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## **I. POLICY SUMMARY**

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ANR units, including academic support units, counties, and statewide programs sometimes need to charge other UC entities, the general public, and non-UC organizations for goods or services.

These policies and procedures establish a mechanism for defining, establishing and decommissioning recharge and income activities, along with developing, requesting, reviewing and approving new recharge rates. These policies and procedures also describe the roles, responsibilities, and control points for recharge and rate review. In addition, they ensure compliance with Federal regulations and University of California policies, but are not intended to govern program-related decisions about an activity.

These policies and procedures are consistent with the federal Office of Management and Budget (OMB) Circular A21, *Cost Principles for Educational Institutions*. OMB Circular A-21 “provides principles for determining the costs applicable to research and development, training, and other sponsored work performed by colleges and universities under grants, contracts, and other agreements with the Federal Government.” (OMB Circular A-21, Sec. A-1)

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## **II. DEFINITIONS**

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**Academic Support Activity (Activity):** A recharge or income activity within an academic unit or academic support unit that provides, at an approved rate and on a regular basis, goods or services to a specific group of users. Examples include testing services, computer services, and illustration services. Typically, an academic support activity may have a combination of recharges and income.

**Capital Costs:** Costs of fixed assets, such as equipment, building and certain building improvements, which provides benefit for an extended period.

**Control Unit:** The larger unit within which individual ANR units fall. Examples include the Regional Offices (for UCCE county offices) and the Office of the Assistant Vice President for Programs (for Academic Support Units and Statewide Programs).

**Direct Costs:** Costs that can be consistently and specifically identified with the provision of goods or services by an activity. Examples of such costs are salaries, benefits and cost of materials, maintenance agreements, and supplies.

**Equipment Replacement Reserve Fund:** The accounting mechanism used to segregate and accumulate funds needed for future equipment acquisitions.

**Facilities and Administrative (F&A) Cost Rate:** (See Indirect Costs below).

**Income:** Revenue received by a unit from the sale of goods or services to an organization not affiliated with the University or to individuals regardless of their affiliation.

**Income Activity:** An ANR unit that provides, at approved rates, goods or services to an

organization not affiliated with the University or to individuals regardless of their affiliation.

**Indirect Costs:** Costs that are incurred for common or collective institutional objectives. In OMB Circular A-21 (and particularly when related to sponsored activities), these costs are also called Facilities and Administrative (F&A) costs. This is sometimes also referred to as “overhead.”

**Miscellaneous Sales Activity:** Any ANR recharge or income activity not classified as an academic support activity. Examples include real property rental or lease activities, crop sales, publications sales, orientation programs, conference programs and field days.

**Non-University Differential (NUD):** An amount added to an approved recharge rate to recoup certain indirect costs from Non-University entities.

**Non-University Entity:** An entity or person over whom the University has no fiduciary responsibility, regardless of the user’s relation to the University’s mission; e.g., staff personnel and academic staff acting in a personal capacity, other Universities (non-UC), commercial entities, and the public at large.

**Recharge:** The assessment and collection by one University unit of an approved fee for goods or services furnished to another University unit. In general, a recharge reflects the sale, at approved rates, of goods and services by one unit to another.

**Recharge Activity:** An ANR unit that provides, at approved rates, goods or services to other University units.

**Rate Review Committee:** ANR Rate Review Committee is advisory to the Associate Vice President. The Committee reviews new activities for compliance with Federal regulations and University policies and makes recommendations for approval to the Associate Vice President. The committee also reviews proposed rates submitted by ANR units to ensure compliance with University and Federal policies and regulations. The Committee also functions to review on an ongoing basis the policies and procedures contained in this document to assure that they are current and relevant and updates them as necessary.

**Unrelated Business Income:** A type of income resulting from sales of goods or services to individuals or non-University entities. If sales are not substantially related to University educational, research or public service purposes, proceeds from the sales are considered unrelated business income and are subject to Federal income tax reporting requirements. Examples are machine shop services and computing services to non- University entities.

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### **III. POLICY TEXT**

#### **A. Recharge And Income Activities**

Recharge and income activities are units that provide specific goods or services to other University units and/or non-University users and recover the cost of providing

these goods or services from the units served on a “rate basis.” Recharge and income activities are expected to operate on a breakeven basis and to use rates that recover costs of the activity such as salaries, benefits, equipment depreciation, materials, and supplies. Activities should only be set up to provide goods or services that are not readily available from outside sources. However, an activity may be established if there is overriding programmatic, economic, and ethical or other institutional reasons to support the need for the University to provide this service. The following are **not** recharge or income activities and are not subject to these policies and procedures:

1. Recharges are generally not permitted for normal and customary services of units within General or Departmental Administration and Institutional Services (e.g., central accounting and budgeting services).
2. Providing a one-time distribution of expense. A recharge or income activity is an ongoing activity.
3. A single user or one-time service.

