Regulation Summary

State law authorizes the Board of Regents (board) of The Texas A&M University System (system) to establish service departments or centers for the purpose of supplying goods or services to internal users (departments and/or members). This regulation provides operational guidelines for service departments to promote accounting practices as well as compliance with state and federal laws.

Definitions

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Regulation

1. GENERAL

1.1 Service departments are units within a member that provide goods or services at approved rates to departments within that member and to other members. Services may be provided incidentally to external or individual users (faculty/staff, students, non-member users). The term service departments will be used to collectively refer to the four types of service departments defined below.

(a) Department Recharge Centers normally operate within an academic division at an institution, providing goods or services internally within their own departments.

(b) Member-wide Service Departments are operated by the member providing goods or services internally and to other members.

(c) Specialized Service Facilities are defined in OMB Circular A-21 as highly complex or specialized facilities to provide specific, unique services to specific users.

(d) Other service departments are used to allocate member benefit costs to departments in order to collect funds to pay for claims. This type of service department is created to eliminate internal revenues/expenses only. When payroll
is calculated, a percentage of the benefit expense is charged to the department accounts and revenue is posted in the service department. When claims occur, the claims are paid from the service department. Members should have service departments for at least two benefits.

(1) Unemployment compensation insurance (UCI).

(2) Lump sum vacation reserves – an estimate is recorded with each payroll to charge an expense to the department accounts and record revenue in the service department account. When employees are paid their lump-sum vacation, the payment should be recorded out of the service department.

These two types of service departments need to analyze the rates that are being charged to the departments to pay the claims. Rates should be analyzed annually, but a rate study is not required.

There are also worker’s compensation insurance rates that are established by the System Office of Risk Management based upon past claims.

1.2 Auxiliary enterprises are not subject to this regulation.

2. RESPONSIBILITIES OF MEMBERS FOR SERVICE DEPARTMENT OPERATIONS

2.1 Each member is responsible for developing guidelines for establishing user rates, maintaining proper documentation of rate calculations and periodically reviewing operations for compliance with member-defined guidelines.

2.2 Each member chief financial officer (CFO) or designee is responsible for creating a process to review billing rates; approving transfers of funds out of service departments; and recommending to the chief executive officer (CEO) the closing of unnecessary service departments.

3. UTILIZATION OF SERVICE DEPARTMENTS

Service departments are established in order to obtain efficiency and economy of operations through purchasing frequently used items in large quantities, eliminating duplication of effort in the acquisition of goods and services from suppliers, making it more convenient for user departments to obtain goods and services, and specialization of skills.

4. USING STATE FUNDS (Held in the State Treasury) FOR SERVICE DEPARTMENT ACTIVITIES

4.1 Members are allowed to purchase goods and services from an on-campus service department if the member pays for the goods and services with state funds held in the State Treasury; however, the member must set up the service department on the Texas Identification Number System (TINS) of the Comptroller’s Office with a unique mail code.

4.2 If the service department is funded with state funds in the State Treasury, the rate may only be based on expenses paid with local funds.
5. PRICING OF GOODS AND SERVICES

5.1 Billing rates should be computed at least annually. Per federal guidelines, rates must be analyzed bi-annually. Historical trends and projected costs should be used in projecting future activity of the service department. Prior and current financial data for the service department should be an integral part of the rate calculation and documentation.

5.2 Actual costs and revenues should be compared at least annually. (Revenues should not include subsidies.) Deficits or surpluses should be carried forward as an adjustment to the billing rates of the following year or the next succeeding year. Where feasible and cost effective, the adjustments may be made by increasing or decreasing the actual charges to users for the completed year rather than through the “carry-forward” adjustment process.

5.3 Rates and charges for the sale of services must be set to recover the full costs of providing such services without exceeding actual costs each year. Service departments should operate on a break-even basis using allowable costs for the year. In some instances (e.g., when a new service is being provided), it may not be possible to establish billing rates to break even on an annual basis. In those cases, the break-even objective may be established for a longer term, such as two or three years. An appropriate reserve of operating costs (no more than 90 days) is acceptable and will not be considered a surplus. Under no circumstances will the rates charged to federal users be used to subsidize rates billed to private users.

5.4 Per federal rules, the rates for specialized service facilities can include a portion of the facilities and administration. If a member agrees to charge a rate with the facilities and administration portion, each member should establish guidelines.

6. COST ALLOCATION

6.1 When cost allocations are necessary, they should be made on an equitable basis that reflects the relative benefits each activity receives from the cost.

6.2 Where separate billing rates are used for different services provided by a service department, the costs related to each service must be separately identifiable. Cost allocations are required where a cost partially relates to the operations of a service department and partially to other activities of a department.

7. SERVICE DEPARTMENTS THAT PROVIDE MULTIPLE SERVICES

Where a service department provides different types of services to users, separate billing rates should be established for each service that represents a significant activity or function of the service department. The costs, revenues, surpluses and deficits should also be separately identified for each service. The surplus or deficit related to each service should be carried forward as an adjustment to the billing rate for that service in the following year or next succeeding year. Invoices to the end user may be based on multiple factors, but presented to the end user as one rate.
8. VARIABLE BILLING RATES

All system users should normally be charged the same rates for a service department’s services, but it is possible to have published rates that do vary. The federal government must always be charged the lowest rate except when alternate pricing structures are in place as discussed below. If some users are not charged for the services or are charged at reduced rates, the full amount of revenue related to their use of the services must be imputed in computing the service department’s annual surplus or deficit. This is necessary to avoid having some users pay higher rates to make up for the reduced rates charged to other users. This requirement does not apply to alternative pricing structures related to the timeliness or quality of services. Pricing structures based on time-of-day, volume discounts, turn-around time, etc. are acceptable, provided that they have a sound management basis and do not result in recovering more than the costs of providing the services.

