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## UCLA Policy 340: Sales and Service Activities

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Issuing Officer: Associate Vice Chancellor / Controller

Responsible Department: Business & Finance Solutions

Effective Date: 12/01/2018

Supersedes: UCLA Policy 340, dated 6/26/2012; Procedure 340.1, dated 5/28/2013; Procedure 340.2, dated 4/18/2011; Procedure 340.3, dated 6/26/2012

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### I. PURPOSE AND SCOPE

UCLA engages in business enterprises that support the University's mission and values that are known as Sales and Service Activities. Sales and Service Activities are subject to review, approval, and rate setting by either Business & Finance Solutions (BFS) or Office of Academic Planning and Budget (APB), depending on the category of the Sales and Service Activity.

This Policy defines Sales and Service Activities and sets forth the procedures for the establishment, operation, review, administration, and closure of Sales and Service Activities, as well as, the process to develop, request, and implement the appropriate rates for these activities.

This Policy does not apply to units and/or activities that have other campus review and rate setting mechanisms in place, for example: UCLA Health (including the Medical Center, the Neuropsychiatric Hospital, the Faculty Practice Group, Arthur Ashe Student Health & Wellness Center, other hospitals, physician clinics, and patient care activity), Auxiliary Enterprises, Technology Licensing Activities, Student User Fees, and research activities.

### II. DEFINITIONS

For the purposes of this Policy:

**Authorizing Official** refers to a Dean, Vice Chancellor, Vice Provost, Vice Chancellor designee, Vice Provost designee, or equivalent position (for organizations that do not have a Dean, Vice Chancellor, or Vice Provost).

**Auxiliary Enterprises** are self-supporting activities which provide non-instructional support in the form of goods and services to students, faculty, staff, and the general public upon payment of a specific user charge or fee. Examples include, but are not limited to, housing operations, non-housing food service operations, parking operations, and child-care centers.

**Breakeven Rates** are rates calculated based on operating expenses and volume of the services or products to be provided to ensure that revenues reasonably offset expenses. Operating at breakeven means there is no profit or loss as a result of charging users for the services provided over the long run.

**Business Contract** is a legally binding agreement that outlines the terms and conditions between UCLA and a single External Customer for a specific SSA for a limited time and generally produce net income.

Examples include, but are not limited to, Olympic Analytical Lab Business Contracts, educational exchange programs, training programs, workshops, and incubators.

**Central Administrative Unit (CAU)** refers to a basic campus SSA provided by a UCLA administrative or central service department to Internal Customers, Auxiliary Enterprises, and External Customers and governed by the annual budget process. All Central Administrative Fees (CAFs) and Central Administrative Recharges (CARs) are administered by CAUs. Examples include, but are not limited to, Facilities Management, Audit & Advisory Services, and Campus Human Resources.

**External Customer** refers to a user (an entity or individual) whose transactions are not processed through the University's accounting system. This includes non-profit organizations and for-profit entities and faculty, staff, and patients paying with personal funds.

**Internal Customer** refers to a user (a University department) whose transactions are processed through the University's accounting system via Recharge or other funding sources, including both sponsored and non-sponsored funding sources. Other University of California (UC) campuses are considered Internal Customers and should be charged the internal rate via intra-campus Recharge. Additionally, UCLA students are considered internal customers for the purposes of this Policy.

**Other Sales Activity** refers to an SSA established by a UCLA department that charges Internal and/or External Customers that does not fit the definition of a Service Center, Business Contract, or Central Administrative Unit. Examples include, but are not limited to, facility rentals, community service programs, publications, conferences, and seminars for the public.

**Overhead Recovery** refers to the amount that the SSA is required to charge External Customers in order to recover overhead costs that UCLA incurs. The Overhead Recovery rate for SSA is equal to the federally negotiated facilities and administrative cost rate for other sponsored activities.

**Recharge** refers to the accounting function that credits expense in one University department's fund and debits expense in another University department's fund when a service is provided to an Internal Customer.

**Technology Licensing Activities** refer to the consideration received by the Regents (e.g., UCLA Technology Development Group) pursuant to an agreement extending a license or other right or option to make, use, or sell a University invention.