#### **B. Criteria For Recharge And Income Activities**

To be considered a recharge or income activity subject to these guidelines, the proposed activity must meet the following criteria:

1. The activity must generate recharges and/or income equal to or greater than \$15,000 per annum. Activities with recharges and/or income less than \$15,000 per annum are not subject to the review processes described in this policy. These low-value activities, however, should adhere to the general principles of activities as set forth in these policies and procedures. Questions on rate development or other aspects for these low-value activities should be addressed to the ANR Budget Office.
2. There exists a demand for this particular service by more than one University unit.
3. Service will be provided on a regular and continuing basis.
4. Service should be identifiable (e.g., specimen diagnosis, video production or machine shop) as opposed to general administration costs.
5. Separate costs and budget can be clearly defined for these activities.
6. Rates can be stated in measurable units of goods or services.
7. Goods or services should not be provided to external consumers except where they are specialized or unique and their existence is primarily to support the program mission of ANR. The primary reason activities exist is to share resources and provide services for internal users. Inappropriate outside use of University resources could jeopardize the University’s tax- exempt status for

various purposes, give rise to claims of warranty and other liabilities, or appear to involve unfair pricing in relation to service providers in the local business community.

8. There must be a sound business case supporting the provision of these services and the manner in which they are provided. Alternative methods of providing these goods or services are to be reviewed and the decision to provide or continue to provide these goods or services must be in the best interest of the University and in compliance with Federal regulations. If the services are readily available from outside sources, there must be overriding programmatic, economic, ethical or other institutional reasons that support the continued need for the University to provide these services.

### **C. Deficits/Surplus**

Activities must operate on a break-even basis. It is acknowledged that there may be seasonal fluctuations in the unit's operations. Hence, the unit must operate within the surplus/deficits described below. If the unit exceeds these tolerance levels (i.e., a large deficit/surplus as defined in A below), it must take immediate action to establish a plan to rectify the situation and bring the unit within the acceptable levels of tolerance.

1. Definition of large deficit or surplus

A large deficit or surplus is defined to be a general ledger balance where a balance is either less than (<) or more than (>) 1-month's operating expense, where 1 month's operating expense is calculated as a rolling 12-month average. If the balance rolling average is distorted due to seasonal inflows of recharges and/or other income or outflows of expenses, an average balance can be calculated over the seasonal cycle. If a unit determines that an ongoing balance exceeding one month's operational expenses is necessary, it will submit a request and justification to the Controller's Office immediately.

2. Deficits - If an activity has a large deficit (see definition in Section A. above), it must develop a deficit reduction plan to clear the deficit. The plan should eliminate the deficit in as short a time as possible, not to exceed three (3) years. This plan must be submitted to the Rate Review Committee (through the control unit) within 3 months of notification by the Rate Review Committee that a deficit exists.
3. Surplus - If an activity has a large surplus (see definition in Section A above), the unit cannot raise its rates, unless subject to detailed review. If an activity has a large surplus, it must provide the Rate Review Committee (through the control unit) with a plan to clear the surplus within 3 months of notification by the Committee of the surplus.

### **D. Allowable Costs To Be Recovered In Rates**

Generally, all costs directly associated with the activity's operation should be charged to the activity. However, costs that are unallowable for government costing purposes may not be charged. OMB Circular A-21 defines direct and indirect costs for purposes of accounting for Federal funds. Under A-21, recharges are considered direct costs to users. Direct costs are those costs that can be specifically identified with an activity, or costs that can be directly assigned to such activities relatively easily with a high degree of accuracy. No recharge activity shall be approved which shifts indirect costs (as defined in A-21) to direct costs in violation of OMB Circular A-21.

