I. PURPOSE & APPLICABILITY

This Policy, established by the Policy Committee on Sales and Service Activities and Service Enterprises (POSSSE), is intended to serve as a guideline for the establishment, operation, review, and closure of all Sales and Service Activities at UCLA. [Note: The online version of this policy, available at www.adminpolicies.ucla.edu, contains a number of useful links to other policies/resources.]

POSSSE has oversight responsibility for the campus’ recharge rates and Working Capital issues as well as other aspects of Sales and Service Activities having a financial impact on the campus (e.g., submission of their Budgets, the Short-Term Investment Pool (STIP) implications of their billing cycles, their policies about who is charged and for what). POSSSE is to advise the Chancellor on policies pertinent to these issues and act on his behalf by monitoring and assisting in policy implementation.

There are some units residing in the 60000-fund series with accreditation and other campus review mechanisms in place that are not reviewed by POSSSE [e.g., Medical Compensation Plans (Pay Plans), Royalties, Early Care, UCLA Medical Center, Neuropsychiatric Hospital, and others].

All correspondence pertaining to this Policy is to be directed to POSSSE via the Director within the Office of Academic Planning and Budget (APB) with POSSSE responsibility (Director APB/POSSSE) (see APB’s website www.apb.ucla.edu for a contact listing that also includes APB’s address).

II. SALES AND SERVICE ACTIVITIES

Sales and Service Activities are expected to provide quality products/services at rates that are both reasonable and equitable. Generally, rates are to be set on a per-unit basis and similar products/services are to be sold to customers at the same rates, allowing for the rate difference caused by charging full costs to non-University customers. Sales and Service Activities should not assume any obligation beyond the delivery of a standardized product/service at uniform, pre-established, per unit prices to multiple customers.

Sales and Service Activities should generally be self-supporting, covering both Direct and Indirect Costs (see Attachment B), and operate on a break-even basis. Annual rate and/or accounting adjustments must be done to eliminate any surpluses or deficits that are not related to an approved purpose, such as equipment depreciation, and surpluses are not to exceed a prudent level approved and monitored by POSSSE. In lieu of annual rate adjustments, multi-year rate schedules and/or multi-year inflationary assumptions may be submitted and approved in advance.

Before establishing a Sales and Service Activity, the following basic questions must be considered and all answered in the affirmative before proceeding with a request to establish a Sales and Service fund:

1. Does the proposed Sales and Service activity relate to the University’s mission of education, research, and public service?

2. Will there be ongoing demand by more than one customer and will the demand generate at least $2,500 annually?
3. Are the products/services identifiable and quantifiable so that separate costs and budgets can be defined?
4. If products/services are to be sold to non-University users, will University users be able to acquire the products/services as well?

See UCLA Procedure 340.1 for processing timelines. If the answer is “No” to one or more of the questions above, contact the Director APB/POSSSE to discuss the particular situation in more detail.

Also, the activity should provide goods or services that are not readily available from outside sources unless there are overriding economic, ethical, or other institutional issues to support the need for the University to provide the goods or services. For example, one institutional issue might be the local availability of the good or service, which would then be considered within the terms of timeliness for research and/or other activities.

In order to rule out possible Contracts & Grants or Clinical Trials products or services, or a possible source of Income from a Gift, the following questions should be asked and, depending on the answer, the appropriate next step taken:

1. Is the product or service customized for any single customer? If YES, contact the Office of Contract & Grant Administration. If research subjects or informed consents are involved, contact the Office of Clinical Trials. If NO, contact the Director APB/POSSSE.
2. Is the Income 1) without contractual requirements; 2) irrevocable; and 3) does it not require a service? If YES, contact Gift Accounting. If NO, contact the Director APB/POSSSE.

Note: In accordance with UC Regulation No. 4 (section II, 2), University laboratories, bureaus and facilities are not to be used for tests, studies, or investigations of a purely commercial character, except when it is shown conclusively that satisfactory facilities for such services do not exist elsewhere.

A. Sales and Service Fund Application

A fund application is required to establish an activity or to make changes to the information that was provided in the prior application (i.e., change rates, classes of customers, scope of service, and/or subcodes underlying the approved Budget). Completed fund applications should be submitted according to UCLA Procedure 340.1. Multi-year rate requests with built-in inflationary increases may be submitted for approval to facilitate the writing of grant proposals and administrative efficiencies. Such multi-year requests will be re-evaluated based upon actual economic factors.

