Topic
Budget [1]

Policy Number
250-11

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August 1, 2016

Responsible Office
- Office of the Senior Vice Chancellor, Finance and Administration [2]

Purpose

This policy establishes a mechanism for defining, establishing, and closing sales and service center activities and for developing, requesting, and implementing the rates for these activities. This policy:

A. provides regulations for full cost recovery of products or services provided by one University unit to other University units and / or to an external entity, in accordance with University-wide policies and applicable governmental statutes and regulations such as:

1. UC Business and Finance Bulletins (BFB A-47, A-56, A-59);
2. 2 CFR Chapter II, Part 200, et. al. Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards; and
3. Cost Accounting Standards (CAS), Disclosure Statement (DS2);

B. establishes a review and approval process that ensures that a rate proposal has been submitted, reviewed, and approved in accordance with this policy before rates are charged to users;

C. establishes documentation requirements and approval process for rate proposals. These requirements may vary depending on the proposal's classification;

D. establishes that sales and service center activities must publish their rates annually and have them reviewed and approved as required by this policy in Section III.A.6.;

E. establishes that sales and service center activities have primary responsibility for maintaining all records necessary to support and document their operations, in accordance with University record retention requirements, such as but not limited to budget, rate computation, and appropriate handling of surpluses and deficits (see the UCSF Sales and Service Center Policy Guidance and Procedures Manual [3] for additional information and examples).

Definitions

Common Cost Allocation
An allocation of shared costs benefiting multiple funds (e.g., to redistribute certain high numerical but small individual and/or minor charges, copy machine rental and paper costs, telephone charges, mailing charges, and laboratory or office supplies that are initially charged to one departmental fund when the cost applies to multiple activities or prospects).

Costed Central Activities

Are basic central campus functions governed by the annual budget process and funded by allocation of costs to the State, the Chancellor and self-supporting Auxiliary enterprises (e.g., the Medical Center and Campus Life Services). Services provided by central campus administration offices and charged to those self-supporting activities which are primarily funded from external income, will recover their costs for services since those costs are not provided for in the budgets of the central office. These costed central activities are not considered a “recharge” activity under this policy.

External Sales and Services of Education Related Activities

Sales of products or services to EXTERNAL customers only. Activities under this category are very similar to recharge activities, except there are NO internal customers.

External Users

Users who do not account for their transactions through the University’s accounting systems, including faculty, staff, students, and patients paying from their own personal funds. External users usually pay for services by cash, check or credit card, rather than via recharge journal transactions.

F&A (Facilities and Administration) Rate

The percentage that is applied to expenditures related to sponsored awards in order to recover expenses related to certain general administration, departmental administration, depreciation, interest, utilities, and other facilities costs.

Internal Users

Users who account for their transactions through the University’s accounting systems via recharge or other financial journals. Other UC campuses are considered internal users and
should be charged the internal rate via intra-campus journals

Recharge Activity

Can be categorized under a sales and service center activity. A recharge activity provides products and / or services to other University organizational units or departments and charges for those products and services through the recharge mechanism. A recharge activity can provide products or services to BOTH internal and external customers.

Sales and Service Center (SSC)

A University unit created for the primary purpose of providing products or services to University users, and / or external entities in support of the University?s education, research, and public service mission. A SSC includes Recharge Activities, Common Cost Allocations, and External Sales and Services of Education Related Activities, but does not include Costed Central Activities (e.g., Basic Police services, Internal Audit services, Legal Affairs services, etc.) or UCSF sponsored conferences and continuing education type courses. Some SSC?s may provide multiple products or services but they are generally grouped and defined by the SSC?s overall function (e.g., Facilities Management and Information Technology Services).

Service Items

A generic term for the particular products or services for which a SSC activity charges customers. This term is further defined in the Service Items section in the UCSF Sales and Service Center Policy Guidance and Procedures Manual.

Specialized Service Facility (SSF)

A highly complex or specialized service center facility operated by the institution (e.g. Laboratory Animal Resource Center).

User Committee

A committee that includes representatives of the largest users of the Recharge Activity plus the Recharge Activity's manager. Recharge Activities with a budget of at least $500,000 are required to have a user committee to review and recommend approval of the developed rate structure proposed by the activity, as well as both the type and level of services being
Additional definitions of terms (e.g., control point, direct costs and leasehold improvement) can be found in the UCSF Sales and Service Center Policy Guidance and Procedures Manual [3].

Policy

A. Rates and Charges

1. Rates

SSC rates are the estimated costs of providing service items, divided by the estimated number of service items or comparable work units to be provided. Service items or unit of product or service (e.g. each and per dozen) are defined in the UCSF Sales and Service Center Policy Guidance and Procedures Manual [3]. Generally, rates are computed using estimated costs and number of service items, or units of work, to be provided for a specified fiscal year. Detailed guidelines and requirements for rate development can be found in the UCSF Sales and Service Center Policy Guidance and Procedures Manual [3].