1. Allowable costs that can be included in rate development
  - a. Salaries and benefits of personnel directly related to the recharge activity.
  - b. Supplies and reasonable general support costs (e.g., telephone charges and office supplies).
  - c. Equipment depreciation (straight-line basis) and depreciation of capitalized improvements (excluding equipment purchased by federal funds or those claimed as cost sharing on a federal project).
  - d. Maintenance and repair/alterations costs, defined as regularly recurring disbursements to keep property in an efficient operating condition and, therefore, not capitalized.
  - e. Installation charges and allowable lease and loan costs. (See OMB Circular A-21, Section I, "Funding of Recharge Capital Assets" for further information on allowable lease and loan costs.)
2. Unallowable costs that cannot be included in rate development
  - a. Costs specified as unallowable in OMB Circular A-21 - bank card fees, bad debts, legal fees, fines & penalties, entertainment, membership, donations and contributions and advertising costs, costs of capitalized improvements (including renovation costs or significant alterations or structural changes to plant assets that increase the usefulness, enhance the efficiency, or prolong the life of the property), internal interest charges, equipment purchases (unless useful life is one year or less), or exceptional charges that did not occur through the normal course of business.
  - b. Unallowable space costs - An activity should not include charges for its use of centrally supported space (i.e., building depreciation cost component, utilities) nor the University's general and administrative costs as these are funded from other sources. However, if the unit incurs additional specialized costs such as leasing cost for an offsite facility that are not funded from other University resources, these can be included in the rate and costs of the unit. These specialized space costs should be disclosed on the self-certification form.



## **E. Non-University Differential (NUD)**

Charges to external users (or non-University entities) should include a Non-University Differential (NUD) to recover indirect costs. The activity's clientele drives the application of the NUD. An external user is an entity or person over whom the University has no fiduciary responsibility regardless of the user's relation to the University's mission; e.g., staff personnel and academic staff acting in a personal capacity, other Universities (non-UC), commercial entities, and the public at large. Generally, recharge activities are provided to other UC entities. Sometimes, the unique nature of an activity's products or services and other factors justify allowing external users limited access to those products or services. In these instances, a Non-University Differential (NUD) should be added to an approved rate. Providing goods or services to external users also results in additional accounting and monitoring for the operation. ANR administrative expenses are included in UC Davis indirect cost base. Therefore, the UCD NUD rates apply to ANR income activities. (See UCD ORMP, [www.ormp.ucdavis.edu/budget/proc/rate/nud.html](http://www.ormp.ucdavis.edu/budget/proc/rate/nud.html), for current rates.)

## **F. Capital Equipment, Depreciation And Equipment Reserves**

1. Capital (inventorial) equipment are stand-alone items with a useful life greater than 1 year and value greater than \$5,000. Capital equipment assigned to the activity **cannot** be charged directly to an activity. The equipment should be depreciated and the depreciation expense should be included as a cost in the rate development and charged as an expense to the activity, except as follows:
  - a. Equipment funded by the Federal government or identified as cost sharing to a Federal project.
  - b. Equipment funded by an award under a private contract and the contract is not completed. If the contract is completed and there is remaining life in the asset, the unamortized balance remaining at the end of the life of the asset can be depreciated and included in the rate calculation; e.g., asset has a useful life of 5 years but only 3-year life of the award, then asset may be depreciated for the remaining 2 years. All activity equipment must be entered into the equipment tracking system. This system is used for both financial reporting and government reporting purposes. All activity assets regardless of funding source must be properly identified in the equipment tracking system.

### **2. Funding of Activity Capital Assets**

Federal guidelines do not allow the purchase cost of equipment to be charged directly to the activity. Purchases of equipment must be funded from other sources including equipment reserves, gift funds or other unrestricted fund sources. Interest associated with the purchase of such assets (e.g., interest component of a capital lease) is non-allowable hence cannot be charged to the

activity, unless it satisfies the following criteria:

- a. Interest must be paid to an outside third party.
- b. The purchase price or capitalized cost (in the case of a capital lease) of the equipment must exceed \$10,000.
- c. A letter must be on file with the University's cognizant agency (DHHS) requesting approval to charge these interest costs to the activity. If the agency subsequently denies this request all interest charged to the activity must be transferred to other allowable funding sources.

Donated equipment is considered to be the equivalent economically of a cash donation, which is subsequently used to purchase equipment. When an activity receives an equipment donation, the use of the equipment may be depreciated through the activity. The donated asset must be properly identified in the equipment tracking system as an activity asset.