9. CAPITAL EQUIPMENT PURCHASES

Capital expenses for equipment purchases should not normally be included in the costs used to establish service department billing rates. However, the rate can include depreciation of non-federally purchased equipment. By including equipment depreciation in the billing rates, the service department will build a reserve to purchase equipment in the future when the equipment needs to be replaced. The funds represented by depreciation should be set aside in the service department or used to establish an equipment replacement reserve account for future equipment purchases. If the reserved amount is not sufficient to cover the cost of the new equipment, non-service department funds may be used to purchase the equipment with appropriate approvals.

10. INVENTORY RECORDS FOR PRODUCTS HELD FOR SALE

Inventory records must be maintained for consumable supplies and materials which exceed the dollar value that must be reported at fiscal year-end. This expense should not be included in the rate calculation in the year purchased; it should be included in the year in which it is used.

11. SERVICES PROVIDED TO OUTSIDE PARTIES (Excluding Specialized Service Facilities)

11.1 The service department’s primary users should be internal member departments, except for specialized service facilities. Use by private organizations should be secondary or incidental to the operation of the service department. Service departments should not compete with established community businesses for private customers or users. When services are provided to private organizations, the billing rates may be higher than for internal users.

11.2 Sales of goods and services to individuals or non-system organizations and entities should be reviewed for federal income tax and sales tax considerations (i.e., unrelated business income tax).
11.3 The revenue from services provided to outside parties will be recognized on the financial statements as revenue. It is not appropriate to eliminate revenue from an outside entity.

12. SUBSIDIZED SERVICE DEPARTMENTS

With approval by a CFO or designee, a school or department within a member may elect to subsidize the operations of a service department. This may be accomplished either by charging billing rates that are intended to be lower than costs or by not making adjustments to future rates for a service department’s deficits. Service department deficits caused by intentional subsidies cannot be carried forward as adjustments to future billing rates. Subsidies should be documented and provided only when there is a sound programmatic purpose.

13. ACCOUNTING AND RECORD RETENTION

Each service department is required to keep proper documentation (e.g., work papers) regarding the calculation of the billing rate and records that identify the services provided to each class of users. Accounting records should be maintained to account for the actual direct operating costs of the service department, overhead costs, revenues, billings, collections and surpluses or deficits.

14. OPERATING TRANSFERS OF FUNDS OUT OF SERVICE DEPARTMENTS

Operating transfers of funds out of a service department account should not normally be made for non-service department-related purposes; instead, the rates should be adjusted to reflect these excess funds. Transfers to a renewals & replacement fund group are appropriate to collect funds to purchase equipment for the service department. Exceptions should be approved by the member CFO or designee. Justification should be provided to transfer out of a service department account. If a transfer involves funds that have accumulated in the service department account because of prior or current year surpluses, an adjustment to user charges to compensate for the surplus may be necessary.

15. CREATION, CONSOLIDATION OR SEPARATION OF SERVICE DEPARTMENTS

15.1 New service departments must be approved by the chancellor. Each member must have a designated officer who has the responsibility to review all requests for the creation, consolidation or separation of service departments within its member. That individual reviews proposals for their impact on the system, its members and the citizens of Texas.

15.2 Requests for approval of the creation, consolidation or separation of a service department are submitted to the designated officer and should contain the following:

(a) a description of the services to be provided and the users of the services;
(b) an analysis showing that the request is feasible and appropriate;
(c) the reasons why the services can best be provided by an internal service department rather than by an external service provider;
(d) expected benefits/potential problems for the member;
(e) a projection of the costs and utilization of the services; and
(f) a billing rate calculation and, where possible, a comparison of the internal rates with the rates charged by external service providers.

15.3 After reviewing a request, the CEO or designee will indicate approval and submit recommendations to the chancellor. The chancellor will annually report to the board a comprehensive listing of all such approved service departments.

16. CONTINUED AUTHORIZATION OF SERVICE DEPARTMENTS

Service departments which may be operated by each member during ensuing fiscal years are authorized by the board as part of the annual budget approval process.

17. CLOSING OF SERVICE DEPARTMENTS

If, at any time, it appears that the goods and services of a specific service department are no longer needed (i.e., a service department is inefficient or too costly), the member CEO or designee may eliminate the service department. If an eliminated service department has any remaining fund balances, the member CFO or designee will determine where to allocate the funds. If surplus funds are related to overcharging, the service department should return funds to users if practical.

Related Statutes, Policies, or Requirements

Office of Management and Budget, 2 CFR, Part 220, OMB A-21
Texas Comptroller’s Office Purchase Policies, Expend It for Service Departments
Texas Comptroller’s Office, Accounting Policy 001, Sources of Revenue Required to Pay Benefit Cost
Disclosure Statement (DS-2) for The Texas A&M University System
The SPA Process User’s Guide (December 6, 2018)

Member Rule Requirements

A rule is not required to supplement this regulation.

Contact Office