

Guidelines for External Billing by Recharge Units (various sponsor activity)

1. What is a recharge unit?

- A recharge unit charges for goods or services provided to other internal university units, based on recharge rates that have been approved by Financial Analysis

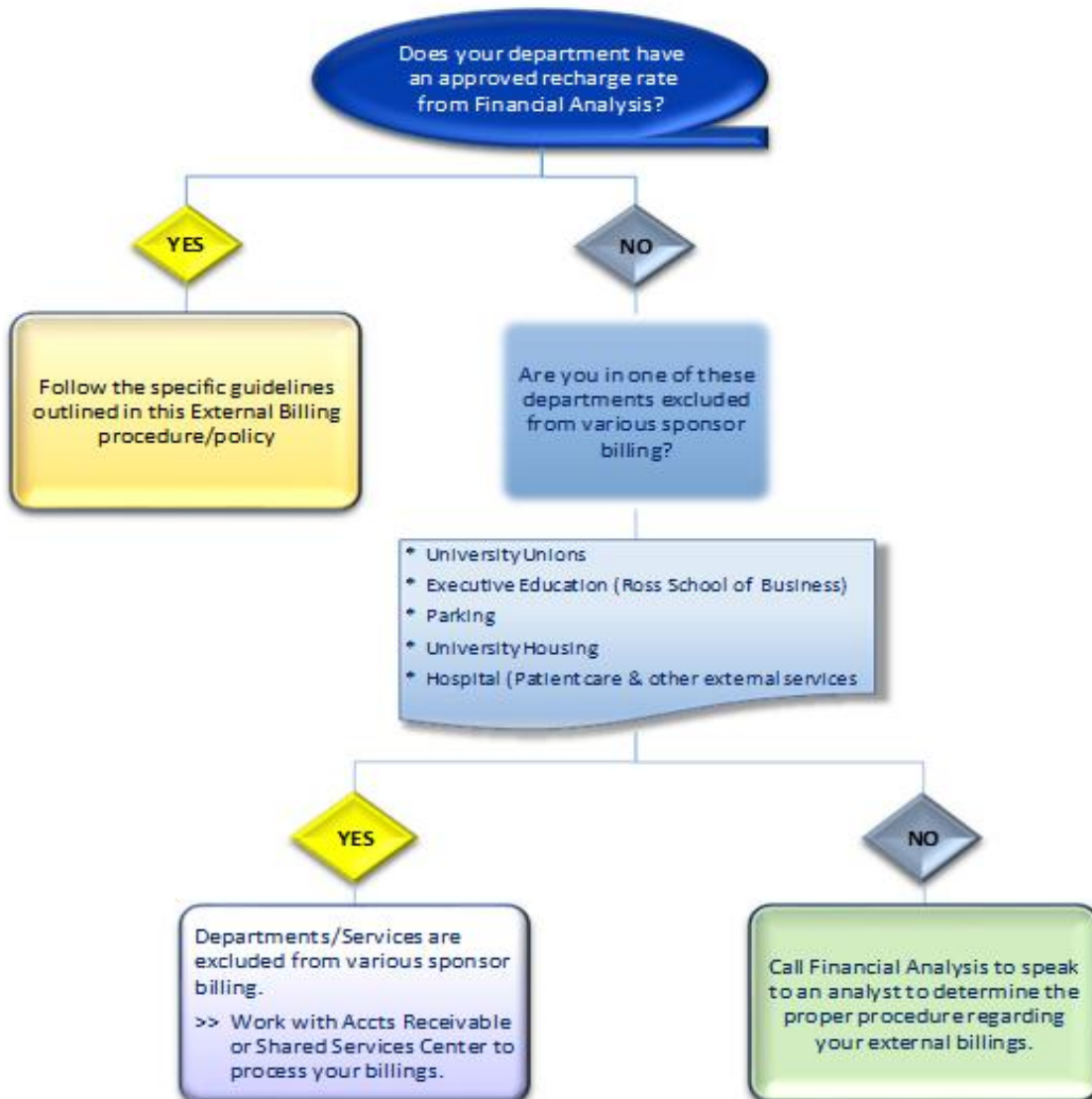
2. What is an external billing by a recharge unit?

- A charge for goods or services provided to an entity outside of the university based on an internal rate approved by Financial Analysis plus the other sponsored activity indirect cost rate (currently at 29%). If your unit does not already have a recharge established, contact Financial Analysis to determine if you need to establish a recharge.

3. What funds are used?

- Auxiliary Fund (52000)—Recharge activity related to internal customers
- Sponsored Fund (25000)—Various sponsor project grant issued through the ORSP when service is provided to an external sponsor
- Designated Fund (40000)—Surplus revenue related to external customers

This flowchart will assist units in determining the proper method to process external billings.