2. Rate Methodologies

Rate methodologies and rates must be accompanied by sufficient justification, detail and documentation so reviewers can easily follow the rationale and calculations supporting proposed rate structures. Documentation must be provided including detailed mathematical calculations that clearly show all steps and assumptions used to calculate service rates.

A Common Cost Allocation is an allocation of shared costs benefiting multiple funds that redistributes high-volume, minor charges to multiple users. Common Cost Allocations equal the monthly actual costs of providing service items allocated based on the number of users or other appropriate and commonly accepted allocation methodology (e.g. percent of full time equivalent (FTE) effort).

3. Costs

a. Costing Guidelines

SSC activities must be appropriately costed in order to recover applicable costs incurred in providing products and/or services. They may not be used to circumvent federal policies governing allowable direct and indirect charges to federal grants and/or other sponsored awards.

SSC activity budgets must reflect costs that are:

- Allowable under federal and/or other applicable guidelines;
- Realistic and necessary to provide the products and/or services;
- Either easily identifiable to the SSC activity or reasonably allocable to the SSC activity based on the proportional benefit of costs; and
SSC activity budgets do not include elements of the department’s
general overhead costs, unless those costs are directly related to
administering the activity, or directly tied to producing the SSC products
and/or services.

b. Unallowable Costs

There are certain types of costs that may not be charged to a SSC activity.
There are two categories of unallowable costs:

- costs that are never allowed are acquisition costs of capital equipment
  purchases, total costs of capitalizable renovations or leasehold
  improvements, and principal payments of capital leases; and
- costs not allowed when charging federal funds (including federal flow-
through funds), unless specifically allowed in the awarding documents
  and/or specifically related to administering the SSC activity (see the
  UCSF Sales and Service Center Policy Guidance and Procedures

c. Working Capital

In addition to recovery of actual direct costs, SSCs may establish and
maintain a working capital reserve which may not exceed two months of
budgeted expenses for future operating costs.

d. Consistent Charging

SSC activities are required to charge all users consistently and equitably with
the same approved rates and for external users, applicable F&A costs.
Different rates for the same service will be allowed to accommodate recovery
costs of from non-federal users that are unallowable costs to federal users.
The federal rate must be the lowest rate charged. Additionally, as discussed
in section III.A.4, external users may be charged higher rates than those
charged to internal users.

Refer to the UCSF Sales and Service Center Policy Guidance and

4. External Users

A formal agreement must be established with each external user in order to
mitigate institutional risk. SSC activities with only external users (External Sales
and Services of Education Related Activities) or both internal and external
customers (Recharge Activities) are required to have their budget and rates
reviewed and approved by Budget and Resource Management (BRM) and the
associated agreement is executed by Office of Sponsored Research, Government
and Business Contracts. Refer to the UCSF Sales and Service Center Policy
related to external users.

A SSC may charge external users a rate at least equal to or in excess of full direct
costs plus the applicable F&A rate; a reasonable markup of rates (surplus revenue) to external users is allowable. The surplus revenue may be used as a subsidy to offset costs in the operating fund to adjust the rate or can be transferred to a surplus revenue reserve sub-project under the SSC’s parent project at least annually. Such surplus revenue may be used in a manner that supports the SSC activity (for example, purchasing equipment, paying the principal portion on a capital lease or lab renovations).

Waivers of indirect cost recovery may be granted to units in accordance with the UC Business and Finance Bulletins, Academic Support Unit Costing and Billing Guidelines (A-56), Section V.A-B [4] and established local campus policies. All waiver requests must be in writing and any exceptions to charging external rates must be directed to and approved by BRM.

5. Surplus and Deficit Monitoring

Although SSC activities are expected to operate close to break-even on an annual basis, it is common for SSC activities to have a surplus or deficit at the end of any specific fiscal year. A surplus or deficit occurs when actual revenues received during the fiscal year for providing the product and/or service items exceed or fall short of the actual costs incurred during the fiscal year of providing the product and/or service items. Projected year-end surplus or deficit balances must be included in subsequent year rate computations.

Federal policy allows over or under recovery of one month budgeted expense. In addition, SSC activities can budget for working capital reserve up the 60 days of budgeted expense. Significant surplus or deficit balances can be amortized over a period of several fiscal years (not to exceed three years).

The department is responsible for monitoring the SSC activity project balances monthly or at least quarterly to ensure all expenses are charged and billed within policy, and in a timely manner in accordance with this policy. Specific policy and procedures related to Deficit Monitoring and Resolution are outlined in Policy 250-12 [5].