### 3. Depreciation

Depreciation is an accounting term that recognizes that a capital asset's value is spread out over its useful life. The asset is "consumed" over an extended period of time, typically several years. This period is called the useful life of the asset. The activity should use the UCOP recommended useful life tables to calculate depreciation. See tables at <http://www.ucop.edu/matmgt/ppp/uleq-desc2000.pdf>. If there is a significant difference between the asset life reflected in these tables and the activity's experience of the useful life of this equipment, then the activity's experience of the asset life should be used to reflect the actual life of the asset. If the tables are not used this should be noted in the self-certification form (question 17) with an explanation of why a different useful life was used. Regardless of what method is used, depreciation must be charged on a straight-line basis over the useful life of the asset. Any equipment costing less than \$5,000 or having a useful life of less than one year must be expensed in the year of acquisition.

## G. Activity Inventory

If the activity supplies a product (e.g., printed stationary), the goods purchased for "resale" should be charged to an inventory G/L account. Activity managers should contact the UCD General Accounting Office for more information on the accounting requirements and responsibilities for this type of account. If the activity's inventory exceeds \$50,000, it must charge inventory to this account. For units with smaller inventory balances it is recommended that this account be used if the timing of inventory purchases significantly affect the results of the operation throughout the year; i.e., before adjusting for the inventory balance, the activity is outside of the recharge breakeven tolerance ranges. If an inventory account is used, the activity must perform a physical inventory of all goods at least once a year. It is



recommended that the inventory account be adjusted on a monthly basis to reflect purchases to and sales from this account. This will also allow an activity to monitor its operations more accurately. If this is not possible, the activity must make a year-end adjustment to reflect the correct year-end balance in this account by June 30 of each year. The balance in the G/L account must be supported by inventory records that include the number and cost of products on hand.

## **H. Rate Development**

Rates for goods and services must reflect the full cost of the operation, net of any approved subsidies, and the same rates must be charged to all internal customers. Rates will be based upon an authorized standard pricing method uniformly applied to all users. In establishing rates, an activity cannot discriminate based on funding source. The use of special rates, such as for high volume work or less demanding non-scientific applications, is allowed, but must be equally available to all users who meet the criteria. (See Appendix I for examples of possible rate structures.) External users of an activity may not be charged at a rate less than that charged to internal UC users. They may be charged a higher rate (see Section VII, NUD); however, revenues from external users should be tracked separately. Rates must be reasonable. Rates are considered reasonable if the nature of the costs and the related goods or services acquired or applied to provide the goods or services reflect the action that a prudent organization would have taken under the circumstances prevailing at the time the decision was made to incur these costs. Considerations involved in the determination of the reasonableness of a rate are:

1. Whether or not the costs included in the rate are of a type generally recognized as necessary for the operation of the activity;
2. Whether or not there are restraints or requirements imposed by such factors as arm's-length bargaining, Federal and State laws and regulations, and any other related terms and conditions in the normal course of business;
3. Whether or not the unit concerned acted with due prudence in the circumstances, considering its responsibilities to the University, the Federal Government, and the public at large; and,
4. The extent to which the actions taken with respect to incurring these costs are consistent with established institutional policies and practices applicable to the work of the institution generally.

## **I. Rate Review And Approval**

Activities generating under (<) \$15,000 in recharges and/or income are subject to review by the control unit and should adhere to these rates policies and procedures as their "best practice" operating regulations. All activities generating \$15,000 or more (=>) will be subject to an initial rate review process. (See Appendix II for steps to establish a new recharge activity.) Activities generating more than \$15,000 but

less than \$50,000 must undertake annual self-certification of their rates following initial review. All activities generating  $\geq$ \$50,000 shall undergo a detailed review by the Rate Review Committee at least every 4 years.

1. Recharges and/or Income  $\geq$  \$50,000

All activities with recharges and/or income equal to or greater than \$50,000 are subject to an initial review. The activity must submit an annual self-certification and is subject to a detailed review by the ANR Rate Review Committee at least every 4 years.

An activity can be selected during any time period for review (mid-year, etc.). Any large change in rate will require review process. The following other criteria may initiate a review outside the 4-year rotational plan:

- a. Large surplus/deficit or a significant change in rate (see Section V) with no approved plan for surplus or deficit reduction.
- b. Rate increases for individual activities generating  $>$  5 percent in recharges and/or income or rate increases over the Consumer Price Index (CPI).
- c. Findings from an internal or external audit recommending a review.
- d. Additional services are provided by the unit that requires a new rate. Additional estimated revenue  $>$  10 percent of total annual projected revenue for the activity.
- e. Unit employs a new/modified costing methodology for rate development or has undergone a significant change in business practices.

