



Administrative Procedure Chapter 12, Research
Administrative Procedure AP 12.204, Revolving Fund Service Orders to the Research Corporation of the University of Hawaii (Note: Previously AP 8.931)
Effective Date: April 2017
Dates Amended: November 2012, November 2009
Responsible Office: Office of the Vice President for Research and Innovation
Governing Board and/or Executive Policy: Chapter 12, EP 12.102, Authority to Sign and Execute Extramural Research and Training Contracts/Grants, Agreements and Contract Assignments and Releases
Review Date: August 2019

I. Purpose

To ensure that services directed by the University of Hawaii (UH) to the Research Corporation of the University of Hawaii (RCUH) are consistent with the intent and purposes set forth in Hawaii Revised Statutes (HRS) §304A-3001 to 3011, the UH/RCUH Internal Agreement dated July 1, 1996, and the UH Board of Regents Policy, RP 12.207, as amended.

II. Definitions

- A. Revolving Fund: a self-sustaining, income-generating project that is established for the purpose of supporting a specialized service activity or a recharge center.
- B. Specialized Service Facility: an institutional service involving the use of highly complex or specialized facilities which supports grants, contracts or other sponsored agreements and intramurally funded activities on an on-going basis. Specialized service facilities that do not generate at least \$250,000 of revenue per year will be considered a recharge center.
- C. Recharge Center: an institutional service providing goods or services on a fee for service basis which supports grants, contracts or other sponsored agreements and intramurally funded activities on an on-going basis but which generate less than \$250,000 of revenue per year.
- D. Intramural funds: internal sponsorship of a program or activity such as general funds, Research and Training Revolving Funds (RTRF) or Tuition and Fee Special Funds (TFSF).

- E. Other sponsored agreements: External sponsorship of a research, training or other activity established through forms of agreements other than a grant, contract or cooperative agreement. Other forms of agreement include, but are not limited to, purchase orders (PO), master agreements, memorandum of agreements (MOA), memorandum of understanding (MOU), cooperative research and development agreements (CRADA), consortium agreements, etc.
- F. Designated University Official (DUO): the Fiscal Authority (FA) of the UH program requesting RCUH services.

III. **Administrative Procedure**

A. Objectives

To establish guidelines and procedures for revolving fund service orders to the RCUH.

B. Applicability

These guidelines and procedures apply to Revolving Fund Service Orders.

C. Guidelines

1. Inappropriate uses for a revolving account. Revolving accounts should not be used for the following types of activities:
 - a. Sponsored research or training activities funded via grant, contract, cooperative agreement or other sponsored agreements. Pursuant to Board of Regents Policy RP 12.207 III.D., these sponsored agreements should be processed through the UH offices responsible for administering grant and contracts such as the Vice President for Research and Innovation (VPRI) and the UH Hilo Chancellor, or their designees, as amended by UH Executive Policy EP 12.102.
 - b. Rights to data, publishing or intellectual property belong to the service requestor and not the service provider under a revolving account. Thus, a revolving account is an inappropriate vehicle for a revolving account manager (i.e. the service provider) to secure such rights. Managers should pursue extramural or intramural funding to fund their research or scholarly activities to obtain such rights.
 - c. Because revolving accounts should relate to and promote the non-profit academic and research mission of the University, a revolving account is an inappropriate vehicle for generating profit. The faculty member and

Dean/Director or Chancellor should consider establishing a commercial enterprises revolving account under HRS §304A-2251 to pursue such activities.