**Sales and Service Activity (SSA)** refers to an approved campus business activity that provides a good and/or service to Internal and/or External Customers at a pre-established rate or negotiated terms, as applicable. Except for those activities covered under UCLA Policies 970 and 980, SSA's should be clearly distinguishable from research and reasonably considered unlikely to generate unanticipated outcomes constituting new areas of knowledge or discovery, including without limitation novel intellectual property, or require the independent intellectual contribution of University research personnel (e.g., input on the protocol or scope of work).

Categories of SSA include Service Centers, Business Contracts, Central Administrative Units that Recharge for services, and Other Sales Activities.

**Sales and Service Advisory Committee** refers to a governing board that meets on a quarterly basis and provides oversight to BFS and APB on SSA's and will also be asked to advise, on an ad hoc basis, as requested by BFS or APB.

**Service Center** refers to an SSA established by a UCLA department, whose primary purpose is to provide an SSA to multiple Internal and/or External Customers, on a reoccurring basis, and charges customers a pre-established rate for services rendered and goods delivered. Service Centers typically charge federal fund sources. Examples include, but are not limited to, laboratory services, data processing, animal care facilities, and computer services.

**Student User Fees** refers to fees charged to students for programs, services, or supplies, where students are the primary or a significant portion of the intended user group or audience or to fees charged in any program receiving permanent student services fee funds.

**UCLA Terms & Conditions for Sales & Service Agreement** refers to a legally binding agreement that documents the Sale and Service Activity between a Service Center or Other Sales Activity and an External Customer.

### III. POLICY STATEMENT

An SSA supports the University's mission and values and is required to be approved in accordance with this Policy and applicable UCLA and UC policies and governmental statutes and regulations, including but not limited to:

- Title 2 of the Code of Federal Regulations, Part 200 (Uniform Guidance), Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards;
- UC Business and Finance Bulletins (BFB A-47, A-56, A-59, A-61);
- Cost Accounting Standards (CAS); and
- UC Compendium of Conflict Of Interest and Integrity Policies.

Sales and Service Activities with a dollar amount greater than a minimum threshold set by BFS must establish an SSA operating fund. Medical Compensation Plan funds cannot operate Sales and Service Activities.

BFS maintains governance and rate approval authority for all Sales and Service Activities that charge federal funding sources, including the following categories of Sales and Service Activities:

- Service Centers. BFSs frequency of review and rate approval for each Service Center will be based upon a risk matrix that considers, (1) total operating expenses (2) charges to federally sponsored projects (3) material changes to existing rates and (4) level of existing surplus/deficit. The BFS Costing Policy / Sales & Service website <https://www.finance.ucla.edu/corporate-accounting/sales-service> will maintain this risk matrix and inform Service Centers of their required review cycle. The Service Center can contact BFS at any point requesting rate revisions on a more frequent basis.
- Business Contracts. BFS will review and approve a Business Contract, including the initial administration, amendments, and termination of the agreement. Business Contracts typically involve educational/academic programs that are also governed by other UCLA policies and require additional review and approval processes beyond UCLA Policy 340 (see UCLA Policies 970 and 980).
- Central Administrative Units (CAU). BFS will have discretionary review of a CAU if the unit charges a federal funding source. If the CAU does not charge federal funding sources, then APB holds governance and rate approval authority and will review as part of their annual budget process.
- Other Sales Activity. This activity does not fall within any of the above categories and BFS has discretionary review. A department involved with Other Sales Activities must perform a self-review of financial analysis; maintain rate adjustment support documents; and must comply with the Uniform Guidance and other federal requirements and relevant UCLA and UC policies.

During the review, rate setting, and approval process of an SSA, BFS will consult the Sales and Service Advisory Committee as needed.

Any exceptions to this Policy must be approved by the Associate Vice Chancellor / Controller.

### IV. PROCEDURES

Procedures and accounting treatment for an SSA will depend on the type of SSA, whether charges are to a single customer or multiple customers, whether charges are to Internal and/or External customers, and whether charges are to federal funding sources.

