TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER EL PASO

Operating Policy and Procedure

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

PURPOSE: The purpose of this Texas Tech University Health Sciences Center El Paso (TTUHSC El Paso) Operating Policy and Procedure (HSCEP OP) is to establish the policies and procedures for establishing service departments and charging departments for goods or services. This HSCEP OP provides for consistent practices among various service departments and ensures compliance with TTUHSC El Paso 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 HSCEP 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 Chief Financial Officer by June 1.

POLICY/PROCEDURE:

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

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

Violations of the policies and procedures outlined in this HSCEP OP may result in suspension of service department operations or loss of Financial Transaction System (FiTS) billing privileges as determined by the director of Accounting Services.

II. **Definition.** Service departments are established for the purpose of providing goods or services to other TTUHSC El Paso 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.

III. **Approval.** Establishment of a service department requires approval by the appropriate dean or vice president.

IV. **Establishment of Service Department Funds.** Separate Banner funds must be established for service departments.
New service department funds must be requested through the New Fund Request System located on the HSC Finance El Paso tab in WebRaider under Accounting Services~~,~~ or at:

https://fund.app.texastech.edu/fundProcessing/fundStart

A Service Department Rate Establishment Form (see Attachment) must be submitted to Accounting Services for all new service fund requests (email, mail or upload with the request in the New Fund Request System).

A separate unrestricted fund must be provided to cover cash flow deficits throughout the year, year-end fund balance deficits or unallowable expenses. If the service department does not have an unrestricted fund for this purpose, a fund must be established.

V. **Billing Procedure.** Service Departments must use the FiTS system to charge other departments for goods or services.

Service departments must process billing transactions via the FiTS system **no later than 30 days** after the provision of the goods or services.
Service departments may only process billing transactions **after** goods or services have been provided (finished product delivered in full or in part). Service departments may only bill for direct materials (inventory) in conjunction with all other charges due for the delivery of goods or services. **PRE-BILLING IS NOT ALLOWED.**

Final billing transactions for the fiscal year must be processed in accordance with published year-end deadlines.

Each billing transaction should record revenue (credit) in the service department FOP (fund, organization, program) and record expense (debit) in the department FOP(s) that received the goods or services.

In order to begin using the FiTS system:

A. Submit a request for access to the FiTS system to fsmelp@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 the FiTS system to process service department billing transactions
3) Any system identification that is already established for your department

B. Review the Financial Transaction System Training documentation available at:

https://elpaso.ttuhsc.edu/fiscal/businessaffairs/accounting/FiTS.aspx. Follow instructions provided by Finance Systems Management in the email notification stating that access has been granted.

VI. **Supporting Documentation.** Service departments must maintain documentation of all billing rates, FiTS billing transactions and operational data. All supporting documentation should tie to financial information in Banner and to billing rates published on the service department's website.

A. **Billing Rates.** Documentation of billing rates must include the following:

1) Estimates of costs to be incurred
2) Estimates of units of goods or services to be provided
3) 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
4) Treatment of deficits or surpluses
5) Other relevant information

B. **FiTS Billing Transactions.** Documentation of FiTS billing transactions must include the following:

1) Name and FOAP (fund, organization, account, program) of the service department

2) Name and FOAP of the department charged
3) Date(s) goods or services provided
4) Unit cost(s) of goods or services provided
5) Unit of measure of goods or services provided
6) Total quantity of goods or services provided
7) Total charge to the recipient department
8) Approval of charges and acknowledgement of the receipt of goods or services by the fund manager or other authorized approver of the recipient department
9) Other relevant information

Copies of the documentation of FiTS billing transactions must be provided to the recipient department.

Questions regarding FiTS billing transactions will be forwarded to the appropriate service department for timely and appropriate response.

C. **Operational Data.** Documentation of operational data must include the following:

1) Client data (possibly statistical: number of clients, frequency, percent of total, internal vs. external, new/lost clients, etc.)
2) Funding sources (education and general [E&G], general designated, federal, state, local, private, etc.)
3) Types of goods or services provided (new/discontinued goods or services, begin/end dates, etc.)
4) Quantity of goods or services provided (by client, reasons for increases/decreases, etc.)
5) Other relevant information

VII. **File Retention.** Service departments must retain documentation of all billing rates, FiTS billing transactions and operational data for a period of not less than the current fiscal year plus three prior fiscal years. 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.

VIII. **Establishment of Billing Rates.** Service departments must establish billing rates prior to charging users for goods or services. Service departments must review and/or update billing rates at least biennially and whenever changes in the type or quantity of goods or services, costs or fund balances are recognized. Service departments must have all billing rates posted on their website. Revised billing rates must be published at least 30 days prior to the effective date of new rates.

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, Subtitle A, Chapter II, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards).

Service departments must establish billing rates that ensure equitable treatment of all clients regardless of the funding source; billing rates must be the same for all clients, for the same goods or services, under the same circumstances.

