

<p>Responsible Official (Title): Manager, Budget and Resource Planning Responsible Office: Office of Budget and Resource Planning Responsible Division: Chief Financial Officer</p>
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Chargeback Policy and Procedures

1. Policy Statement

This document establishes a system for defining and establishing chargeback operations along with developing, requesting, reviewing, and approving Chargeback Centers and their rates.

2. Authority

- 2.1. Cost Accounting Standards (CAS) Board
- 2.2. Federal Office of Management and Budget (OMB Circular A-21), Principles for Determining Costs Applicable to Grants, Contracts and Other Agreements with Educational Institutions

3. Scope/Applicability

The Chargeback Policy and Procedures apply to all units of the University providing goods or services to internal and/or external users of the goods or services using criteria established by this policy.

4. Exclusions

Negotiated agreements and/or Memorandums of Understanding (MOU) between two specific campus departments for specific ongoing services are exempt from this policy. Fees for the use of campus facilities are also not part of this policy. See the campus Policy on the Use of Buildings and Grounds for those fees.

5. Supersedes – N/A

6. Definitions

- 6.1. **Billing Rate:** The amount charged to a user for a unit of service. Billing rates are usually computed by dividing the total annual costs of the Chargeback Center by the total annual number of billing units expected to be provided users of the service.
- 6.2. **Chargeback:** Financial transaction to charge for a good or service.
- 6.3. **Chargeback Center:** An organizational unit that provides a good or service and charges for the good or service.
- 6.4. **Deficit:** The amount by which costs of providing a good or services exceed the revenue generated during a fiscal year.
- 6.5. **Direct Operating Costs:** Costs that can be specifically identified with a good or service provided by a Chargeback Center. These costs include the salaries/wages and fringe benefits of staff directly involved in providing the good or service, as well as materials and supplies, services, equipment rental or depreciation.
- 6.6. **Equipment:** An item of tangible property having a useful life exceeding one year and an acquisition cost of \$5,000 or more.

- 6.7. Fiscal Year:** The 12-month period used for accounting purposes (usually July 1 to June 30).
- 6.8. Internal User:** A chargeback customer that pays for goods or services with State funds (general fund or University Trust). Auxiliary Organizations are considered external users.
- 6.9. Overhead:** Costs that cannot be specifically identified with a good or service provided by a Chargeback Center. These are typically referred to as Indirect Costs and are not charged to internal users. Examples of these type of costs are management, and general telephone service.
- 6.10. Surplus:** The amount by which revenue generated exceeds the cost of providing the good or service during a fiscal year.
- 6.11. Unallowable Costs:** Costs that may not be charged as part of a chargeback fee (Section 7.3.1.).
- 6.12. UBIT:** Unrelated Business Income Tax.

7. Policy Procedures

7.1. Chargeback Definition:

- 7.1.1. A chargeback occurs when a furnishing campus department, called a Chargeback Center, provides a product or service to customer campus departments on a per-use basis at an established price, or at a price based on an established standard pricing method. Through the chargeback process, only those departments using the services of the Chargeback Center pay for those services.
- 7.1.2. Negotiated agreements and/or Memorandums of Understanding (MOU) between two specific campus departments for specific ongoing services are exempt from this policy. Fees for the use of campus facilities are also not part of this policy. See the campus Policy on the Use of Buildings and Grounds for those fees.
- 7.1.3. Chargeback Centers can be funded in one of two ways:
 - a) Fully Self Supporting Centers – Where the entire cost of operation of the Chargeback Center is to be recovered. Under this scenario, the Chargeback Center must recover the entire cost of its operation through the chargeback mechanism, including fees for services to external users. The Chargeback Center only charges the campus departments (internal users) for actual costs incurred.
 - b) Marginal Cost Centers – Where only a portion of the Chargeback Center cost of operation is to be recovered. These types of Chargeback Centers are funded largely with base general fund dollars, because their core functions typically benefit all users across the University. Only those services beyond the basic core level are funded via chargeback. The basic core level funding can be defined as the funding provided to carry on the necessary and essential functions of that department.

7.2. Chargeback Guiding Principles:

- 7.2.1. One of the purposes of a chargeback system is to encourage better management of budgeted resources by making those who order services responsible for controlling their costs, and those who provide services more efficient in competing with outside sources. For example, basic telephone services are better managed using a chargeback system. Another example is painting. While the University does provide painting on a scheduled basis, departments wanting to paint “off schedule” must pay for these extra services.
- 7.2.2. Special service chargebacks, such as printing and computer maintenance, can be established. The purpose of these chargebacks is to enable departments to obtain services at reasonably established rates not to exceed the cost of providing the service,

product, or commodity. The Chargeback Center must demonstrate that the chargeback rate does not exceed their cost of providing the service.