## A. Establishment and Closure of an SSA

The following outlines the procedures to establish and close an SSA:

### 1. Service Centers and Other Sales Activities

Prior to establishing a new Service Center or Other Sales Activity, the department will consider the following criteria:

#### a. Criteria

- The goods and/or services are not available on campus
- The goods and/or services do not constitute research activities except for activities covered by UCLA Policy 970 and 980
- There is a demand for goods and/or services by multiple customers
- The goods and/or services will be provided on a regular basis
- The cost of goods and/or services can be clearly identified
- Usage by customers can be reasonably measured
- Billing rates can be established that measure the cost of the goods and services provided
- Projected expenditures meet BFS minimum threshold for fund establishment (see BFS Costing Policy / Sales & Service website <https://www.finance.ucla.edu/corporate-accounting/sales-service>)
- Any potential or actual financial conflicts of interest and/or other conflicts of interest with External Customers are reviewed and managed on a case by case basis in compliance with this Policy and other applicable regulations and UC/UCLA policies

#### b. Application Submission

Once the department has determined that a proposed Service Center or Other Sales Activity satisfies the criteria above and is suitable to be established, the department is responsible for completing the required application form(s) (available on the BFS Costing Policy / Sales & Service website) and submitting the required form(s) and documentation to BFS. The application form requires approval by the appropriate Authorizing Official. The Authorizing Official has the overall financial responsibility of the Service Center and/or Other Sales Activity and must provide an appropriate fund source to cover potential deficits created by the new Service Center or Other Sales Activity. The Authorizing Official has authority to deny application requests for any reason.

#### c. Approval

Once the application form(s) and rates are approved by BFS, the necessary fund(s) will be assigned to the department to track the revenue and expense. Departments must charge all customers based on approved rates.

#### d. Closure

The Authorizing Official with overall financial responsibility of the Service Center or Other Sales Activity has the authority to close the Service Center or Other Sales Activity at any point in time. Any fund found to be in non-compliance, as determined by BFS, is subject to closure.

If the decision is made to close the activity, BFS will then perform a financial reconciliation and work with the department to complete the necessary fund closure process.

When a Service Center or Other Sales Activity fund has not had financial activity within the current fiscal year, BFS will consider it for closure and the department will be questioned about the funds continued existence.

## 2. Business Contracts

Prior to establishing a new Business Contract, the department will consider the following criteria:

a. Criteria

- The goods and/or services do not constitute research activities except for activities covered by UCLA Policy 970 and 980
- There is a demand for the goods and/or services by a single External Customer
- There is a beneficial relationship with a single External Customer for the goods and/or services
- The cost of goods and/or services can be clearly identified
- The timeline to deliver the goods and/or services can be clearly defined
- Price can be set high enough to generate a net income after costs and the Overhead Recovery (see IV. B)
- Any potential or actual financial conflicts of interest and/or other conflicts of interest with External Customers are reviewed and managed on a case by case basis in compliance with this Policy and other applicable regulations and UC/UCLA policies

b. Application Submission

For application submission for Business Contracts follow the same procedures as Service Centers and Other Sales Activities. See section IV.A.1.b.

c. Approval

Once the application form(s) and the Business Contract pricing is approved by BFS, the necessary fund(s) will be assigned to the department to track the Business Contract's revenue and expense.

Business Contracts will typically involve academic programs that are also governed by other UCLA policies and require additional review and approval processes beyond UCLA Policy 340 (see UCLA Policies 970 and 980).

d. Amendments to Business Contracts

Amendments to Business Contracts must be reviewed and approved by BFS prior to execution of the amendment.

e. Closure

Closure of a Business Contract is subject to the terms and conditions of the specific contract. When performance under the Business Contract is complete, BFS will conduct a financial reconciliation and complete the fund closure process.

## 3. Central Administrative Unit

APB governs the establishment and closure of an SSA operated by a CAU, unless the CAU charges federal funding sources. If the CAU charges federal funding sources, then the establishment and closure process will be the same process used for Service Centers and Other Sales Activities (see IV.A).

### **B. Budgeting and Rate Development**

BFS maintains governance and rate approval authority for a CAU that charges federal fund sources, Service Centers, Business Contracts, and Other Sales Activities. APB maintains governance and rate approval authority for CAUs that do not charge federal fund sources. BFS and APB will inform the Sales and Service Activities under their respective reviews of the required review cycles.

