



TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Operating Policy and Procedure

HSC OP: 50.17, **Establishment and Operation of Service Departments**

PURPOSE: The purpose of this Health Sciences Center Operating Policy and Procedure (HSC OP) is to establish the policies and procedures for service departments and charging departments for goods or services. This HSC OP provides for consistent practices among various service departments and ensures compliance with TTUHSC accounting policies and various accounting standards and government regulations, including the United States Government Office of Management and Budget's (OMB) Code of Federal Regulations (CFR: Title 2, Chapter II, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards).

REVIEW: This HSC OP will be reviewed on May 1 of each even-numbered year (ENY) by the Director of Accounting Services, with recommendations for revisions forwarded to the Executive Vice President of Finance.

POLICY/PROCEDURE:

1. **Policy.** Only those departments that have been approved as service departments under the provisions of this OP may charge other departments for goods or services.

All service departments must comply with the policies and procedures outlined in this HSC OP.

Violations of the policies and procedures outlined in this HSC OP may result in suspension of service department operations or loss of FiTS or Gateway billing privileges as determined by the Director of Accounting Services.

2. **Definition.** Service departments are established for the purpose of providing goods or services to other TTUHSC operating departments. Examples of such activities include Copy and Mail Services and the Lab Animal Resources Center. Service departments recover the actual costs of their operations by charging users predetermined billing rates based on the actual use of goods or services.
3. **Approval.** Establishment of a service department requires approval by the appropriate Dean or Vice President.
4. **Establishment of Service Department Funds.** Separate Banner funds must be established for service departments. New service department funds should be requested through the Fund Maintenance System accessible from the WebRaider portal, F&A Work Tools tab, Business Affairs section, under Accounting Services.

A Service Department Rate Establishment Form (see Templates below) should be submitted to Accounting Services for all new service fund requests (upload with the request in the Fund Maintenance System).

All **reasonable, allowable** and **allocable** costs that are directly related to the operations of service departments and included in the billing rate calculation should be recorded on the service department FOP.

- a. **Cost Determination.** Costs that should generally be recorded on the service department FOP and included in the establishment of billing rates include:

- i. Salaries (in proportion to the effort related to the provision of goods or services)
- ii. Fringe Benefits (in proportion to the effort related to the provision of goods or services)
- iii. Materials and Supplies
- iv. Contracted Services
- v. Equipment depreciation for capital equipment (equipment cost $\geq$ \$5,000), in proportion to the time the equipment is utilized for the provision of goods or services by the service department
- vi. Repairs & Maintenance Equipment
- vii. Other Directly Related Expenses

Costs that should **not** be included in the establishment of billings rates include: alcohol, bad debt expense, fines and penalties, food and entertainment, interest, etc. See the United States Government Office of Management and Budget's (OMB) Code of Federal Regulations (CFR: Title 2, Chapter II, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards) for a complete list.

- b. **Templates.** Since service department operations and billing methods vary, service departments may utilize any of the following Service Department Rate Establishment Form templates. These templates may be accessed on the [Service Department Forms](#) page of the [Accounting Services](#) website. A link to Forms is also accessible from the WebRaider portal, F&A Work Tools tab, Business Affairs section, under Accounting Services.

- i. Per Unit Rate (for testing or when services are performed on a per unit basis)
- ii. Per Hour Rate-Minimal Labor (for testing or when services are performed on a per hour basis, unless the primary cost component is labor, then see iii.)
- iii. Per Hour Rates-Primarily Labor (for services performed on a per hour basis, and the primary cost component is labor)
- iv. Non-Credit Instruction (for per course or per seminar rates)
- v. Price List and Markup (for resale of goods or services where a markup is added to the cost of goods or services to cover administrative and overhead costs)

Animal research facilities must establish billing rates according to the **Cost Analysis and Rate Setting Manual for Animal Research Facilities** published by the National Center for Research Resources (NCRR), a component of National Institutes of Health (NIH) (a sample template is demonstrated in the manual).

