Service Department Rate Study Training

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Training Agenda

• Service Department Basics
• Rate Study Requirements
• FY12 Changes
• Best Practices
What is a Service Department?

- An operating unit within TAMU that provides a service or product to users that are primarily within the university

- Charges a fee for those good/services in order to recover its costs

- Exists for reasons of convenience, efficiency, or because the product is not otherwise available to the TAMU system community
Governing Policies

- System Regulation 21.01.05
- University Rule 21.01.05.M1
- University Rule 23.02.02.M1
- OMB A-21, A-133, A-87 (Federal)
- Cost Accounting Standards (Federal)
Service Department Requirements

- Must fit the mission of the University
- Needed service can best be provided within the University or is not readily available outside of it
- Designed to be breakeven operation
Service Department Requirements

- Service department managers must retain adequate documentation of rate studies (for at least 3 years plus current year).

- All users of the service should normally be charged.

- Primary users should be internal System departments.
Why Are Rate Studies Required?

- Service departments often charge federal programs (sponsored/grant agreements) and costs charged to such programs must be in compliance with federal regulations.

**Note:** The requirements still apply even if users are mostly or entirely non-grant accounts.
Rate Study Requirements

• All service departments must conduct a rate study annually and submit it to the Office of Cost Analysis (OCA).

• Service departments are allowed to change rates in the middle of the year after the rate changes have been approved by the OCA.
What is a Rate?

• The amount charged to recover the cost associated with producing a good or providing a service.

• Rate = annual federal allowable costs for good/service (g/s) the total annual billing units associated with g/s

• Rates charged to TAMUS users MAY NOT be greater than those charged to non-TAMUS users.
Calculating a Full Cost Rate

Full Cost Rate = \frac{\text{Total Expenditures}^{**}}{\text{Number of Units}}

**(Salaries/Benefits + Supplies/Materials + Cost of Goods Sold (if applicable) + Other Major Expenses + Equipment Depreciation +/- PY Deficit/Surplus)**
Calculating a Subsidized Cost Rate

Subsidized Cost Rate =

\[
\text{Total Expenditures}^{**} - \text{Subsidies} \div \text{Number of Units}
\]

**(Salaries/Benefits + Supplies/Materials + Cost of Goods Sold (if applicable) + Other Major Expenses + Equipment Depreciation +/- PY Deficit/Surplus)**
Service Departments with Multiple Services

- Separate billing rates must be established for each line of service.
- Costs should be allocated among the different lines of service to determine the rates.
Non-Discriminatory Rates

• All internal users should be charged the same rate for the same level of services or products purchased in the same circumstances.

• External users may be charged at a higher rate.

• Federal agencies should always be charged the lowest rate.
Costs Which Cannot Be Recovered through Rates

• Purchase price of capital equipment

• Building depreciation

• Depreciation of equipment purchased by federal funds
Costs Which Cannot Be Recovered through Rates

- Inventory not consumed in year of purchase
- Inflation on capital equipment
- Facilities expense (utilities, maintenance, and custodial cost) paid directly by the University and not recorded in the service department account
Things to Watch Out For

• Be careful when allocating 100% of costs (like salaries and service agreements) to the service department because some of the time may be used for teaching or research. Only allocate that portion related to the service department activities – do not include the teaching and research portion in the rates.

• Overhead costs (administrative assistant salary, office supplies) must be reasonable and necessary to the operations of the service department in order to build into rates.
Depreciation

- Please use Canopy or Business Objects to run an official depreciation report from FAMIS to include depreciation in your rates.

- A report in Canopy can be run through the FFX module (fields you need are listed in the template instructions).

- The Business Objects report should be ready in 3-4 months.
Equipment Rules

• All capital equipment and required installation costs must be purchased from a renewal and replacement account (i.e., capital expenditures should not be purchased out of the 27xxxx account).

• Each service department should have a separate renewal and replacement account (87xxxx) funded through including depreciation in rates.
• **Question:** Can I buy capital equipment ($5K or greater) out of my 27xxxx account?

• **Answer:** No, replacement equipment should only be purchased from the corresponding renewal and replacement account (i.e. 87xxxx).
• **Question:** What can I purchase out of my 87xxxx account?

• **Answer:** You can purchase capital equipment and pay for major repairs expense.
Equipment FAQ #3

• **Question:** Once I have transferred funds into my 87xxxx account, can I transfer funds back into my 27xxxx account?