2. Recharges and/or Income  $<$  \$50,000

Activities with annual recharges and/or income less than \$50,000 (but  $\geq$  \$15,000) will be subject to periodic review based on one or more of the following criteria:

- a.  $>$ 25 percent of total recharges and/or income are from Federal funds.
- b. Surplus/deficit (see Section V)  $>$  1 month's operating costs in the absence of approved plan to carry larger surplus or eliminate deficit.
- c. Additional services are provided by the unit that require a new rate. Additional estimated revenue  $>$  10 percent of total annual projected revenue for the activity.
- d. Unit employs a new/modified costing methodology for rate development or has undergone a significant change in business practices.
- e. Findings from an internal or external audit recommending a review.

3. Self-certification

Self-certification forms and list of rates are required at the following times:

- a. Annually in March 1 to be reviewed within 30 days;
- b. When a unit wants to change existing rate(s);
- c. When a unit wants to add/delete rate(s);
- d. When a unit wants to establish a new recharge and/or income activity.

The forms must be forwarded to the ANR Rate Review Committee no later than March 31<sup>st</sup> for the annual certification process and at any time of year for the situations described under XI., A. or B. above, regardless of whether a self-certification form was submitted in March. It is the unit's responsibility to advise its users of current activity rates and of any rate changes. These posted rates are to be followed. All rate proposals must be submitted through the administrative unit head and the control unit head prior to submission to the ANR Budget Office. Retroactive rate submission will not be accepted. If the activity has fallen below the threshold of \$15,000 annual activity, and it appears this reduction is of a permanent nature, the unit can exempt itself from the self-certification process by notifying the proper control unit advising of the change. In future years, if the activity's recharges and/or income again exceed \$15,000 and this is considered a permanent increase, the unit must follow all the required rates policies and procedures, including the self-certification process described above.

#### **J. Activity Budgets, Account Codes, And Sales Tax**

All activity operations equal to or greater than \$15,000 must be made part of the base budget. Each activity's base budget must be revised at the end of each year to reflect the revenue and expenditure levels expected in the following year. The fiscal close schedule includes a deadline for these revisions. By extension of the base budget, all activity funds must be budgeted in the current year budget. The July adjusted budget reflects the permanent balances as of June 30<sup>th</sup> and units are expected to make any in-year adjustments needed in the current budget throughout the year. Conditions that warrant changes to the base or current year budgets might also be good indicators for rate changes. Units that determine budget changes are necessary for their activities should review rates to ensure that they cover current and anticipated costs while avoiding out-of-tolerance surpluses.

##### **1. Account Codes for Recharges and/or Income**

Recharges must be recorded on the activity account sub-9. All charges to outside entities should be recorded in the appropriate revenue account.

##### **2. Sales Tax**

For most recharge transactions, sales tax does not apply:

- a. Sales tax is not assessed on recharges to internal customers.

- b. Sales tax is not applicable if there is no exchange of tangible personal property; i.e., only services are involved.
- c. Sales tax is not applicable if the tangible goods are bought for resale by the external consumer.

Any tax imposed will be a cost passed on to the activity user. Any sales tax collected becomes a University liability. Sales tax is assessed on cost of goods sold, the activity charge (mark-up) and surcharges.

#### **K. Closure Of Activity Operations**

If the administrative unit head decides to close an activity, immediately notify the proper control unit and the ANR Budget Office to advise of this decision. In addition, advise when the operation will close and how it intends to account for any remaining surplus or deficit. It is the responsibility of the activity unit manager to make all appropriate changes to the recharge activity web site. When a recharge unit ceases to operate, any remaining balance must be treated as follows:

1. If surplus > 1 month's operating costs, the balance will be refunded back to the activity's customers on a pro-rata basis within 30 days of closure. The refund will be allocated based on charges made to these customers in the last 12 months.
2. If surplus < 1 month's operating costs, the balance is retained by the sponsoring unit and moved to an appropriate account.
3. If a deficit balance, the balance must be transferred financially to an appropriate account in the unit. If the balance is not moved within 30 days of closing the recharge operation, the ANR Budget Office will select an account, transfer the deficit and advise the ANR Unit MSO, Director, Unit Manager and other ANR Administrators, as appropriate, that the transfer has been made.

