

NUMBER: FINA 3.22 (New)
SECTION: Administration and Finance
SUBJECT: Agency Funds (Z Funds)
DATE: October 3, 2017
Policy for: All Campuses
Procedure for: All Campuses
Authorized by: Vice President for Finance and Chief Financial Officer
Issued by: University Finance – Controller’s Office

I. Purpose

This policy establishes the guidelines and procedures for requesting and using agency funds. Agency funds are not resources owned by the university. The university acts as a custodian or fiscal agent to receive, hold, and disburse resources for students, faculty/staff, or other recognized organizations for use as it relates to the mission of the university.

The process of evaluating an entity for agency fund treatment must be in place to ensure the accuracy of the university’s accounting for agency funds, and to facilitate effective stewardship of funds for which the university has a fiduciary responsibility. At the same time, the university must establish ongoing accountability and oversight for agency funds to minimize the university’s financial exposure. This policy applies to all campuses.

II. Policy

- A. The university agrees to serve as a custodian or fiscal agent for an agency after the following criteria are considered:
- The purpose of the agency agreement relates to activities dedicated to the mutual achievement of educational, research, or public service goals.
 - The agency fund is in the best interests of the university, taking into consideration its fiscal, human resource, risk management, facilities management, budget, tax, and legal implications.
 - The establishment of an agency fund is appropriate according to the reporting principles involved.
 - The terms of the agreement governing the agency relationship are acceptable.
- B. The approval and establishment of an agency fund administrator does not:
- Automatically entitle the organization to the use of university services.
 - Make the university liable for any of the agency fund debts, liabilities or actions.
 - Allow the agency fund to continue indefinitely. Agency status is contingent on adherence to university policies, contractual agreements, and applicable laws. The university has the right to inactivate an agency fund at its discretion consistent with contractual agreements between the agency fund, outside

entities and the university, after providing reasonable notice to the agency fund administrator.

C. AGENCY FUND GROUPS

Based on the intended purposes for the funds received, agency funds will typically belong in one of the following groups:

1. Student Organizations and Activities
 - Funds established for student clubs, organizations or workshops sponsored by student groups. Funds deposited in these accounts should be earned or raised by the student organization. Funds allocated to student groups from institutional funds will not be placed in agency funds.
 - Agency funds of these types will be provided only for bona fide student activities and institution-affiliated organizations, with the approval of appropriate campus administrative office(s) such as the Student Affairs Office.
2. Study Abroad Program
 - Program fee revenue and related expenses for the Study Abroad Program are recorded in an agency fund specific to the responsible program or office.
3. Faculty/Staff Organizations and Activities
 - These funds are established for professional organizations in which university faculty or staff are members and conferences or workshops that are sponsored by faculty or staff groups. Contracts and grants awarded to faculty members as individuals where the research would normally be handled, as USCIP funds will not be treated as agency funds.
 - USCIP funds are USC Internal Projects that have a definite begin and end date (i.e. Startup funds, Magellan, etc.).
4. Activities between the university and other entities
 - These funds are paid from one university component unit to another university component unit (e.g. Foundations) and from other universities or outside entities meeting the university agency fund relationship criteria.
 - Agency funds of this type must have an agreement that has been review by General Counsel on file with the Controller's Office.

D. ACCOUNTING PRINCIPLES

Agency transactions may use revenue and expense account codes for day-to-day transactions. However, because agency funds represent amounts held for external parties and activity that is not part of the university, their revenues and expenses are not included in the university's revenues and expenses for the purposes of

financial reporting. Only assets and liabilities are reported for agency funds on the university's Statement of Net Position on the lines Funds Held for Others and Funds Due From Others.

E. USE OF AGENCY FUNDS

1. Terms

Agency funds are used under the following terms:

- Amounts deposited in agency funds are not considered tax-deductible gifts to the university.
- As a general rule, agency funds may not be over-expended. There may be documented exceptions for those entities whose agreement with the university states they will operate on a reimbursement basis. The agency fund's administrator will be notified if there is a deficit. If the deficit balance has not been resolved within 30 days, an interest charge may be assessed on the deficit amount. This fee will be charged to the sponsoring university department. In addition, if the deficit is not resolved, the entire amount will be charged to the sponsoring university departmental funds.
- Agency fund expenditures are subject to sales tax unless the agency fund administrator can provide documentation proving sales tax exemption.

2. Fund Review

Because an agency fund represents activity that is related, but not fundamental to the university's primary mission, it is important that agency fund treatment is not awarded to activities that are a normal and continuing part of the university's mission. Ongoing accountability and oversight for agency funds are established to minimize the university's financial exposure. Therefore, the status of each agency fund will be reviewed periodically by the Controller's Office, at least once per fiscal year, for the purpose of ensuring whether the agency status should be suspended or revoked. The following will be considered:

- Failure to adhere to university policy and procedures.
- The nature of activities and functions have changed so that agency fund status is no longer appropriate.
- Deficit balances that are not remedied on a timely basis.
- The judgment of university administration that suspension or revocation is in the best interest of the university.
- Inactive or zero dollar fund balances of 18 months or longer.

F. Agency Fund Information Request

An Agency Fund Information Request should be completed and signed by both the university and external organization. This agreement should contain complete information on the terms and conditions of the agency relationship, including:

- The business reason for the agency fund.

- The nature of activity that will be processed through the fund.
- The legal/corporate status of the organization (e.g. 501(c)(3), corporation, etc.).
- The Federal tax ID number of the organization, if applicable.
- The affiliation of the organization with the university.
- The sponsoring university department.
- The person(s) authorized to request expenditures from the fund.
- The term of the agency agreement.
- The disposition of any remaining funds at the end of the agreement.

The request will be reviewed by the Controller's Office. Once reviewed, the Controller's Office will provide an approval, set up the Z fund and appropriate chart fields and provide this information to the requesting department.

III. Related Policies

FINA 2.00

FINA 2.03

FINA 2.12

FINA 2.14

IV. Reason for Revision

To provide policy and guidance regarding the use of Agency Funds (Z Accounts).