- 7.2.3. All Chargeback Centers must be approved by the Chargeback Committee (see Section 7.5) and must submit updated pricing proposals annually to the Committee for review prior to the beginning of each fiscal year. The Committee will forward their recommendations to the Cabinet for approval. The approved Chargeback Centers and their approved rates are to be published campus-wide.
- 7.2.4. Chargeback billings should be levied no later than 30 days following the month in which the service is completed. Disputes related to chargebacks should first be referred to the Chargeback Center. If not resolved the department should contact the Associate Vice President for Financial Services for mediation. Errors in billings will be adjusted as necessary.
- 7.2.5. If a Chargeback Center provides services to individuals or organizations outside the University (including Auxiliary Organizations, Exhibit A), the billing rates charged must be higher than those charged to internal users. Revenue from outside parties may have sales tax added to their rates and maybe subject to Unrelated Business Income Tax (UBIT). Questions regarding sales taxes and UBIT should be directed to Accounting Services.
- 7.2.6. Auditable financial, statistical and other records related to Chargeback Centers are the responsibility of the Chargeback Center manager and must be retained for five years from the end of the fiscal year.

7.3. Costing Principles:

- 7.3.1. It is important that chargeback rates be established in accordance with applicable costing regulations. The primary guideline for educational institution rate setting is found in OMB Circular A-21, Principles for Determining Costs Applicable to Grants, Contracts and Other Agreements with Educational Institutions, and the Cost Accounting Standards (CAS) Board. Basically these guidelines require that chargeback rates must conform to the following standards:
 - a) Consistency in estimating, accumulating and reporting costs – to ensure that the practices used in estimating costs for a chargeback rate are consistent with those used by the University to accumulate and report costs.
 - b) Consistency in allocating costs incurred for the same purpose – to ensure that each type of cost is allocated only once and on only one basis by the Chargeback Center.
 - c) Accounting for unallowable costs – to ensure unallowable costs are not included in chargeback rates. Following are some examples of unallowable costs based on the Federal Office of Management and Budget (OMB Circular A-21). The list is not all-inclusive and failure to mention a particular item of cost does not imply the cost is allowable or unallowable:
 - Alcoholic beverages
 - Cost of memberships in community organizations.
 - Unreasonable reimbursements for travel expenses; those which are outside the established travel policy of the University.
 - Bad debts or uncollectible accounts.
 - Donations or contributions.
 - Costs of entertainments, including amusement, diversion and social activities and any costs directly associated with such activities.
 - Advertising costs which are not used for recruitment of personnel.

- d) Cost accounting period – to establish time periods for cost estimating, accumulating, and reporting.
- 7.3.2. Chargebacks for goods and services must be charged directly to all users with no discrimination between federally and non-federally supported activities.

7.4. Rate Development:

The Chargeback Rate Development Worksheet is available on the Chargeback Administration website.

- 7.4.1. **Cost Identification** – Actual costs for the good and service provided should be documented. Often it will be necessary to estimate activity and costs and the basis for such estimates should be clearly identified.
- 7.4.2. **Variable Billing Rates** – All internal users must be charged the same rate for goods and services provided. Rates for services to external users must be higher than those charged to internal users (see Section 7.2.5.). It is recommended that external users be charged at least the internal user rate plus a 10% overhead. Alternate pricing structures, based on time of day, volume discounts, turn-around time, market rates, etc., are acceptable provided that they have a sound basis, and do not discriminate among users. Alternate pricing structures should be documented and should be published so users are able to consider the least costly means to obtain a good or service.
- 7.4.3. **Cost Allocation**
 - 7.4.3.1. There are generally three categories of direct costs that need to be allocated:
 - a) salaries of staff providing the goods or services (benefits should be included in the allocation only if the service is being provided from a University Trust account
 - b) supplies and materials associated with the good or services and
 - c) depreciation associated with equipment used in the process
 - 7.4.3.2. In addition to the direct costs associated with providing the good or service significant deficit or surplus accumulations will be considered when setting future billing rates.
 - 7.4.3.3. Where a Chargeback Center provides multiple services and uses separate billing rates, the costs related to each service must be separately identified using a cost allocation process. When cost allocations are necessary, they should be made on an equitable basis that reflects the relative costs associated with providing the good or service. For example, if an individual is involved with multiple services, an equitable distribution of his or her salary among the various services would be accomplished by assigning the proportional amount of time the individual spends on each service. Other costing techniques such as the proportional amount of direct costs associated with each service may also be applied. Questions concerning appropriate cost allocation procedures should be directed to the Office of Budget & Resource Planning.
- 7.4.4. **Equipment Costs Included in Billing Rates** – The cost of the equipment that will be used to provide the good or service could be recovered through assignment of a depreciation rate over its estimated life. The established rates will provide the Chargeback Center with funds to replace the equipment in the future. Equipment purchased either wholly or partially through federally funded sponsored programs may not be included in billing

rates. No depreciation is allowed on assets that have outlived their depreciable life (recovery period). The Office of Budget & Resource Planning can assist the Chargeback Centers in the computation of the depreciation rate if needed.