6. Rate Proposal Review and Approval

Proposals are required for all SSC activities including new activities, changes to previously approved rates, and renewal of existing rates. The termination of rates or transfer of ownership of an approved SSC activity is discussed in detail in the UCSF Sales and Service Center Policy Guidance and Procedures Manual [3]

a. BRM is the designated final approval authority for all SSC budget and rate proposals. Further delegation of additional authority to specified control points for various levels and types of SSC activities may occur and will be specifically promulgated by a formal delegation of authority.

b. For External Sales and Services of Education Related Activities documentation and approval requirements are discussed in the UCSF Sales and Service Center Policy Guidance and Procedures Manual [3]. For all activity types, departments shall submit budget and rate proposals with required approvals from the appropriate departmental business officer and
control point to BRM as outlined in the submission guidelines in the UCSF Sales and Service Center Policy Guidance and Procedures Manual for review and approval. Additionally, recharge proposals with a budget of $500,000 or more, except those for discontinuation of the recharge, must also be reviewed and approved by the relevant user committee prior to submission to the control point.

c. Rates cannot be charged to users until a proposal is submitted and approved as specified. If the SSC does not have a currently approved rate(s), the last BRM approved rate(s) should be used until amended.

7. BRM Monitoring

BRM will annually monitor existing SSC activities for compliance with University policies and federal regulations (e.g. depreciation transfers, surplus/deficit balances and percent of federal funds recharged).

B. Accounting and Billing

All revenues and expenses for the SSC activity must be recorded in sufficient detail and in accordance with University accounting policy in an established chartstring which is to be used exclusively for that activity. The SSC is responsible for developing and maintaining accounting records and procedures to ensure compliance with all appropriate federal regulations and University policy.

Timely Recharges to Federal Sponsored Research Awards and External Users

UCSF and other recipients of federal sponsored research awards have an obligation to file Financial Status Reports (FSRs) within 90 days of each grant’s budget year closure. The following guidelines will help meet this reporting responsibility and facilitate timely recording of recharges to federal funds and external users:

1. Recharge journals to internal users and / or billings to external users must be processed on a monthly basis, at a minimum;
2. Retroactive adjustments to recharge rates will not be approved; and
3. Until formal approval of new rates is received from BRM, the SSC must continue to charge the last approved rates.

SSC activities are responsible for maintaining all records necessary to support and document their operations in accordance with University record retention requirements, such as rates, rate computations, and amounts charged to users.

C. Chancellor’s Advisory Committee for Sales and Service Center Policies and Issues

The Chancellor may appoint or designate standing or ad-hoc committees to address SSC activity management and policy related issues; to recommend resolution of any disputes; and/or to help ensure consistent treatment and adequate oversight.

D. Sales and Service Center Conflict Resolution and Policy Exceptions

Conflicts between the SSC activity and its user(s) may arise in some circumstances,
such as when an ideal service item is not clearly identifiable and measurable, or when the benefit received by the customer or the costs involved in production of the service item are not easily discernible. Resolution of such conflicts should be attempted by first approaching the department heads, then the appropriate Dean or Vice Chancellor. BRM is available for consultation throughout the conflict resolution process. If the conflict remains unresolved, it will be forwarded for review to the Chancellor or the Chancellor's designate.

The Chancellor or the Chancellor's designate may grant exceptions to this policy, or to specific provisions of this policy when such an exception can be fully justified or is necessary based on an operational exigency or other institutional priority.

Responsibilities

- **Budget and Resource Management**: reviews and approves sales and service center budget and rate proposals for compliance with University and federal regulatory requirements; establishes projects as needed for new sales and service center activities; provides guidance and support to sales and service center activities with budget and rate proposal preparation, equipment depreciation and F&A rate recovery.
- **Control Point**: reviews and approves budget and rate proposals in accordance with the sales and service center proposal category levels prior to forwarding to Recharge Review.
- **Controller's Office**: processes billing to external users, assesses Unrelated Business Income Tax (UBIT) applicability, and administers all capital asset accounting.
- **Sales and Service Centers**: follow UC policies and federal regulations in managing the resources available to the sales and service activity; maintain records according to UC policies; perform periodic reconciliation of revenue and expenses; submit rate proposals as needed with annual budgets based on a full fiscal year.
- **Office of Sponsored Research, Government and Business Contracts**: reviews and executes agreements with external users for approved SSC activities.

Related Policies

- 250-12 - Deficit Monitoring and Resolution [7]
- 300-22 - Cost Transfers (Expenditure Adjustments) (retired) [8]
- 400-18 - Program Income for Extramural Funds (retired) [9]

References

- **UC Business and Finance Bulletins** [11], Office of the President:
  - University Direct Costing Procedures, References, Introduction (A-47) [12]
- University of California Accounting Manual [14]
- UCSF Controller's Office Website [15]
- UCSF Guidelines and Requirements for Funds Received from Extramural Sources [16]
- UCSF Sales and Service Center Policy Guidance and Procedures Manual [3]