Commitments to provide sales or services, or the announcement of rates, are not to be made, either orally or in writing, until such time as the fund establishment or revision request has been approved by the Chair and/or the Director APB/POSSSE.

The POSSSE Chair can grant an interim rate approval when a situation arises that requires expedited approval until the full rate-approval process can be completed. Interim rate approvals may be requested by contacting the Director APB/POSSSE and are to be accompanied by a programmatic and financial justification for the rate change or service being added.

Preferably, once the request to establish a Sales and Service Activity has been approved by the POSSSE Chair, the activity should publish its rates on the activity’s web site, and its external sales may be documented in written agreements according to UCLA Procedure 340.1. Note that external customers’ purchase orders would be non-standard agreements according to UCLA Procedure 340.1 and will need to be reviewed by Legal Affairs before they are signed.

For activities not reviewed by POSSSE, all rates are to be reviewed and approved by POSSSE Staff and, for new activities, by the POSSSE Chair.
B. Types of Activities

All Sales and Service Activities can be classified by the type of good or service provided. Different fund numbers are to be established for activities having different fund types. This section classifies each Sales and Service Activity by the type of good or service provided. Campus Support Services are reviewed annually by the POSSSE Committee. All other Sales and Service Activities are reviewed annually by POSSSE Staff.

1. Campus Support Services: Sales and Service or General Fund Recharge Activities that serve the entire campus and have annual Income in excess of $1 million or have a major campus-wide impact. Also includes Specialized Service Facilities. The POSSSE Committee reviews Campus Support Services each year.
2. Clinics: Activities providing services to the general public, usually in a medical setting.
3. Computer Services: Facilities providing computers and related services such as printing.
4. Labs/Tests/Assays: Activities consisting of laboratory services and tests.
5. Library Services: All activities, under the jurisdiction of the University Library, or a library function within a School (e.g., Law Library) covering a wide range of services (e.g., research services, computer services, and copying services).
6. Pay Plans: Professional service activities provided by Faculty. These fees provide funds for support of eligible Faculty and for academic program enhancements.
7. Programs (Revenue only): Activities depending solely on external Income as their source of funds.
8. Publications: Activities engaging in the regular editing and/or publishing of journals, magazines and books. These activities may have inventory.
9. Royalties: Collection of Income from the sale of products produced by Faculty (e.g., written articles or books).
10. Sales/Services/Rentals: Activities having annual Income of less than $1 million or impacting only a limited portion of the campus and which provide goods, services or rentals to on-campus and/or off-campus customers.
11. Conferences and Seminars: Activities existing for the sole purpose of sponsoring conferences and seminars either on an on-going basis or one-time basis.
12. Other: Activities that do not fall in the categories listed above.

C. Responsibilities

The Sales and Service Activities decision-making process is complex, involving numerous campus officials, entities and units. In addition to the broad oversight authority and responsibilities of POSSSE, responsibilities ranging from requesting a new activity, to managing and financial reporting of activities, to closing an activity are assigned in accordance with the Sales and Service Activities and General Fund Recharges Responsibility Matrix (also see the APB web site for more information).

III. RATES, ACCOUNTING AND COSTING

Sales and Service Activities shall operate under University accounting and costing principles.
General Fund Recharges for 19900 General-Funded activities are described in section III.B., below.
A. Sales and Service Activities

Fund Accounting
Each Sales and Service Activity is to be set up in a separate Sales and Service fund to properly track the activity’s Income and Expenses. Also, each activity is required to establish and maintain a Budget on the ledger and in the permanent budget system that reflects its operations. The initial, approved permanent Budget will be established by Corporate Accounting on behalf of the unit.

Costing Principles
The University must follow Federal government costing principles (OMB Circular A-21) and Cost Accounting Standards (CAS) established by the Office of Management and Budget (OMB) when charging Federal contracts and grants. For all activities, the University should follow the accounting practices issued by the UC Office of the President and noted in the University’s cost accounting standards disclosure statement (DS-2) filed with the Federal government.