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### **IV. COMPLIANCE / RESPONSIBILITIES**

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#### **A. Functional Responsibilities**

1. ANR Unit Director/Manager

The ANR units are responsible for the overall operation of their activities. Responsibility for activity operations is delegated to the Activity Director/Manager to monitor operations and to ensure that recharge and income activities within that unit comply with this and all applicable policies and procedures. The ANR unit's responsibilities include the following:

- a. Ensure recharge and income activity operations comply with all University recharge and related policies and procedures.
- b. Ensure recharge and income activity operations comply with appropriate University payroll, reimbursement, accounting, and personnel policies and

- practices.
- c. Review the activity's recharges and/or income, expenses, and rates throughout the fiscal year; and see that expenses or rates are adjusted as necessary.
  - d. Ensure the recharge and income activity budget is reviewed and coordinated with the ANR Unit's budget.
  - e. Ensure the annual rate certification form is prepared and submitted to the control unit on time.
  - f. Ensure rate change submissions and the related certification forms are prepared and submitted to the ANR Rate Review Committee on a timely basis.
  - g. Ensure rates are reasonable.
  - h. Review services provided on a regular basis, at least annually, to ensure that the services meet applicable criteria.
  - i. Ensure the activity operates within the breakeven tolerance range and in accordance with its budget.
  - j. Ensure a plan is developed and that the ANR Rate Review Committee is notified when the unit's review reveals that the unit is out of tolerance.
  - k. Conduct periodic review of personnel effort charged to activity accounts. Ensure that the percent of salaries charged corresponds to actual time spent on activity work.
  - l. Review ledgers for unallowable costs posted to the activity's accounts throughout the year. Promptly transfer any unallowable charges to an appropriate account outside of the activity operation.
2. Control Unit (e.g., Assistant Vice President – Programs; Regional Director)
- The ANR Control Unit's responsibilities include the following:
- a. Review all proposals for new rates or rate changes prior to submission to the Budget Office.
  - b. Oversee the formation of new or decommissioning of activities.
  - c. Oversee the monitoring of all activities within the control unit. Ensures activities comply with University policies and procedures.
  - d. Review services provided by the unit on a regular basis, at least annually, to ensure that the services provided are necessary and are not readily available from outside sources. If services are readily available from outside sources, ensure there is overriding economic, ethical or other institutional reasons to support the continued need for these services.



3. Associate Vice President

- a. Approve all new recharge/income activities based upon the recommendations of the ANR Rate Review Committee.
- b. Delegate this approval responsibility, if appropriate, to another ANR administrator (e.g., Controller).

4. ANR Rate Review Committee

The responsibilities of the ANR Rate Review Committee are to review and make recommendations on the compliance with Federal regulation and University policies of new activities and/or new rates on existing activities. Program decisions regarding these activities are not in the Committee's purview.

Responsibilities include:

- a. Advise control unit and the Associate Vice President. Review and recommend approval of new activities based on compliance with Federal regulation and University policies.
  - b. Review on an ongoing basis the policies and procedures contained in this document to assure compliance with University policies and government regulations.
  - c. Act in an advisory capacity to recharge activities and ANR units in reviewing recharge disputes. If the dispute still cannot be resolved based on advice from the committee, the issue will be forwarded to the Associate Vice President for mediation. The Associate Vice President's decision is binding.
  - d. Meet no less often than is required to fulfill the period of review requirements of these policies and procedures, support the functions of ANR units conducting recharge and income activities, and/or as directed by the Associate Vice President. Operate to ensure that rate submitters have full opportunity to explain and justify submitted rates.
5. In order to ensure the avoidance of any appearance of conflict of interest, Rate Review Committee members who have submitted rates for approval shall recuse themselves from the Committee's final decisions to recommend approval or rejection by the Associate Vice President.

a. Composition:

- i. Permanent members
  - Director, Budget Unit
  - Director, Contracts and Grants Unit
  - Director, Financial Services Unit
- ii. Rotating members

The Associate Vice President appoints rotating members. The initial group of rotating members will be appointed for a period of 1-3 years and thereafter, once the overlapping rotation is established, for 3- year periods. At least three rotating members shall be chosen to represent the following:

- a. Academic Support Units
- b. Specialists/Advisors/Other Users. The Associate Vice President may appoint alternate or additional members deemed necessary for the operation of the Committee.
- c. Chair:

The Rate Review Committee shall recommend a chair from its membership to the Associate Vice President, who shall make the appointment. The chair will serve for one year.