2. The accounting year shall be the fiscal year (July 1 to June 30).
 - a. Exceptions: The School of Ocean, Earth Science & Technology Ship Operations specialized service facility uses a calendar year, which has been disclosed in the University's cost accounting disclosure statement (CASB DS-2), which has been reviewed and approved by the HHS Division of Cost Allocation.
3. For specialized service facilities and recharge centers:
 - a. User fees/billing rates shall be designed to recover no more than the total costs of providing the goods or services. The resulting user fees/billing rates shall not discriminate between extramurally funded (especially federally funded) and intramurally funded programs or activities. Generally, this means all University affiliated users of the revolving fund, including those using general, RTRF or TFSF funds must pay the same user fees/billing rates, including specialized service facility F&A costs, if applicable. This requirement does not apply to non-University affiliated customers, provided that charges are reasonable in relation to the total costs of providing the goods or services.
 - b. At least biennially, the Project Manager (PM) must review revolving fund balances and consider whether to increase or lower user fees/billing rates to eliminate a deficit or surplus, respectively. The Chancellor or Chancellor's designee may require this analysis to be conducted more frequently, such as annually, to minimize large deficits or surpluses that might occur.
 - (1) Generally, an excess surplus balance of more than 5% of total annual operating costs (after taking into account working capital requirements and equipment replacement set asides as described in Sections III.C.3.d. and III.C.3.e.(1). below) should result in a lowering of the user fees/billing rates.
 - (2) The PM may elect to amortize deficits over three to five years to minimize the impact on rates. However, a deficit requiring more than five years to amortize should be written off against school/college/research unit funds.

- c. Transfers out of the revolving fund may not be made except to cover operating expenses. Non-operating transfers out of the fund are subject to refund to the Federal Government.
 - d. No more than a maximum 60 days of working capital to cover cash expenses may be retained out of surplus balances that accumulate. Examples of cash expenses include salaries and fringe benefits of revolving fund personnel; consumable supplies; monthly rental costs; monthly utilities; and items that must be prepaid (e.g. maintenance agreement due in July).
 - e. Surplus balances may not be retained for equipment purchases; capital expenditures (e.g. major renovations) or debt service.
 - (1) Amounts may be set aside for equipment replacement only if the user fees/billing rates include depreciation on equipment purchased with general funds, RTRF or TFSF funds.
 - (2) Costs of debt service may be included in the computation of user fees/billing rates only if the HHS Division of Cost Allocation has approved the inclusion in writing.
4. All UH requests to establish an RCUH revolving fund must ensure that the proposed revolving fund PM assigned by UH is not the PI of UH or RCUH direct projects which will use the services of the revolving fund, and that a UH Department, College, or Institute is responsible for the operational and financial management of the revolving fund.

D. Criteria for Establishing or Renewing a Revolving Fund

The criteria for the Dean/Director, Chancellor or Chancellor's designee and RCUH for determining whether to establish or renew a revolving account are as follows:

- 1. A revolving account should not be established if it involves inappropriate activities as defined under Section III.C.1.
- 2. A revolving account should not be established if a commercial vendor provides these services at less cost to University affiliated customers or if it duplicates an already existing capability on campus. Criteria such as whether the vendor or other recharge center can provide the quality and/or quantity of goods or services to the desired specifications can be considered in making this determination.

3. A revolving account should be established only if it can operate as an ongoing activity. Idle accounts or accounts carrying deficits from year-to-year will be terminated. If the account is to remain open, a financial plan to carry the account over the idle period or subsidize the deficit may require approval of the Chancellor or the Chancellor's designee and RCUH.
 4. Types of activities allowed:
 - a. Projects involving procurement of goods and services on a cost-reimbursable "user fee basis," which could not otherwise be provided due to the uneconomical cost of specialized facilities, personnel, equipment and maintenance (e.g., research vessel and technical shop-type operations).
 - b. Workshop or conference projects without direct extramural sponsorship involving non-university, out-of-state and international participants, such as for faculty or staff professional organizations.
 - c. Projects involving the reprinting of monographs, journals, and conference materials; providing access to research data, including maps for purchase or via subscription; or production of limited quantities of commodities developed under research projects for use by other organizations or institutions to further research or non-research activities.
- E. Procedure for Revolving Fund Service Orders

If a revolving fund seems appropriate for specific services or a set of activities, the prospective PM (a faculty or staff member) should discuss the establishment of a revolving fund with his/her FA. If it is determined that a revolving fund should be established, a request should be made to RCUH following the procedure described below. Refer to Sections III.F, III.G and III.H for additional submission requirements.

