Higher Education Function Code Update

What is it and how does it impact Fiscal Administrators?

Small Group Talk Story Sessions – March 2015

Attributes & Transactions
Attributes

- Represents the descriptive elements in the financial system that are often used for reporting
- Attributes can help to describe aspects of a transaction
- Attributes can help to describe other attributes
- Attributes can also be used to consolidate data together.

Example:
- UH Fund Appropriation Code (R860 – RTRF)
  - Legal Authority (304A-2253 HRS)
  - Depository of Funds (2 – UH)
  - SSF Fund Appropriation Code (S351 – UH Manoa Revolving Not in State Treasury)
    - DAGS Fund Appropriation (S351 – UH Manoa Revolving Not In State Treasury)
      - Means of Financing (W – Revolving)

Transactions

- In KFS, transactions have very basic data.
  - Fiscal Year
  - Fiscal Period (Month)
  - Chart
  - Account Number (& Sub-Account Number)
  - Object Code (& Sub-Object Code)
  - Balance Type
  - Origin Code
  - Document / Reference Number(s)
  - Transaction Amount
  - Transaction Date
  - Posting Date
Transactions (cont.)

- While transactions may only have small amounts of data, most components of the data have attributes related to them.
- These attributes give more details about the transaction without having to be recorded on every transaction.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Fiscal Period</th>
<th>Chart</th>
<th>Account</th>
<th>Object</th>
<th>Balance Type</th>
<th>Origin Code</th>
<th>Doc No.</th>
<th>Amount</th>
<th>Trans Date</th>
<th>Post Date</th>
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<tr>
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<td>01</td>
<td>MIA</td>
<td>1234566</td>
<td>3020</td>
<td>AC</td>
<td>01</td>
<td>12345</td>
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<td>10/1/2014</td>
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</table>

**Account**
- Account Name
- Higher Ed. Function Code
- Revenue Function Code
- UH Fund-Appropriation
- FO Code
- Organization Code

**Object Code**
- Object Name
- Object Type
- Budget Summary Code 1
- CG Budget Summary
- Consolidation Code

Object Codes

- Represent WHAT is being recorded on the transaction
- Will fall into one of the following accounting buckets (which are attributes of the object code)
  - Income (IN) (Revenues, etc.)
  - Expense (EX) (Supplies, Salary, etc.)
  - Asset (AS) (Cash, A/R, etc.)
  - Liability (LI) (A/P, Deferred Revenue, etc.)
  - Fund Balance (FB)
Object Code Attributes

- Object codes have attributes that further describe their characteristics
- Describe the object in more detail
  - Object Type Code (Expense Expenditure [EX], Asset [AS])
  - Object Sub-Type Code (Transfers-Mandatory [TM], Cash [CA])
- Attributes allow for aggregations
  - Budget Summary Code 1/2 (B020, B100, etc.)
  - CG Budget Summary Code (C100, etc.)
  - Financial Statement Code (AN01, etc.)

Accounts

- Accounts can represent a cost center at a high level, or a very detailed level
- In KFS we have thousands of account numbers.
  - The number of accounts isn’t necessarily a concern
  - As long as there is a valid business need for the account to exist, accounts are created
  - Typically accounts represent a cost center, or a group of related transactions that need to be tracked
  - Accounts that are used to segregate funding years are generally discouraged unless they cause an undue burden for tracking; or would result in the use of an external spreadsheet.
Account Attributes

- Attributes associated with an account help to aggregate related transactions together without having to analyze the individual transactions.
  - For example, at the transaction level, there could be utilities, supplies and personnel transactions on a particular account.
- Attributes on the account can indicate that regardless of the individual transactions, the account is associated with a certain activity.
  - For example, using the HEFC, all of the transactions on an account can be associated with non-degree-based instructional costs.

Account Attributes - Relatedness

- Some account attributes have other attributes related to them that allow different types of aggregation without sacrificing details.
- These types of attributes help to generalize all of the transactions on an account.
  - Higher Education Function Code
  - Revenue Function Code
  - UH Fund-Appropriation
  - Budget Plan ID
  - ...and more
Account Attributes - Hierarchy

Attributes associated with an account indicate WHERE an account is.

- Where the account is physically
  - Campus
  - School
  - Department

- Where the account is in the financial system hierarchy
  - Fund Group (i.e. Restricted [12], Unrestricted [11], etc.)
  - Sub-Fund (STFSF, GEN, RTRF, etc.)
  - Sub-Fund Group Type (General, Special, Revolving, etc.)

Account Attributes – Hierarchy

Organization
- Natural Science (MA-DNNS)
  - Botany (MA-BOT)
    - MA-1119632
    - MA-2258732
    - MA-6100000
  - Chemistry (MA-CHEM)
  - Math (MA-MATH)

Sub-Fund Group Type
- Special (Sub-fund Group Type)
  - STFSF (sub-fund code)
    - MA-2266622
  - SOTHER (sub-fund-code)
    - MA-2300003
  - SSTATE
  - MA-2019300
### Higher Education Function Code (HEFC)

What is it and how it impacts Fiscal Administrators...