- 7.4.5. **Inventory for Products Held for Sale** – If a Chargeback Center sells products from an inventory or maintains an inventory of parts and supplies used in providing its services and the amount of stock on hand is significant, inventory records must be maintained. Although first-in first-out is the most common inventory method valuations may be based on other methods (e.g., last-in first-out, or average cost, etc.). Once the inventory method has been chosen, the valuation method should not be changed.
- a) A physical inventory at cost must be taken at least annually at the end of the fiscal year and be reconciled to the inventory records. The inventory must be reported to Accounting Services during the closing of the books process.

7.5. Chargeback Committee:

- 7.5.1. A Chargeback Committee (the Committee) shall be established to review chargeback requests, perform annual chargeback rate reviews and make recommendations to the Cabinet on all chargeback issues. The Committee shall consist of the following individuals:
 - a) Associate Vice President for Financial Services
 - b) Vice President for Student Affairs designee
 - c) Vice President for University Advancement designee
 - d) Provost designee
 - e) Chairman of the Senate Budget Committee or designee
- 7.5.2. The University Controller and the Budget & Resource Planning Manager will provide support for the Committee.
- 7.5.3. Chargeback Centers should provide adequate lead-time for the Committee to complete its work and present a recommendation to the Cabinet.

7.6. Chargeback Request/Approval Procedure

- 7.6.1. The following process should be utilized in the initiation of or modification to an existing chargeback:
 - a) All areas requesting to establish a chargeback or modify the rates charged by an existing chargeback must complete the Request to Establish New or Modify Existing Chargeback form (see Exhibit B) and obtain approval from the Vice President, or designee, from the division within which the request originated.
 - b) All requests to establish a chargeback or modify an existing chargeback will be forwarded initially to the Office of Budget & Resource Planning for review, appropriate analysis and conformity with the criteria outlined in this policy. The Chargeback Center will be allowed to present their rate schedule documentation (including rate methodology) to the Office of Budget & Resource Planning and/or the Committee as needed. It is strongly recommended that Chargeback Centers provide their annual pricing revisions in sufficient time so that the campus units can properly budget for any change in the rates. The Office of Budget & Resource Planning shall present the request and their analysis to the Committee for their consideration.
- 7.6.2. If the Cabinet does not approve the request, then it shall be returned to the requesting area with a brief explanation regarding the decision.
- 7.6.3. All newly approved chargebacks shall be published campus wide.

8. Related Policies, Procedures, Information, Forms

- 8.1. Chargeback Rate Development Worksheet (Chargeback Administration website)
- 8.2. Chargeback Account Centers (Chargeback Administration website)
- 8.3. Exhibit A: Listing of California State University, Fresno Recognized Auxiliary Organizations
- 8.4. Exhibit B: Request to Establish New or Modify Existing Chargeback

9. Contact Information

If you have any questions, please contact the Manager of the Office of Budget and Resource Planning at 559.278.3902.

Questions regarding sales taxes and UBIT should be directed to Accounting Services at 559.278.5476.

10. Key Search Words

Chargeback, policy, overhead, UBIT

11. History/Revision Dates:

Approved:	May 1995
Revised:	June 21, 2007
Revised:	April 5, 2013
Reformatted:	March 25, 2015
Minor Edits:	December 15, 2015

12. Next Evaluation Date: December 15, 2020

The official version of this information is maintained only on the University Policies & Procedures Website. Please make certain to review the material on the Website before placing reliance on any printed version or any other online source.

Exhibit A: Listing of California State University, Fresno Recognized Auxiliary Organizations

The Agricultural Foundation of California State University, Fresno

2771 East Shaw Avenue
Fresno, California 93710-8205
559.278.0800

California State University, Fresno Athletic Corporation

Fresno, California 93740
Joyal Administration Building
559.278.2541

Associated Students, Inc. of California State University, Fresno

University Student Union, Room 316
5280 N. Jackson Ave. M/S SU32
Fresno, CA 93740-8023

California State University, Fresno Association, Inc.

2771 East Shaw Avenue
Fresno, California 93710-8205
559.278.0800

California State University, Fresno Foundation

2771 East Shaw Avenue
Fresno, California 93710-8205
559.278.0800

Fresno State Programs for Children, Inc.

California State University, Fresno Auxiliary Corporations
2771 E. Shaw Avenue
Fresno, California 93710-8205
559.278.0808

Exhibit B: Request to Establish New or Modify Existing Chargeback:

This form is to be used for the establishment or revision of a chargeback

Chargeback Center: _____

Chargeback Manager: _____

Responsible Department: _____

Contact Name: _____ Phone: _____ E-mail: _____

Description of services or products that will be provided:

What rates do external providers charge for similar types of service?

Estimated Annual Revenue: \$ _____

Who are the expected users of this good or service? _____

Is the Chargeback Center subsidized? _____ Yes _____ No

If subsidized, which charges will not be fully passed along to users (e.g., personnel, supplies, equipment, etc.)?

<u>Item</u>	<u>Amount</u>	<u>Subsidizing Organization</u>
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APPROVALS:

Chargeback Center Manager: _____ Date: _____

Dean/Department Head: _____ Date: _____

Vice President or designee: _____ Date: _____