts established under this Section III, shall be covered by an individual or blanket fidelity bond with sufficient sureties payable to the institution.

E. **Investment of idle funds.** (1) An institution may deposit at interest or invest all or part of the cash balance of any account established under this Section III.

(2) Moneys may be deposited at interest in any bank or trust company in this State in the form of certificates of deposit, savings accounts, or similar interest-bearing time deposits. Such deposits shall be secured as provided in Section III.G.

(3) Moneys may be invested in any form of investment allowed by law to the State Treasurer or any of the securities authorized by A RESOLUTION CONCERNING THE INVESTMENT OF UNIVERSITY FUNDS NOT REQUIRED FOR CURRENT USE adopted by the Executive Committee of the Board of Trustees of The University of North Carolina on March 14, 1969.

(4) The institution may employ one or more fiscal agents for the purposes of this section.

F. Selection of depositories. The chancellor of each institution shall designate as the official depository of the institution one or more banks or trust companies in this State. No funds subject to this Section III shall be deposited in any place, bank or trust company other than an official depository, except as otherwise required by the terms of any debt instrument containing special provisions with respect to deposits.

G. Deposits to be secured. The amount of money on deposit in an official depository or deposited at interest pursuant to Section III.E. shall be fully secured by deposit insurance, surety bonds, or investment securities of such nature, in such amounts, and in such manner as is prescribed by the State Treasurer for the security of State funds generally.

H. Daily deposits. All receipts subject to this Section III shall be deposited daily. If the chancellor gives his approval, deposits shall be required only when the moneys on hand amount to as much as two hundred and fifty dollars (\$250.00), but in any event a deposit shall be made on the last business day of the week.

I. **Reports on the status of deposits and investments.** The chancellor shall report annually to the President as of June 30 of each year of the amounts of funds on deposit in official depositories of the institution, a list of all investment securities held on behalf of these accounts, and a description of the surety bonds or investment securities securing these deposits and investments.

IV. IMPLEMENTATION

A. **Requests for Authorizations.** On or before February 1, 1979, or with respect to funds cited in Section II.A.(6),(8), and (9) as directed by the State Controller, the chancellor of each institution shall forward a request for approval of an agency fund authority as identified in Section II.C. and such institutional trust fund authorities as may be required by the institution, as identified in Section II.D. The request shall be accompanied by a complete list of all accounts in his possession or under his direct control as of January 1, 1979, or on July 1, 1990, with respect to funds cited in Section II.A.(6),(8), and (9) containing any institutional trust funds as defined in G.S. 116-36.1. This inventory shall be organized in the categories described in Section II.D. and for each separate account shall show the following information:

- (1) The name of the account and its accounting designation.
- (2) The amount of cash balance and investments of the account as of the date of the inventory.

B. **Deposit of funds with the State Treasurer.** Upon the receipt of approved fund authorities, the chancellor shall transfer the cash balance and investments of accounts so identified (other than organized practice plan receipts as defined in G.S. 116-36.1(g)(7)) to

the State Treasurer for deposit in the State Treasurer's Agency Fund for that institution and shall proceed to disburse moneys in accordance with the provisions of Section II.F. These transfers shall be made in accordance with the following schedule:

- (1) The current cash balance of each account shall be transferred as directed above.
- (2) Cash-equivalent investments shall be converted into cash and transferred upon maturity.
- (3) Investment securities shall be converted into cash and transferred at such time as may be mutually agreeable to the State Treasurer and the institution.

These initial transfers of cash balances and investments shall be without prejudice to adjustments later found to be appropriate.

C. Accounting and reporting. The chancellor of each institution will proceed to establish the subsidiary account authorities as identified in Section II.E. and to modify further the internal accounting systems and procedures of the institution as may be necessary to the end that all requirements of this resolution will have been met forthwith.