- c. **Alternate Templates.** Service departments may modify the above templates or utilize similar forms according to the operations and billing methods of the service department provided that the modified forms contain the following information:

- i. General Information
 1. Purpose (new fund/rate establishment update)
 2. FOP (if already established)
 3. Fund Name
 4. Fund Manager Name and Phone Number
 5. Description of Goods or Services to be Provided
 6. Backup FOP (for deficits or unallowable expenses)

- ii. Billing Information
 1. Billing Contact Name and Phone Number
 2. Billing Frequency (weekly, monthly, etc.)
 3. Rate Effective Date
 4. Billing Rate(s)
 5. Billing Rate(s) Calculations (types of expenses, allocation methods, etc.)
- iii. External/Non-campus Sales Information (only if providing good or services to external/non-campus users. See paragraph 10. below)
 1. External/Non-campus Agency Names
 2. Other Area Providers
 3. Billing Rates for Other Area Providers
 4. Benefit to TTUHSC
- iv. Approval Information
 1. Appropriate Dean or Vice President (name and signature, for new fund/rate establishment)

5. **Establishment of Billing Rates.** Service departments must establish billing rates prior to charging users for goods or services. Generally, billing rates can be determined by dividing the estimated total costs of providing goods or services (adjusted for previous period surpluses or deficits) by the estimated units of goods or services to be provided (as indicated below):

$$\frac{\text{Estimated Total Costs} + \text{Prior Period Deficit} - \text{Prior Period Surplus}}{\text{Estimated Units}} = \text{Billing Rate}$$

Billing rates are subject to the following guidelines:

- a. Service departments must establish billing rates to recover the actual cost of operating the service department over the long-term, without creating a significant fund surplus or deficit (i.e. Break Even, Revenue = Expense, Fund Balance = 0).
- b. Service departments should review and update billing rates at least biennially and whenever changes occur in the type/quantity of goods or services provided or in the costs incurred to provide goods or services.
- c. Service departments should adjust billing rates for any surplus or deficit balance realized in prior periods. Since surplus balances may include amounts received in conjunction with equipment depreciation accumulated for the purpose of equipment replacement, it may be appropriate to reduce a prior period surplus amount for this calculation (with proper supporting documentation).
- d. Service Departments should post/publish revised billing rates at least 30 days prior to the effective date of new rates.
- e. Since service departments may provide services to federal contracts and grants directly or indirectly, they must comply with the United States Government Office of Management and Budget's (OMB) Code of Federal Regulations (CFR: Title 2, Chapter II, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards).
- f. Service departments should establish billing rates that ensure equitable treatment of all clients regardless of the funding source (i.e. billing rates must be the same for all clients, for the same goods or services, under the same circumstances).

6. **Billing Procedure.** Service Departments must use the Financial Transaction System (FiTS) accessible from the WebRaider portal, F&A Work Tools tab, Business Affairs section, under Accounting Services to charge other departments for goods or services. In very limited, pre-approved circumstances, select service departments may utilize Gateway to charge other departments for goods or services.
- a. To begin using FiTS to charge other departments for goods or services:
 - i. Submit a request for access to FiTS to fsm@ttuhsc.edu with the following information:
 - 1. The Service Department FOP that will receive revenue
 - 2. Names and eRaider usernames for all individuals who will be using FiTS to process service department billing transactions
 - 3. Any system id that is already established for the department
 - ii. Review training documentation located in the [Training Center](#), filter by Category "FiTS". The Training center is also accessible from the WebRaider portal, F&A Work Tools tab, Business Affairs section, under Finance Systems Management.
 - iii. Follow instructions provided by Finance Systems Management in the email notification stating that access has been granted.
 - b. Service department billings should adhere to the following guidelines:
 - i. Service departments should process billing transactions **no later than 30 days** after the provision of the goods or services.
 - ii. Service departments may only process billing transactions **after** goods or services have been provided. **PRE-BILLING IS NOT ALLOWED.**
 - iii. Final billing transactions for the fiscal year must be processed in accordance with published year-end deadlines.
 - iv. Each billing transaction should record revenue (credit) in the service department FOP and record expense (debit) in the department FOP(s) that received the goods or services.
 - v. Service departments should provide departments being charged a copy of the supporting documentation for the FiTS or Gateway billing transaction as a "receipt" for the goods or services provided and charged.
 - c. To correct billing transaction errors, submit a written request, including a Cognos transaction report, to Accounting Services at hscacc@ttuhsc.edu which clearly reflects the following information:
 - i. Banner Document Number for the invoice (IV) to be corrected
 - ii. Specific transaction lines and FOAPs to be corrected
 - iii. Amount(s) to be corrected (per lines and FOAPs)
 - iv. Cause of the error/reason for the correction
 - v. Action taken to avoid similar errors on future billing transactions
 - vi. Other information (as appropriate and necessary to justify the correction)
7. **Supporting Documentation.** Service departments must maintain documentation of all billing rates and FiTS or Gateway billing transactions as outlined below.
- a. **Billing Rates.** Documentation of billing rates should include the following:
 - i. Estimates of costs to be incurred
 - ii. Estimates of units of goods or services to be provided
 - iii. Equipment information (purchase details, tag numbers, percent utilized by the service department, etc.), including how the cost of the equipment has been factored into the billing rate