1. The PM should submit the Revolving Fund Service Order Request Form (Attachment 1) to the Department Chairperson, the FA, Dean or Director and Chancellor or Chancellor's designee (UH Manoa, UH Hilo or UH West Oahu) or Vice President for the Community Colleges (VPCC) for signatures. When approved, the request form shall be sent to RCUH for review and acceptance.
2. After a Revolving Fund Service Order is approved by the UH and accepted by the RCUH, the revolving fund will be serviced by RCUH until it is terminated or no longer meets the criteria under Section III.D.

3. A Revolving Fund Service Order Request Form should include the following information:

- a. Description: A description of purpose of the revolving fund, including a statement of how the proposed revolving fund meets one or more of the criteria stated in Section III.D.
- b. Anticipated Users: Identify present and/or prospective users, including user fund sources (e.g. federal grants and contracts, State contracts, private grants, general funds, RTRF, TFSF, etc.)
- c. Distribution Base: Identify the proposed basis for charging users. The distribution base should be based on a reasonable estimate of the volume of service or goods being rendered or produced. Examples of distribution bases are: labor hours; ship days at sea; per person for conferences; etc.
- d. Annual Operating Budget: Provide an annual operating budget by major expenditure category which estimates the projected annual operating costs. The revolving fund budget should include the RCUH administrative fee.

(1) For specialized service facilities and recharge centers, operating budgets should:

(a) Not include unallowable costs as defined under OMB Circular A-21.

(b) Comply with Sections III.C.3.c and III.C.3.e if operating transfers or set asides for equipment replacement or debt service are anticipated.

(2) Specialized service facilities should include their allocated facilities & administrative (F&A) costs, as determined in the F&A cost proposal submitted to the HHS Division of Cost Allocation, in the operating budget and resulting annual recharge rate(s).

e. Annual Recharge Rate(s): Establish an annual recharge rate which will equate to the annual operating budget divided by the total anticipated distribution base. For specialized services facilities and recharge centers, such rates must comply with Section III.C.3.a.

f. Variance Adjustments:

The PM should plan to handle variance adjustments and their affect on recharge rates in accordance with the guidance in Section III.C.3.b.

F. Amending a Revolving Fund

1. For any significant changes to a revolving fund such as a modification in the purpose of the account or change in source of funding or the addition of services or goods to be provided or a change in PM, the PM should prepare a Revolving Fund Service Order Form indicating the type of change; sign and obtain signatures of the PM, Department Chair, FA, and Dean or Director; and submit to the Chancellor or Chancellor's designee or VPCC for final approval before transmittal to RCUH.
2. RCUH will review and, if appropriate, approve and accept the form; retain an original of the amended form for its files; and forward copies of the approved form as follows:
 - a. One copy to the Chancellor or Chancellor's designee or VPCC.
 - b. One copy to the FA.

G. Renewing a Revolving Fund

Colleges, schools, and organized research units should review the performance of revolving accounts on a periodic basis because they are financially responsible for covering financial deficits. At least biennially, the PM should prepare a Revolving Fund Service Order Form for routing and signature as described under Section III.E.

1. The PM shall review and:
 - a. Prepare a schedule summarizing the revenue, expenditures and surplus/deficit accumulated over the two-year period. This information should be provided with the operating budget under the section "Annual Operating Budget."
 - b. Address the issues under Sections III.C.3.b through III.C.3.c with respect to surpluses/deficits and describe how they will be handled under the section entitled "Variance Adjustments."
 - c. Propose rate(s) in accordance with the plan described under Section III.G.1.b to handle surpluses/deficits under the section entitled "Annual Recharge Rates."

The Chancellor or Chancellor's designee or VPCC has the discretion to determine whether to require a complete review annually as described above or to establish a streamlined process for renewal.