• **Answer:** No, once the funds have been transferred to the 87xxxx account, they cannot be moved.
• **Question**: If I don’t include equipment depreciation expense in my rates, can I still build a capital reserve?

• **Answer**: If no depreciation is included in rates, a capital reserve can only be built through external customer revenue; however, unrelated business income tax (UBIT) must also be considered when receiving revenue from external customers.
• **Question**: How do I buy new equipment if I don’t have an established capital reserve?

• **Answer**: The funds to support the cost will have to be identified elsewhere (subsidy, school, department, debt issue). If an 87xxxx has been established, you may buy the equipment from there.
90 Day Reserve Requirement

• Current, departments are only allowed to keep a maximum of 90 days of working capital in reserves (University Rule 23.02.02.M1).

• Depreciation included in the rates should be transferred out of the fund balance and into the renewal and replacement account (87xxxx).
90 Day Reserve Requirement

- Departments may lower the fund balance by including the prior year surplus in the rates and reducing them.

- External profit can be moved to the 87xxxx to reduce the fund balance.
New System Regulation

• A revised system regulation for service departments is currently in progress and should be finished by 8/2011.

• A new SAP will be written and will most likely replace the current University Rule.

• One of the main changes is decreasing the fund balance reserve requirement maximum from 90 days to 60 days in order to be in compliance with OMB A-87.
Rate Study Template

- An excel spreadsheet is available to help calculate rates.

- Departments are not required to use the template; the Office of Cost Analysis can help tailor one to your specific department’s needs.

- Individual training and assistance is available year-round.

- Getting Started handout on website is helpful
FY12 Template Changes

- FY12 instructions are included on a tab within the rate study template.

- You will enter FY10 actual expenses in a column in the template instead of filling out two templates this year.
FY12 Template Changes

- The internal support cost tab has been renamed “Overhead.” The definition is the same – it is a title change only.

- A “Fund Balance” tab at the end has been added to calculate the fund balance reserve requirement.
Self-Certification Checklist

• After finishing the rate study templates, you will need to complete the Self-Certification Checklist.

• The department head and service department manager must certify that the rate study has been prepared in compliance with the current University and Federal policy to the best of their knowledge.
The OCA has set up a Sharepoint extranet site to keep all rate studies in one location.

Each service department will upload their rate studies, signature pages (scanned in), and self-certification to the extranet site.

Each service department will have access to the previous year’s rate documentation.
The OCA will assist you to make sure you have access and understand how to upload and use the files.

Changes can be made to the rate study templates through the extranet site instead of sending the rate studies back and forth over email.
After Completion of Rate Study

• Rate study is reviewed by appropriate levels.
• Analyst sends commentary that includes recommendations to service department to review.
• Department required to respond to analyst regarding recommendations.
• Analyst sets up meeting to discuss recommendations and comments with department if necessary.
• Rate studies are not completed in a timely manner or not completed at all.

• Fund balances in excess of allowable 90 day expenditure level are being retained.

• Departmental activity or units are operating as service departments on campus but have not yet followed the required process.
Rate Study Recurring Issues – Don’t Make These Mistakes!

- Historical costs are not incorporated for comparison to projected costs.

- Capital equipment is purchased directly from the service department account rather than from the appropriate renewal and replacement account.

- Instead of calculating rates based on projected costs, rates are backed into based on revenue needed.
Rates adjustments are made to be in line with the market but result in one group of customers subsidizing another.

Service department rates do not include internal overhead cost recovery.
Service Department Audit

- In April, System Internal Audit is starting an audit of service departments.

- The outcome of the audit could potentially affect service department issues going forward.

- The OCA will communicate potential changes that need to be made to the service departments as a result of the audit.
Things That Auditors Check

- Billing rates are adjusted each year to eliminate surpluses and deficits which accumulate over time.

- Duplicate and unallowable costs are excluded in calculating rates.

- Funds are not being used for unrelated purposes.
Things That Auditors Check

• All users are being charged equitably, meaning billed users cannot subsidize unbilled or under billed users.

• Approved billing rates are being used.
Website Information

- Items on the website
  - New Service Department Setup Process
  - Deadlines
  - Forms and Templates
  - Helpful Hints
  - Policies and Compliance
  - Contact Information
  - Training Dates

http://finance.tamu.edu/ controller
Questions?

• You can check out our website:
  – http://finance.tamu.edu/controller

• We are also on Aggie Answers:
  – http://texasamucfo.custhelp.com/app/answers/list/p/163
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