- iv. Treatment of deficits or surpluses
 - v. Other relevant information
- b. **FiTS or Gateway Billing Transactions.** Documentation of FiTS or Gateway billing transactions should include the following:
- i. Name and FOAP of the service department
 - ii. Name and FOAP of the department charged
 - iii. Date(s) goods or services provided
 - iv. Calculation of amount billed for goods and services provided
 - v. Total charge to the recipient department
 - vi. Approval of charges and acknowledgement of the receipt of goods or services by the Fund Manager or other authorized approver of the recipient department
 - vii. Other relevant information
- c. **File Retention.** Service departments must retain documentation of all billing rates, including relevant exploratory information, estimates and calculations, and FiTS or Gateway billing transactions according to [HSC OP 10.09, Records Retention](#). Documentation files must be available for review and examination by the State Auditor, Office of Audit Services, Accounting Services and other external auditors or duly authorized individuals.
8. **Budget.** Service departments must not provide goods or services or charge any institutional FOP until appropriate budget has been approved and entered into Banner for the institutional FOP.
9. **Transfers.** Transfers into or out of service department funds are generally not allowed.
10. **Sales of Goods or Services to Non-campus Organizations or Private Businesses.** Service departments are established for the purpose of providing goods or services to other TTUHSC operating departments. As a non-profit governmental entity, service departments should not offer goods or services to non-campus organizations or private businesses at substantially lower rates than other businesses or organizations providing equivalent goods or services. Service departments must obtain approval from the Director of Accounting Services prior to providing goods or services to non-campus or private businesses.

A request to provide goods or services to non-campus organizations or private businesses may be included with the initial service department fund request or whenever requests for goods or services are received from non-campus organizations or private businesses. A request to provide goods or services to non-campus organizations or private businesses must include the following:

- a. Names of the non-campus organizations or private businesses requesting the goods or services (if the non-campus organization is a federal, state, or local government agency, indicate whether agreements, contracts, or other documentation will be required).
- b. Names and addresses of other private businesses within Texas that provide the equivalent goods or services.
- c. Billing rates of other private businesses that provide equivalent goods or services.
- d. Explanation of how offering these goods or services to non-campus organizations and private businesses supports the purpose and mission of TTUHSC.

Service departments must comply with [HSC OP 50.36, Sales Tax Collection](#) for any sales of goods or services to non-campus organizations or private businesses for which sales tax is applicable.

11. **Termination of Service Department Funds.** Service departments must contact Accounting Services to terminate/close service department funds when there is a lack of demand for goods or services or the service department fund becomes too inefficient or costly to operate.

Before a service department fund can be terminated/closed, the service department must complete the following:

- a. **Salary and Fringe Designations.** Revise ePAFs to redirect relevant salary and fringe benefits.
 - b. **Encumbrances.** Close or move open encumbrances.
 - c. **Final Invoices.** Record final FITS or Gateway billing transactions (or revenue/receivable entry for external invoices).
 - d. **Balance Sheet Accounts.** Resolve any payable or receivable balances.
 - e. **Deficit Fund Balances.** Process cost transfers to move expenses to other support funds.
 - f. **Surplus Fund Balances.** Transfer or refund surplus fund balances as follows:
 - i. Transfer surplus fund balances due to “markups” received from external users to unrestricted, local support funds (with appropriate supporting documentation).
 - ii. Transfer surplus fund balances due to equipment depreciation to the fund that purchased the equipment (with appropriate supporting documentation).
 - iii. Refund surplus fund balances due to operations to users on a pro rata basis. Refunds should be allocated to users charged within the last 12 months of operations when the surplus balance is minimal or due to recent operations. When refunds cannot be allocated to some users due to expiration of grants/funds or appropriation years (E & G), the allocation to other users should be reduced by an equal amount on a pro rata basis to ensure all funding sources/users are treated fairly.
 - iv. Transfer any remaining, insignificant surplus fund balance (after distribution indicated in i-iii above) to unrestricted, local support funds.
 - g. **Equipment Dispositions/Transitions.** Correct equipment inventory records for any equipment that is disposed of or transferred to other institutional departments.
12. **Year End Processes and Deadlines.** Service departments must comply with [HSC OP 50.30, Year End Close Processes and Deadlines](#) to ensure that consumable supplies and materials are properly counted and reported, all revenue and expense accruals or deferrals are recorded and all fund balances are corrected.