Rates must be calculated for each discrete product or service offered to customers and rates will differ depending on the category of customer. All Internal Customers must be charged the same rate for the same level of services and/or products purchased in the same circumstances. Only approved rates may be charged. Approved rates are to be published on the department's website.

The Office of Research Administration has the authority to disallow charges of approved rates on an award-by-award basis based upon specific award restrictions.

Detailed guidance on the calculation of billing rates for Service Centers, Business Contracts, and Other Sales Activities is available on the BFS Costing Policy / Sales & Service website.

## 1. Service Centers & Other Sales Activities

### a. Internal Customers

Each Service Center and Other Sales Activity is expected to calculate a Breakeven Rate for Internal Customers. A surplus from one service cannot cover the deficit from another service.

Services provided to all customers, including subsidized customers, must be tracked. If a department chooses to provide a service to Internal Customers at a subsidized rate, this cannot affect the annual Breakeven Rate calculations. The Breakeven Rate must be calculated using total units of output regardless of the rates charged to customers. The purpose of this calculation is to ensure that federal funding sources are not paying more than the cost of the service. Capital equipment purchases (with a department cost of \$5,000 or more) cannot be included in the Breakeven Rate calculation; however, equipment depreciation can be included in the Breakeven Rate calculation, with the exception of sponsored project purchased equipment (see BFS Costing Policy / Sales & Service website for equipment depreciation cost rate calculations).

According to Uniform Guidance, charges to provide for the establishment and maintenance of a 60-day working capital reserve, in addition to the full recovery of costs, are allowable. Each Service Center or Other Sales Activity must evaluate their fund balance and adjust billing rates at least every two years.

### b. External Customers

External Customers must be charged a higher rate than Internal Customers. The University does not allow subsidized rates to be charged to External Customers. In order to recover overhead costs that UCLA incurs, the rate charged to External Customers must be, at minimum, the Breakeven Rate plus the Overhead Recovery. The department may charge an additional mark-up to External Customers in order to provide services at market rates.

$$\text{External Rate} = \text{Breakeven Rate} + \text{Overhead Recovery} + \text{Mark-up}$$

The portion of the revenue from External Customers equal to the Overhead Recovery will be transferred to the respective Dean (or equivalent) for academic departments or to the Chancellor for non-academic departments. The remaining revenue generated from External Customers, including additional mark-up, will typically remain with the department, at the Chancellor's discretion.

Note: Rates for conferences are exempt from the Overhead Recovery.

## 2. Business Contracts

Budgets and rates for Business Contracts include all anticipated costs plus, at a minimum, the Overhead Recovery. The department should also charge an additional mark-up to External Customers for this activity in order to provide services at market rates.

$$\text{External Rate} = \text{Breakeven Rate} + \text{Overhead Recovery} + \text{Mark-up}$$

The portion of the revenue from External Customers equal to the Overhead Recovery will be transferred to the respective Dean (or equivalent) for academic departments or to the Chancellor for non-academic departments. The remaining net revenue on each Business Contract will be transferred to a net revenue fund owned by the department.

### **3. Central Administrative Units**

APB provides budgeting and rate development procedures for SSA operated by a CAU unless the CAU charges federal funding sources. If the CAU charges federal funding sources, then the budgeting and rate development process will be the same process used for Service Centers and Other Sales Activity (see IV.B.1).

Rates that a CAU charges to a campus department can only include allocable and allowable costs and are a component of the CAU's overall annual budget.

#### **C. Invoicing and Billing**

Departments are responsible for maintaining a billing process that records and bills its Internal and/or External Customers, at a minimum, on a monthly basis using the appropriate rates for services rendered and goods delivered. The billing process must be approved by BFS on a recurring basis. Guidance on appropriate billing systems can be found on the BFS Costing Policy / Sales & Service website. Federal funding sources are not allowed to be billed in advance of the work performed.