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 (Goal: break even, revenue = expense, fund balance = 0). Service departments must include an adjustment in the billing rate for any surplus or deficit realized in prior periods.

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):

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

*[*Since surplus balances may include amounts received in conjunction with equipment amortization/depreciation (for equipment replacement) or "markups" to external users, it may be appropriate and necessary to reduce the prior period surplus amount for this calculation (with proper supporting documentation).]*

All **reasonable, allowable** and **allocable** costs that are directly related to the operations of service departments and included in the billing rate calculation must be charged to the service department fund.

A. **Cost Determination.** Service departments must establish billing rates based solely on costs that are **directly related** to the operation of the service department and that are **reasonable**, **allowable** and **allocable** to the specific goods or services provided. Costs that should generally be included in the establishment of billing rates include:

1) Salaries (in proportion to the effort related to the provision of goods or services)
2) Fringe Benefits (in proportion to the effort related to the provision of goods or services)
3) Materials and Supplies
4) Contracted Services
5) Equipment Amortization/depreciation (for capital equipment (≥$5,000) in proportion to the time the equipment is utilized for the provision of goods or services, straight-line amortization over the useful life (as determined/published by Comptroller of the State of Texas), must tie to financial records in Banner
6) Repairs & Maintenance Equipment
7) 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, Subtitle A, 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:

1) Service Department Rate Establishment Form 1: Per Unit Rate (for testing or when services are performed on a per unit basis)
2) Service Department Rate Establishment Form 2: 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.)
3) Service Department Rate Establishment Form 3: Per Hour Rates-Primarily Labor (for services performed on a per hour basis, primary cost component is labor)
4) Service Department Rate Establishment Form 4: Noncredit Instruction (for per course or per seminar rates)
5) Service Department Rate Establishment Form 5: 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, and the markup is a percentage of the cost of the direct materials or items)

These templates may be accessed under Forms in the Accounting Services section on the HSC Finance El Paso tab of the WebRaider portal.

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, however, all forms must contain the following:

1) General Information
   a. Purpose (new fund/rate establishment, annual update, change goods/services/costs)
   b. FOP (if already established)
   c. Fund Name
   d. Fund Manager Name and Phone Number
   e. Description of Goods or Services to be Provided
   f. Backup FOP (for deficits or unallowable expenses)
2) Billing Information
   a. Billing Contact Name and Phone Number
   b. Billing Method (FiTS processing, invoicing)
   c. Billing Frequency (weekly, monthly, etc.)
   d. Rate Effective Date
   e. Billing Rate(s) (internal, external, basis)
   f. Billing Rate(s) Calculations (types of expenses, allocation methods, etc.)
3) External/Non-campus Sales Information (only if providing good or services to external/non-campus users)
   a. External/Non-campus Agency Names
   b. Other Area Providers
   c. Billing Rates for Other Area Providers
   d. Benefit to TTUHSC El Paso
4) Approval Information
   a. Appropriate Dean or Vice President (name and signature, for new fund/rate establishment)

IX. **Budget.** Service departments must not provide goods or services or charge any institutional fund until appropriate budget has been approved and entered into Banner for the institutional fund.

X. **Transfers**. Transfers into or out of service department funds are generally not allowed.

XI. **Sales of Goods or Services to Non-campus Organizations or Private Businesses.** 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. Name(s) of the non-campus organization(s) or private business(es) 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 the equivalent goods or services
D. Explanation of benefit to the institution from offering these goods or services to non-campus organizations and private businesses

Service departments must comply with **HSCEP OP 50.36 Sales Tax Collection** for any sales of goods or services to non-campus organizations or private business for which sales tax is applicable.

XII. 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 (redirect relevant salary and fringe benefits)
B. **Encumbrances.** Close or move open encumbrances
C. **Final Invoices.** Record final Gateway billing transactions (or revenue/receivable entry for external invoices)
D. **Balance Sheet Accounts.** Resolve any payable or receivable balances
E. **Deficit Fund Balances.** Transfer funding from unrestricted, local service department support funds to cover deficit fund balances or process cost transfers to move expenses to the support funds.
F. **Surplus Fund Balances.** Transfer or refund surplus fund balances as follows:

1) Transfer surplus fund balances due to “markups” received from external users to unrestricted, local service department support funds (with appropriate supporting documentation)
2) Transfer surplus fund balances due to equipment depreciation to the fund that purchased the equipment (reflects capital asset value, accumulated depreciation, with appropriate supporting documentation,)
3) 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 the other users should be reduced by an equal amount on a pro rata basis to ensure all funding sources/users are treated fairly.)
4) Transfer any remaining, insignificant surplus fund balance (after distribution indicated in i-iii above) to unrestricted, local service department support funds

Equipment Dispositions/Transitions. Correct equipment inventory records for any equipment that is disposed of or transferred to other institutional departments. (Any proceeds and gains or losses from the sale of equipment should be recorded in the fund that purchased the equipment.)

XIII. Year End Processes and Deadlines. Service departments must comply with **HSCEP 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.