### Account Attributes – Higher Ed. Function Code (HEFC)

<table>
<thead>
<tr>
<th>Higher Ed. Function</th>
<th>Description</th>
<th>UBO</th>
<th>AICPA</th>
<th>Federal Function</th>
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<tr>
<td>ADRS</td>
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</table>
Higher Education Function Code (HEFC)

- This attribute describes, in general, the type of expenditures that occur on the account.
- The higher education function code is at a detailed level (but not as detailed as the individual transaction level)
  - i.e. it splits apart the various instructional, research, auxiliary services, etc. functions

Attributes Associated with HEFC

- There are three other attributes directly associated with the HEFC.
  - UBO (University Budget Office) Function Code – Used by campus and system level budget offices for Budget Reporting to the Legislature
  - AICPA (American Institute of Certified Public Accountants) Function Code – Used by Institutional Research Analysis Office (IRAO) for IPEDS (Integrated Postsecondary Education Data System) reporting (i.e. cost of education reporting for comparison against peer institutions and for efficiency/effectiveness measures)
  - Federal Function Code – Used by ORS Cost Studies to assist in determining the indirect cost rate
- The UBO, AICPA and Federal Function code will automatically be selected based on what Higher Education Function Code is selected for the account.
Current HEFC Example

The excerpt above are just the instruction codes.

For most of the codes except (ASPI and ASPT), the last three columns have the same value.

- This means the aggregation for those three purposes are identical.
- The finer level of detail of the HEFC allows for the differentiation between the types of instructional functions.
- Since those three other attributes are related to the HEFC, it helps for reporting consistency.

Once you pick the Higher Education Function Code, the UBO, AICPA and Federal Function codes are automatically assigned and cannot be changed independently of the HEFC.

HEFC Clean-Up - Background

- Due to various offices using the data captured by the HEFC and associated attributes (UBO, AICPA and Federal Function Code), the University is hoping to clean up the function codes assigned to accounts.

- Units are going to be asked to evaluate if the current HEFC assigned accurately represents the type of activity that account covers.

- Some units may have an account that crosses multiple functions.
  - In these cases, the account would need to be split into their corresponding functions.
  - The level of accuracy/tolerance has not be provided by the system offices at this time.
  - Currently, we’re using a majority rules methodology which may need to change. (i.e. at least 50% of the activity on the account is what the HEFC indicates).
HEFC Clean-Up – Example
Multiple Functions on One Account

- A unit has one TFSF (tuition) account that pays for everything, and that account is currently coded with a HEFC of AGEN (Instruction-General Academic).
- The unit knows that they have the following functions
  - Instruction
  - Research
  - Public Service
- In this case, the unit would need to create two new accounts (for research and public service) and distribute the costs accordingly.

HEFC Clean-Up - Implications

- Depending on the threshold level set by the system offices, the current majority rules (50%) approach may not be applicable.
- If the threshold level is set higher, then units will need to create new accounts to accommodate this adjustment.
- Possibilities
  - 80/20 Rule
    - if 20% of your transactions are identifiable by a distinct function code, then you need to split your accounts
    - i.e. if you have an account currently coded as instruction, but you can identify 20% of the costs as research, then you need to split account.
  - Flat dollar amount
    - if there is a set dollar amount of activities of a particular function, then an account would need to be created
  - Combination of the above
Proposed New HEFCs

- A proposed listing of the new HEFCs can be found on FMO's website:
  - [www.fmo.hawaii.edu/account_codes/index.html](http://www.fmo.hawaii.edu/account_codes/index.html)
- The proposed listing is shorter than the existing one as many codes were consolidated or eliminated
- FMO will be providing a spreadsheet to update your accounts to these new codes shortly. The spreadsheet will automatically convert the current code to the new code
  - Units are being asked to update the HEFC as necessary if the current assignment is incorrect
  - Units must also keep in mind that if the costs on the account represent multiple functions, you may need to create new accounts.

Attribute Principles

- Reports typically take the detail level data and aggregate them based on the attributes on accounts, object codes, etc.
- Attributes on accounts and objects help to develop reports thus selecting the correct attributes ensures that we have accurate and consistent reporting.
- In order to ensure accuracy:
  - When accounts are created, the correct attributes need to be selected
  - Existing accounts need to capture costs that are consistent with the attributes assigned to them.
  - Transactions need to be recorded on the correct account and object code.
So How Does This Impact Me?

- The University is becoming more data centric in terms of measuring performance and how budgetary decisions are made.
- Some of the University efficiency and effectiveness measures are based on the attributes discussed today.
- Having accounts/transactions miscoded could impact how a unit is viewed for those measures.
- Budgets/allocations could be adjusted based on those outcomes.

Questions?