#### **D. Additional Considerations for External Customers**

If an SSA is providing a good and/or service to an External Customer, the department is required to complete the UCLA Terms & Conditions for Sales & Service Agreement with approval by either a Dean, a Vice Chancellor, or a Vice Provost. See the BFS Costing Policy / Sales & Service website to download the appropriate UCLA Terms & Conditions for Sales & Service Agreement template, including the instructions and restrictions of use. Modifications of any kind to the template will result in the agreement no longer being considered a sales and services agreement and misuse of the agreement template may have legal consequences. Any external agreement or proposed modifications to the UCLA Terms & Conditions for Sales & Service Agreement must be reviewed and approved by Campus Counsel. The UCLA Terms & Conditions for Sales & Service Agreement can only be signed by those individuals at UCLA having delegated authority to sign on behalf of the UC Regents.

If the Dean, Vice Chancellor, or Vice Provost, or other delegatee with signature authority is aware of any conflicts of interest between the External Customer and any University employee, they are required to report the information to the S&S Advisory Committee. The S&S Advisory Committee will review and provide instruction for the appropriate management of the conflict, as applicable.

University faculty, staff, and students are not allowed to purchase goods and/or services from an SSA on behalf of External Customers (including for-profit and not-for-profit entities). Prior to providing services to a new External Customer, the department is required to check UCLA's export control requirements (instructions are available on the BFS Costing Policy / Sales & Service website).

Charges to External Customers may be subject to Unrelated Business Income Tax (UBIT). UCLA Tax Services is responsible for UBIT determination and calculation and may require documentation from the departments that are providing services to External Customers. Departments generating UBIT liability may be required to contribute to UBIT payments.

## **V. RESPONSIBILITIES**

### **A. Campus Departments**

A campus department with an approved SSA is responsible to follow all applicable UCLA and UC policies and governmental statues and regulations, maintain day-to-day operations, and provide financial oversight of the SSA. The day-to-day operations include, but are not limited to:

- Tracking operating expenses and documenting all SSA usage by individual customers
- Generating invoices and monitoring billing/receivables
- Publishing approved billing rates on departmental website
- Updating space and equipment inventories annually, at minimum
- Retaining supporting documentation related to billing rate calculations, invoices for each customer, the billing rate charged, and signed copies of billing rate approvals
- Providing documentation requested by BFS for internal review

The department must monitor financial activities throughout the year and perform year-end review of fund balance to ensure breakeven operation or to evaluate the need to change rates. The department is responsible for submitting rate revision forms to BFS for review.

### **B. Business & Finance Solutions**

BFS is the department with primary central oversight responsibilities for most Sales and Service Activities. These responsibilities include:

- Reviewing and approving new Service Center, Business Contract, and Other Sales Activity applications
- Reviewing and approving Service Center and Other Sales Activity rate revisions
- Providing guidance to campus departments
- Performing internal reviews based on risk, to ensure Service Center operations are compliant with federal, state, and University policies

BFS has the authority to require Service Centers and Other Sales Activities to update rates based upon its determination of risk. In general, Service Center rates must be adjusted at least once every two years.

### **C. Office of Academic Planning and Budget**

APB is the department with primary central oversight responsibilities for a CAU that does not charge federal funding sources. These responsibilities include:

- Reviewing and approving CAU rate revisions
- Providing guidance to campus departments
- Performing internal reviews

APB will inform the CAU of the required review process for each budget cycle.

## **VI. REFERENCES**

1. Title 2 of the Code of Federal Regulations, Part 200 (Uniform Guidance), Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards;
2. Cost Accounting Standards (CAS);
3. UC Business and Finance Bulletins: A-47, University Direct Costing Procedures; A-56, Academic Support Unit Costing and Billing Guidelines; A-59, Costing and Working Capital for Auxiliary and Service Enterprises; A-61, Procedures for Determining Unrelated Business Income and Expenses;
4. UCLA Policy 970, Affiliation Agreements; and UCLA Policy 980, University International and Exchange Agreements.
5. UC Conflict of Interest (COI) Compendium of Conflict of Interest and Integrity Policies;

6. University of California Regulation No. 4 (APM-020);
7. NOT-OD-13-053, FAQ's for Costing of NIH-Funded Core Facilities;
8. Business & Finance Solutions (BFS) Costing Policy / Sales & Service website  
<https://www.finance.ucla.edu/corporate-accounting/sales-service>.

**Issuing Officer**

**/s/ Allison Baird-James**

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**Associate Vice Chancellor and Controller**

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**Questions concerning this Policy should be referred to  
the Responsible Department listed at the top of this document.**

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