Billing
Each activity must use the University’s billing system for outside customers and the University’s recharge system for internal customers. If an activity’s customers require a level of billing detail not provided by the University’s billing system, then the activity may request to opt out by notifying POSSSE Staff and the Campus Controller. Payment for sales or services should be collected at the time the goods or services are provided. Billing arrangements are to be included as part of any written agreement.

Fiscal Closing
All Sales and Service Activities must follow the fiscal-closing instructions provided by Corporate Accounting and record inventory, accruals, and deferrals related to the activity.

Income/Expense Not Related to the Activity
Only Income and Expense related to the approved Sales and Service Activity may be recorded in the activity’s fund unless the non-related Income/Expense transaction is specifically authorized by POSSSE or the fund is being closed out by Corporate Accounting.

Fund Balances
Fund balances, whether positive or negative, are not to be transferred out of the fund unless:
(1) the transfer has been approved by POSSSE with due consideration given to any associated OMB Circular A-21 implications; and/or (2) the transfer is to an approved reserve fund with its own, separate fund number and is based on appropriate cost principles.

Fund Balances for non-rate-setting funds, classified as such by the POSSSE Chair and duly coded in APB’s fund database, are to be considered discretionary balances; non-rate-setting funds, while subject to POSSSE oversight, are exempt from annual review by POSSSE Staff.

Rate Setting
Rates to be charged shall be justified by and consistent with the Activity’s Expenses. Customers must be charged according to an approved rate structure based on budgeted costs and volumes and rates must be applied uniformly within each specific customer class. Rates shall be established:
- In measurable units of goods or services, and
- For each class of goods or services to be provided

Exceptions to the rate setting, above, will be:
- Penalty-based rates (e.g., cancellation fees, fines, and rush charges)
- Rates established by external entities (e.g., pass-through charges such as shipping costs)
• Rates for items that are market driven (e.g., paper, tickets for performances, conference services that include the rental of booths by sponsors, and commodities such as precious metals used in laboratory settings)

Requests to grant fee waivers or discounts are to be submitted to the Dean or Vice Chancellor and then forwarded to the POSSSE Chair along with the rationale for the waiver or discount and the funding source to be used to offset the waiver or discount.

External Users are to be charged at full cost. Discounting, if it is permitted at all, is to be approved by POSSSE and/or the POSSSE Chair and based on either: 1) volume-related economies of scale or 2) beneficial collaborations where the Dean/Vice Chancellor is prepared to provide a Subsidy for the transaction.

Certain costs may not be included in rates charged to Federal contracts & grants (e.g., interest, funds accumulated for capital or equipment replacement in excess of depreciation, contingency reserves, markups above cost, etc. as stated in OMB Circular A-21). Whenever an activity’s Budget includes cost elements that cannot be charged to the Federal government and the activity has both Federal and non-Federal users, the use of a Dual-Rate Structure will be necessary.

While it is expected that rates will be fully costed, if an activity is integral to the fulfillment of the University’s tripartite mission, rates may be established at less than full cost recovery upon approval of the Dean or Vice Chancellor and by supplying the funding source for the Subsidy.

Preferably, once the activity’s Budget and rates have been approved, the activity should publish a rate schedule, preferably via a website, and properly notify the known users to be charged in writing before rates can be charged. E-mail and broadcast distributions are acceptable notification methods. A notification period of at least thirty (30) days is advised and should commence only after the Budget and rates have been approved. All rates listed on websites must have been previously approved.

Equipment Rate Guidelines
Because the acquisition and use of equipment in Sales and Service Activities generally involves depreciation and replacement costs, detailed guidance may be found in UCLA Procedure 340.2.

B. General Fund Recharges
The following section is intended to serve as a guideline for establishing and reviewing General Fund Recharge Activities at UCLA. This includes both Central Administrative Fees (CAF’s) at the campus level and Organizational-Level Fees (OLF’s) at the organizational level (per the Campus Organizational Hierarchy).

Establishing a General Fund Recharge Activity
Services rendered by administrative units supported by General Funds are normally provided without charge to other campus departments or activities supported by General Funds unless POSSSE determines otherwise.

A General Fund Recharge Activity may be established only after a written request is approved by POSSSE. All types of Recharges may be charged by an approved General Fund Recharge Activity. Contact the Director APB/POSSSE for assistance in forming a request.