#### 6. ANR Controller and Business Services Office

The Office of the Controller & Business Services has been delegated the responsibility by the Vice President to ensure the Division complies with the recharge and income policies of the University and Federal regulations. Responsibilities include:

- a. Provide general accounting assistance to recharge and income activities, such as fund set up, accounting for depreciation, financial reporting issues.
- b. Provide assistance on tax issues such as unrelated business income tax, sales tax, etc.
- c. Provide support for ongoing fiscal review of ANR's activity operations.
- d. Approve requests for operating outside of tolerance levels for deficits/surpluses, as defined in Section V above.
- e. Act as primary contact for federal agencies, auditors and other outside entities relating to issues arising from ANR's recharge and income operations.

#### 7. ANR Budget Office

The responsibilities of the Budget Office include:

- a. Provide ongoing staff support to the Rate Review Committee.
- b. Perform review of rate proposals and self- certifications.
- c. Administer rate proposal process.
- d. Maintain and update the ANR activity policies, procedures and rate schedules.
- e. Provide ongoing training to the ANR community.

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## **V. PROCEDURES**

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### **A. Forms**

1. Self-Certification and Checklist Form: This form is to be submitted annually for the annual certification process, as described in Section XI, Rate Review and Approval.
2. Rate Change Form: This form (in addition to the self-certification form) must be completed when submitting any rate change. C. Rate Development Templates If a proposal meets the criteria requiring review by the ANR Rate Review Committee described in Section IV, the appropriate rate development template must be completed, in addition to the self certification form and rate change form.
3. Hourly Rate Sample/Template
4. Mark-up Sample/Template
5. Per-item Sample/Template

All the above forms, correctly authorized, are to be submitted through the proper control unit to the ANR Budget Office.

### **B. Records Retention**

Activity charges are subject to audit as long as the contract or grants that they charge (either directly or indirectly) remain subject to audit requirements. Activities are also subject to periodic review by the University Auditor and/or external auditors to evaluate compliance with established University policies and accounting practices.

1. Therefore, activities must be adequately documented and records maintained to support expenditures, billings, rate development and cost transfers. Each activity must retain, at a minimum, the following records:
2. Documentation to support the proposal and establishment (along with the approval) of the activity (5 years after unit is decommissioned).
3. Documentation as to how rate(s) were calculated (5 years).
4. Supporting documents related to expenses incurred (5 years).
5. Records supporting the amount and basis of billings (recharges and income) (5 years).

### **C. Examples Of Possible Rate Structures**

1. General Rate Calculation - In its simplest form, or for a one-product service unit, an activity's rate is cost-based. Users are allocated a share of the activity's costs based on the relative use of the activity's products or services. A single, unitized cost rate (cost per unit of output) is used to recover the expense of providing a

product or service. This rate is calculated by dividing the total budgeted expense for providing the product or service by the total projected level of activity for the budget period.

“Total budgeted expense” equals all costs directly associated with the activity’s operations. “Projected Level of Activity” is the total estimated volume of work to be performed in an activity, expressed as labor or machine hours, CPU time, or units of products or services to be provided. This is the denominator to be used in the calculation of the rate, as shown below. The actual level of activity multiplied by the rate determines the amount to be charged to each user.

$$\text{Rate} = \frac{\text{Total Budgeted Expense} \\ \text{(Plus Prior Year Deficit, or} \\ \text{Minus Prior Year Surplus)}}{\text{Total Projected Level of Activity} \\ \text{For the Budget Period}}$$

While most activity rates will be cost-based for each specific service or product, an activity offering multiple related services or products may establish rates for a variety of services that, in aggregate, recover the total costs of the activity. The activity must be able to demonstrate it has made reasonable assumptions in allocating common costs that cannot be easily identified to a specific service or product within the unit. Rates are normally calculated on an annual basis. Adjustments may be made as needed during the year to accommodate changing circumstances and to ensure the unit remains within tolerance.

2. Subsidized Rates - For various reasons, an activity may wish to charge its users less than fully costed rates, and may choose to subsidize unit operations with operating budget or other unrestricted funds. In these circumstances, an activity would first calculate a fully costed rate in accordance with the “General Rate Calculation” discussed above. A percentage discount can then be applied to the fully costed rate to derive the desired subsidized rate to be used throughout the year.
3. Subsidized rates must be consistently charged to all internal University unit users. External users should be charged the fully costed rate(s).
4. Stores Service Units - A store’s rate is determined by dividing its administrative or operating costs by its projected cost of goods sold. Its rate is, therefore, a markup percentage on the cost of goods sold. If this method is adopted, the markup needs to represent fairly the operating and administrative services provided by the unit for the goods or services. If the cost of providing the

operating and administrative services is similar for say a \$1,000 or a \$100,000 order, then this method should not be used.