H. Terminating a Revolving Fund

The PM and Dean/Director should provide advance notice to Chancellor or Chancellor's designee or VPCC and RCUH regarding the intent to terminate a revolving fund. The notice shall include a plan to achieve a zero fund balance on the termination date, including how deficit balances will be resolved and how surplus balances will be distributed.

I. Responsibilities for Management of Revolving Funds

1. The PM will be responsible and accountable for the day-to-day management of the revolving fund. Responsibilities include the following:
 - a. Direct, coordinate and manage the revolving fund to satisfy requests for goods and services.
 - b. Appoint, supervise, and terminate revolving fund personnel hired through RCUH.
 - c. Review all expenditures and transactions to ensure charges are made in accordance with the user's authorized purchase order or contract and in compliance with the intent and purpose of the revolving fund.
 - d. Work closely with the DUO to monitor the timely issuance of invoices and following up on outstanding invoices.
 - e. Work closely with the DUO to review, reconcile and monitor budget status reports to ensure the financial stability and solvency of the revolving fund, the proper recordation of expenditures and receipts, and to initiate corrective journal entries as required.
 - f. Complete Revolving Fund form and confirm services directed by UH to RCUH are consistent with the intent and purposes set forth in §304A-3001 to 3011, HRS, and the UH/RCUH Internal Agreement as amended.
2. The DUO will:
 - a. Be responsible for all financial commitments of the revolving fund and ensure that all goods and services provided and requisitions for materials, equipment, travel and personnel requirements comply with State law and

UH policies and are in conformance with the intent and purposes of the authorized revolving fund project.

- b. Work closely with the PM and Dean/Director to ensure the financial stability and self-sufficiency of the fund.
 - c. Work closely with the PM to review, reconcile and monitor budget status reports, the proper recordation of expenditures and receipts, and to initiate corrective journal entries as required.
 - d. Ensure that any rate computation process is consistent with the guidelines under Sections III.C.2 and III.C.3.
 - e. Work closely with the PM to monitor the timely issuance of invoices and following up on outstanding invoices.
 - f. Review Revolving Fund form and confirm services directed by UH to RCUH are consistent with the intent and purposes set forth in §304A-3001 to 3011, HRS, and the UH/RCUH Internal Agreement as amended.
3. The Dean or Director will:
- a. Be responsible for the overall operation of the revolving fund and ensure that all goods and services provided are in conformance with the intent and purpose of the authorized revolving fund project.
 - b. Work closely with the DUO to ensure the financial stability and self-sufficiency of the fund and to take necessary corrective action, including securing the funds, to eliminate deficits that cannot be amortized over five years.
 - c. Approve Revolving Fund form and confirm services directed by UH to RCUH are consistent with the intent and purposes set forth in §304A-3001 to 3011, HRS, and the UH/RCUH Internal Agreement as amended.
4. The Chancellor or Chancellor's designee or VPCC shall be responsible for establishing the review process for revolving funds, including monitoring of surplus and deficit balances, and shall take corrective action as necessary to ensure the financial stability of the units that operate revolving funds on their respective campuses.
5. The RCUH shall render specialized administrative support services as provided for in the UH/RCUH Internal Agreement.

J. Payment of RCUH Administrative Fees

The RCUH shall recover the costs of its services via the RCUH administrative fee, which is computed as part of the University's F&A proposal submission to the HHS Division of Cost Allocation.

IV. **Delegation of Authority**

There is no administrative procedure specific delegation of authority.

V. **Contact Information**

Office of the Vice President for Research and Innovation, telephone number: (808) 956-5006; and email uhovpri@hawaii.edu may be contacted for information relating to this Administrative Procedure.

VI. **References**

Link to superseded procedures: <https://www.hawaii.edu/policy/archives/apm/>

VII. **Exhibits and Appendices**

Attachment 1: Revolving Account Service Order Request

Approved:

Vassilis Syrmos
Vice President for Research and Innovation

Date