Reviewing a General Fund Recharge Activity
General Fund Recharge Activities are to be reviewed annually by POSSSE. An annual Call Letter will be issued by the POSSSE Chair to provide additional instructions as well as the deadline for these reviews. If the activity is classified as a CAF or OLF, then the activity’s Budget, rates, and methodology will be reviewed by POSSSE. If the activity is classified as a Contract Recharge, then a report of Contract Recharge Income must be provided to POSSSE. POSSSE will review the report and either accept or reject it.

Recharge activities that have received General Fund Budget augmentations or subsidies (in lieu of recharging) for providing services to campus units may not unilaterally change the service, the level of service, or subsequently initiate Recharges for them. To adjust these services, the General Fund Recharge Activity must be able to identify the services or level of service for which the subsidies were received, and the departments or activities to whom the services are provided. POSSSE will review the total Budget – both General Funds and recharge Income – and will recommend to the Chancellor through the Vice Chancellor, Finance, Budget,
& Capital Programs whether an adjustment in the General Fund Budget, an adjustment in the recharge rate, an adjustment in the services provided, or some combination of all of these is warranted.

Rates
Self-Supporting Activities are to be recharged for services provided on a unit cost basis or charged a negotiated amount via a Contract Recharge, which reflects recovery of both Direct and Indirect Costs. Rates should not include Core Costs that would exist even if there were no recharge activity.

CAF’s and OLF’s are to be applied only to the earned Income of the units being charged; therefore, they are not applied to those portions of the Budget that come from Federal contract and grant overhead, donations, registration fees, or Chancellorial subsidies.

If requested by the unit being charged, charging units must explain the costs that are included in the rate(s). The preferred case is that the charging units proactively provide this information to units that they charge.

Reporting
POSSSE Staff will generate a list each year of those units that are authorized to charge CAF’s and OLF’s to Self-Supporting Activities. This list will be provided to Corporate Accounting.

The units authorized to be charged CAF’s and OLF’s will be identified each year by POSSSE Staff based on the most-recent June 30 Final Ledger. These are units which have annual Expense of $200,000 or more and are essentially self-supporting units that can charge full costs and still remain competitive. Units will be notified that they are on the list and the list will be provided to those units authorized to charge CAF’s and OLF’s. See APB website for current list of eligible rechargeable entities.

Inventories are to be recorded if their value exceeds $50,000 per year.

IV. REVIEWING AND CLOSING

Reviewing

Generally, Sales and Service Activities are to be reviewed annually. An annual Call Letter will be issued by the POSSSE Chair to provide additional instructions as well as the deadline for these reviews. Reviews may also be done by the unit at any time during the year or at the request of POSSSE Staff when prompted by large surpluses/deficits without a corresponding surplus/deficit elimination plan on file at the Office of Academic Planning and Budget, failure to follow this Policy, and/or by an audit that recommends that additional review(s) be conducted. Funds not reviewed by the POSSSE Committee shall adhere to the Annual Review Procedures outlined on APB’s website.

At least every five (5) years, unless a fund revision has been approved during this period, the responsible Dean or Vice Chancellor will be asked to:

- Verify that information supplied in the latest fund application is up to date; and
- Provide copies of the activity’s Budget and rate list for the fund file maintained by POSSSE Staff.

POSSSE Staff will issue a questionnaire to facilitate this process. If, based on its files and the information provided, POSSSE Staff determines that material changes have occurred over time without appropriate approvals or documentation in place, the fund review and approval process will be initiated.

For reviewing General Fund Recharges, see section III.B., above.

Closing

Unless a fund has a known operating cycle in excess of one year, any Sales and Service fund not having financial activity within the current fiscal year will be considered for closure by APB and/or Corporate Accounting and the unit will be questioned about the fund’s continued existence.
If a unit wishes to close one of its Sales and Service funds, it should follow the closing instructions posted on APB’s website.