5. **Time-of-Day** - Activities that have a wide fluctuation in usage during the day may establish a time-of-day rate structure. Higher rates may be charged during hours of peak use ("prime time") to provide incentives to reduce the demand for services during these times. This structure helps all users by improving performance during peak hours and encouraging the utilization of off-peak hours, thereby reducing the cost for additional equipment. Activities utilizing a time-of-day rate structure must show that all users have an opportunity to use the activity rate during non-peak hours and that no particular user, especially Sponsored Research Projects, is disadvantaged by the proposed rate structure. This type of rate structure is used most frequently in computer and communications service units and with use of scientific equipment such as magnets for magnetic resonance imaging (MRIs).
6. **Computer Shares** - Computer facilities may charge users based on the computer "shares" concept. The computer capacity is divided into shares. Users purchase shares necessary to meet their computing requirements.
7. **Volume Discounting** - Sometimes economies of scale dictate that a large quantity of a product or service can be provided to a customer at a lower overall cost than the normal per unit rate. Such a volume discount is allowed as long as 1) it is disclosed and justified in the activity's proposed budget and rates; and 2) its effect is not discriminatory to a single type of customer, other than by amount of product or service provided.

#### **D. Steps To Establishing A New Recharge Activity**

1. Review all sections of this document.
2. Ensure the operation meets the criteria of an activity.
3. Discuss proposal with proper control unit to ensure it is in accordance with the mission of the unit, ANR, and the University and that the administrative units understand roles and responsibilities for the new activity. A proposal to establish a new activity must contain the following information:
  - a. The activity's name.
  - b. A description of the product(s) or service(s) to be provided, and the potential users (internal and external).
  - c. An explanation as to how the rate(s) will be determined including:
    - i. Detailed annual expense budget, by G/L code (including FTE with salary data) for the proposed unit;
    - ii. Description of the activity base, its appropriateness, and the projected



- level of activity for the first year of operation;
- iii. The rate calculation(s) using the proposed budget amount(s) and the projected level(s) of activity for the first year of operation.
  - d. The name, title, email address and phone number of the individual delegated responsibility by the activity director/manager for the activity's financial affairs.
  - e. A list of all of the capital assets already purchased that will be used in the activity. The list should contain a description, PO number and property tag.
  - f. The signatures of the ANR Unit Director/Manager and next higher administrator, or their administrative equivalents, indicating the acceptance of financial and operational responsibility for the activity.
  - g. A list of the appropriate accounts that are relevant to the operation.
4. Submit self-certification checklist and rate development forms for the activity through the Control Unit to the ANR Rate Review Committee.
  5. Provide Control Unit and Rate Review Committee with activity contact name, email address and phone number if different from the contact name provided on the self-certification. Note that this person will be the main contact for information on recharge policies, procedures and changes in these policies and procedures. It will be this person's responsibility to ensure these items are acted on and communicated throughout the administrative unit. This person will also be a contact for general questions from other ANR units on activity operations and will be the contact name on the rates web site.
  6. Obtain approval of the Associate Vice President for the establishment of this activity prior to commencing operations.
  7. Identify fund to be used. Where possible, the unit should use an existing fund and differentiate the operations using organization code and project codes (see below).
  8. Budget: If the activity is approved, or if the rates are increased, the unit must have an assigned 6xxxx fund and create or modify the permanent budget for that fund annually.
  9. Set up billing and financial journal process to ensure customers are billed accurately and on time and provided with supporting documentation for the charges.
  10. If unit will be using capital equipment to provide services, identify assets and determine assets lives and depreciation schedule. Review appropriate entries required to record depreciation. Consider frequency of booking depreciation entries and identify appropriate reserve funds to record description entries.
  11. If unit will be using inventory, ensure it complies with Section IX. It is required to

make an inventory adjustment at least once a year.

12. Set up procedures to review activity on a regular basis, preferably monthly, but at least on a quarterly basis. The review should include monitoring rates, recharge surpluses, deficits, and ensure the activity complies with Federal and University policies and procedures.

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## **VI. RELATED INFORMATION**

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- OMB Circular A-21, Cost Principles for Educational Institutions
- UC Business & Finance Bulletin A-47, University Direct Costing Procedures References
- UC Business & Finance Bulletin A-56, Academic Support Unit Costing and Billing Guidelines

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## **VII. FREQUENTLY ASKED QUESTIONS**

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## **VIII. REVISION HISTORY**

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**October 2017:**

Format updated.