

HOW TO PREVENT AND RESOLVE DEFICIT BUDGET BALANCES

THE UNIVERSITY OF ALABAMA OFFICE OF CONTRACT AND GRANT ACCOUNTING

Within this document, (*Banner terminology*) is included and identified by use of italics when first occurring.

A deficit balance (*negative Available Balance*) can occur in a Sponsored Project account (*Grant Fund*) due to a variety of circumstances. A deficit balance in one or more budgeted expense line (*Account*) can typically be addressed by following the **Revision of Budget and Program Plans** procedures found in [Budget Procedures for Grants and Contracts](#). An overall deficit balance occurs when total expenditures exceed the total, to-date authorized amount for an agreement. An overall deficit cannot be resolved through rebudgetting and should, instead, be addressed based on the cause of the deficit and other relevant circumstances.

Deficits Due to Delay in Award or Increment:

When allowed by the sponsor, costs may be charged to a Grant Fund in advance of receipt of an award or increment by following the **Spending in Advance of Award Notice** procedures found in [Budget Procedures for Grants and Contracts](#). These procedures include providing a budget for the estimated amount that will be needed prior to receipt of the notice of award so an overall deficit balance should not occur. If the anticipated award or increment is not received or is for less than was budgeted, the budget in the Grant Fund will be reduced, which may result in a deficit balance. Advance Spending procedures require a commitment from the PI, Department or Dean to fund any resulting deficits.

Deficits Due to Cost OVERRUNS:

The University uses non-sufficient funds checking that prevents the processing of purchase requisitions and purchase orders in most University Funds, including Grant Funds, with insufficient operating budgets to cover the expense. In addition, Contract and Grant Accounting (CGA) reviews most Grant Fund expenditures prior to those charges posting to Banner. If a Grant Fund has an insufficient available balance in Banner at the time a charge is submitted to CGA for approval, the CGA accountant should stop the transaction, request more information from the PI and/or department, and help ensure appropriate action is taken. CGA does not, however, have a system for tracking and summing charges that have been approved but have not yet posted to Banner. PIs, Departments and Schools/Colleges are responsible for establishing and following practices and procedures to avoid an overall Grant Fund deficit balance (e.g. bookkeeping, frequent monitoring and periodic reconciliation).

Rebudgetting between Grant Funds is generally not allowable. When, however, a single Project Agreement (*Grant*) is established in Banner with more than one Grant Fund **AND** sponsor

requirements do not restrict rebudgetting between those Funds, it may be possible to correct an overrun in one Fund by moving funds/budget to it from another Fund within that Grant.

Procedures for Correcting a Deficit:

When an overall Grant Fund deficit does occur, Federal cost accounting standards, University policies and good management practices require that it be cleared in a timely manner.

- If the deficit is due to a delayed award or increment, follow the **Spending in Advance of Award Notice** procedures, referenced above. An additional Advance Spending Authorization can be processed to increase a Grant Fund budget if the original budget request was insufficient.
- If the deficit is due to a cost overrun or an error in allocating charges, a cost transfer will be needed to clear the deficit by moving expenditures off of the Grant. Additional funds/budget cannot be transferred into a Grant.
 - Cost overruns are generally transferred to cost share funds as only those costs meeting the definition of Voluntary Uncommitted Cost Share are exempt from federal requirements for accounting. Cost Share definitions and related information can be found in the University's [Cost Sharing Policies, Procedures and Instructions](#).
 - Cost transfers to move expenditures off of a project (i.e. not a transfer to cost share or to another Fund within the same Grant) must follow the requirements found in the University's [Cost Transfer Policy](#).
- If an overall Grant Fund deficit is identified by CGA prior to correction by the department:
 - CGA will email the departmental administrator and PI and request that a correction be made within 10 business days.
 - If a correction has not been made within 15 business days, CGA will send another request and copy the Department head and Associate Dean for Research.
 - If a correction has not been made within 30 days, CGA will notify those above, along with the Assistant Vice President for Research, that should the problem not be corrected within 5 business days a cost transfer will be completed to move excess expenditures to a cost share fund and a budget change will be processed to fund the expenditures from the College/School's research overhead fund.
- If the deficit is due to a reduction in or termination of an agreement, expenditures in excess of budget that were incurred prior to receipt of notice will be moved to a cost share Fund and appropriate funding for the cost share will be determined based on a review of the circumstances with the PI, Department head, Dean and Office for Research (i.e. AVP or VP for Research).