V. ATTACHMENTS

A. Definitions
B. Direct Costs, Indirect Costs and Administrative Overhead
C. Other Topics Related to Sales and Service Activities
D. References

Issuing Officer

/s/ Glyn Davies
Associate Vice Chancellor, Office of Academic Planning & Budget

Questions concerning this policy or procedure should be referred to the Responsible Department listed at the top of this document.
Definitions

**Budget**: The financial representation of the operating plan of a Sales and Service Activity, which sets forth its functional goals for a specified period of time and identifies the sources of funding as Recharges, Revenue, or Subsidy.

**Central Administrative Fee (CAF)**: A type of charge imposed through the recharge system, by which central administrative units charge self-supporting units for services provided. A CAF recharge is a billing based on a rechargee’s relative demand on core services, from one department categorized in the University’s Budget and Financial Systems as providing “general administrative or institutional services” and funded primarily by the General Fund to another department that is essentially self-supporting, for a non-contracted service.

**Contract Recharge**: A type of recharge made by a central administrative unit to a self-supporting unit for goods or services that are specifically identifiable to the self-supporting unit and that requires the central administrative unit to acquire additional resources such as staff in order to provide the goods or services. This recharge may be based on a unit price or a negotiated amount.

**Core Costs**: Those costs that would exist even if no recharge activity occurred. For example, the Vice Chancellor of Legal Affairs and his/her direct office staff would exist as the UCLA Campus Counsel even if the unit did not engage in recharge activity.

**Direct Cost**: A readily-identifiable cost associated with furnishing a good or service.

**Dual-Rate Structure**: A rate structure whereby one rate is charged to Federal users and another rate is charged to non-Federal users. This rate structure is needed whenever a unit proposes to include cost elements in its rates that are unallowable according to OMB Circular A-21.

**External User**: 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., students, staff and Faculty acting in a personal capacity, other Universities (non UC), commercial entities, and the public at large].

**Expense**: Outflow or other use of assets or incurrence of liabilities (or a combination of both) from delivering or producing goods, rendering services, or carrying out other operational activities.

**Faculty**: A member of the Academic Senate.

**General Fund Recharge Activity**: An activity which is primarily supported from General Funds but also derives support by recharging for services or goods.

**General Fund(s)**: Money earned from student fees (e.g., Ed Fee) plus funds provided by the State of California. Within the overall constraints of the State-approved budget, General Funds may be used for any operating purpose specified by The Regents.

**Income**: Recharges and Revenue considered either separately or in combination.

**Indirect Cost**: A cost that cannot be readily identified with or related to a specific activity.

**Organizational-Level Fee**: A type of charge imposed through the recharge system, by which Organizations (e.g., Dean’s/Vice Chancellor’s Offices) charge budgetary units (e.g., Sales and Service Activities) within the organization for administrative services provided that are not recovered by other means (e.g., F&A recovery). An OLF recharge is a billing based on a rechargee’s relative demand on core services, from one budgetary unit categorized in the University’s Budget and Financial Systems as providing “general administrative services” and funded primarily by the General Fund to another budgetary unit within the organization for a non-contracted service.

**POSSSE**: Policy Committee on Sales and Service Activities and Service Enterprises.
POSSSE Chair: Department head of the Office of Academic Planning and Budget who chairs the POSSSE Committee and conducts day-to-day business on its behalf.

POSSSE Staff: Staff member(s) within the Office of Academic Planning and Budget assigned as staff to the POSSSE Committee and taking direction from the POSSSE Chair and/or the POSSSE Committee.

Recharges: The assessment and collection of a charge by one University entity for goods or services furnished to another University entity.

Revenue: Money generated from external sources.

Royalties: Amounts paid to a creator or a participant in a creative work based on individual sales of the work or negotiated by contract. In order to receive Royalties, the work must generally be copyrighted or patented.

Sales and Service Activity: An economic enterprise that: 1) provides specific goods or services for sale or rent to campus and non-campus entities, 2) has been clearly and uniquely identified and given a University fund number in the Sales and Service fund range, and/or 3) collects Revenue or records Recharges to recover costs. While goods or services might be available from commercial sources, the on-campus activity can provide them more effectively for reasons of convenience, cost, or control.

Self-Supporting Activity: An economic enterprise that operates on the basis of Revenues generated rather than general funding from the University and which has been designated as capable of covering its costs via charges to its customers. The fees charged are directly related, although not necessarily equal, to the cost of the goods or services furnished.

Subsidy: A form of financial assistance used to support activities that might otherwise fail or to encourage activities that might otherwise not be undertaken.

Working Capital: The activity’s accumulated balance that can be used for current needs such as inventories and capital needs such as equipment purchases (if approved in advance by POSSSE or POSSSE Staff).
Direct Costs, Indirect Costs and Administrative Overhead

Direct Costs

1. Salaries and wages and related employee benefits, including retirement contributions, Workers’ Compensation, vacation accrual and sick leave usage.

2. Supplies and materials, including the Technology Infrastructure Fee (TIF).


4. Depreciation of equipment used in the unit, based on the original cost of the equipment, not replacement cost. Depreciation should be calculated on a straight line basis with no salvage value using the useful life in the equipment Useful Life Schedule http://eulid.ucop.edu issued by the Office of the President. The current threshold for capitalization is $5,000. See UCLA Procedure 340.2 for additional guidance.

5. With specific approval from POSSSE, costs designated as unallowable with respect to charging Federal users (e.g., reserves for future years’ Expense needs, capital expansion requirements, reserve contingencies, and interest) may be recovered through established rates at a level in excess of costs only if an approved Dual-Rate Structure for Federal and non-Federal activities is in place which does not discriminate against Federal activities. As long as there is sufficient documentation to support the Federal versus the non-Federal rates and dual rates have been charged such that Federal funds are not charged for unallowable costs, any resulting surplus would not need to be refunded to the Activity’s Federal users.

Indirect Costs

For internal activities, the following departmental costs must be recovered if incurred in relation to the Sales and Service Activity:

1) Telephone

2) Office supplies

3) Non-direct salaries (e.g., for accounting and other administrative support) and related employee benefits

These Indirect Costs may be allocated by formula, workload indices, or other reasonable methods.

Administrative Overhead or Mark-up over Cost (for external activities only)

1. The actual calculated overhead rate attributed to all additional costs (e.g., packaging and mailing) is to be added to the calculated internal rate.

2. A mark-up may also be added, if appropriate and as needed, to achieve the market price. Where a few similar products or services are commercially available through the local business community, rates should generally approximate fair market rates to avoid allegations of unfair business practices; external rates are to be consistently applied to avoid discrimination claims. Refer to UCLA Procedure 340.3 for additional guidance.
Other Topics Related to Sales and Service Activities

Taxes

The University of California is a taxable entity for California sales and use tax purposes. Departments are responsible for properly assessing and collecting all applicable California sales taxes from external customers at the time of sale. In addition, sales made in states outside of California may subject the department to sales tax liability in those states.

The net Income of the Sales and Service Activity may be subject to unrelated business Income tax (UBIT) if the sale or service is unrelated to the tax exempt functions of education or research. Any related tax expenditure must be included in the activity’s Budget.

UCLA Tax Services reviews all newly-established Sales and Service funds to determine the extent of tax exposure; any information requested/required by UCLA Tax Services to make this determination must be provided.

Contact UCLA Tax Services www.tax.ucla.edu for additional guidance.

Documentation/Record-Keeping

Departments with Sales and Service funds are the office of record for certain types of documents (e.g., application/revision form, rate calculation documentation, cost allocation/recharge methodology, and approved rate lists to name a few) and are to follow the guidance in the UC Records Disposition Schedules Manual regarding retention.

Policy Waivers/Special Circumstances

For policy waivers or to discuss special circumstances, please contact POSSSE Staff. Waivers may be granted by POSSSE or the POSSSE Chair, depending on individual circumstances.
References

1. 2 CFR Parts 215 and 220, Cost Principles for Educational Institutions (Office of Management and Budget Circular A-21);
2. Office of Management & Budget Circular, A-110, Uniform Administrative Requirements;
3. UC Business and Finance Bulletin A-47, University Direct Costing Procedures;
7. UC Planning and Budget Manual: Chapter 4010, Operating Budget Amendments;
8. UCLA Procedure 340.1, Establishing and Updating Sales and Service Activities and Service Enterprises;
9. UCLA Procedure 340.2, Equipment Use Rate and Depreciation Guidance;
10. UCLA Procedure 340.3, Sales and Service Activities with External Rates that Include a Mark-up Over Cost.