The initiation of the process

1. Recharge/service unit responsibilities
 - Submit recharge rate requests to Financial Analysis at recharge@umich.edu
 - Contact Patrick Woods in the Office of Research and Sponsored Programs (ORSP) when external services are requested to determine if a various sponsor project grant is required
 - Process a [Proposal Approval Form \(PAF\)](#) to ORSP through eResearch Proposal Management (eRPM) for the estimated annual revenue. PAFs must include a copy of the approved recharge rate
2. Financial Analysis reviews and approves recharge rate request for compliance, procedures can be found at <http://www.finance.umich.edu/analysis/recharge-rates/procedure>
3. Accounting Customer Services at the Shared Services Center (SSC) responsibilities
 - Establish recharge and necessary chartfields
 - Request supplier identification (i.e. supplier ID)
 - [Provide Service Unit Billing \(SUB\) training](#)
4. ORSP prepares a Project Award Notice (PAN) or Project Award Change (PAC) as appropriate for the full amount of the proposal. Contact Patrick Woods in ORSP.
5. Sponsored Programs establishes various sponsor project grants and short codes
6. Tax Department determines if external activity causes an unrelated business income tax (UBIT) liability

Billing for External Services

1. Recharge/service unit responsibilities

- Obtain written confirmation from external customer(s) requesting service and guaranteeing payment, prior to performing the service
- Note: If external rates are published, published rates, at a minimum, must equal the amount on the rate approval letter from Financial Analysis plus indirect cost of 29 percent
- Process service unit billings (SUB) at the recharge rate to charge expenses to the sponsored project grant. Indirect costs will automatically hit the sponsored project when the monthly allocation runs at month end.
- Submit customer information to SSC Accounts Receivable
 - For customer upload information, visit [here](#) and click on Various Sponsor Customer Upload Template
 - Complete the template and email it to variousbilling@umich.edu
 - Reference your various sponsor project grant number and the words **Various Sponsor Customer** in the subject line of the email
- Bill customers monthly by submitting customer upload and billing information to Accounts Receivable at the SSC
 - For billing upload templates, visit <http://ssc.umich.edu/forms/> and click on Various Sponsor Invoice Upload Template
 - Complete the template and email it to variousbilling@umich.edu
 - Reference your various sponsor project grant number and the words **Various Sponsor Billing** in the subject line of your email
 - If you receive or plan to receive cash or checks directly in your unit, you must work with the Treasurer's Office to establish a deposit location.

2. SSC Accounts Receivable responsibilities

- Receive invoice information from service units and send invoices to external customers
- Handle collections and book revenue to the various sponsor project grant
 - Email arcollections@umich.edu if you have any questions on collections. Please reference your various sponsor project grant number and specific customer number or invoice number, if available, in the subject line.

Accounting for External Service (reconciling Various Sponsor P/G)

1. Recharge/service unit responsibilities:

- Revenue greater than the recharge rate + 29% indirect cost is a surplus
 - If this occurs, process journal entries to move the surplus in the sponsored project grant to the designated fund
 - Note: It is recommended that this journal entry is processed at the time of invoice to clear the sponsored project grant each month
- Review balances of various sponsor project grants annually and move balances to designated fund
- Work with the Tax Department to pay any unrelated business income tax annually

Maintaining the recharge

1. Recharge/service unit responsibilities

- Review activity results at least annually (monthly recommended) and request rate revisions as required
- Submit rate renewals one month prior to expiration date on approval letter
- Accumulate all costs related to delivering the service on the auxiliary fund. This will include payroll and other costs as outlined on recharge documentation.
- Maintain records documenting the recharge activity, including revenue, expense, and unit volume

2. Financial Analysis responsibilities

- Review and approve recharge rates at a minimum of every two years
- Maintain and document rate procedures and guidelines
- Issue rate terminations when services have ended
- Initiate non-compliance procedures if necessary
- Procedures can be at <http://www.finance.umich.edu/analysis/recharge-rates/procedure>

Frequently Asked Questions

The rate increased after the service was performed. Which rate do I charge my customer?

Charge the rate that was approved at the time of the service.

How do I know if I have to set up a various sponsor project grant?

Contact Patrick Woods in ORSP

How do I know if I have to pay unrelated business income tax?

Email the Tax Department

How much can I charge an external user before I have to pay tax on that income?

Email the Tax Department

Do I have to charge the external customer indirect cost?

Yes, if instructed by ORSP that a various sponsor project grant is needed.

What is an external customer?

An entity outside the university, such as Ford or Pfizer. This does not include Sponsored Projects, other than various sponsor project grants.

Do I have to charge everyone the same?

Internal customers must all be charged the same rates. External customers do not have to be charged the same rates.

How do I submit an invoice for an external customer?

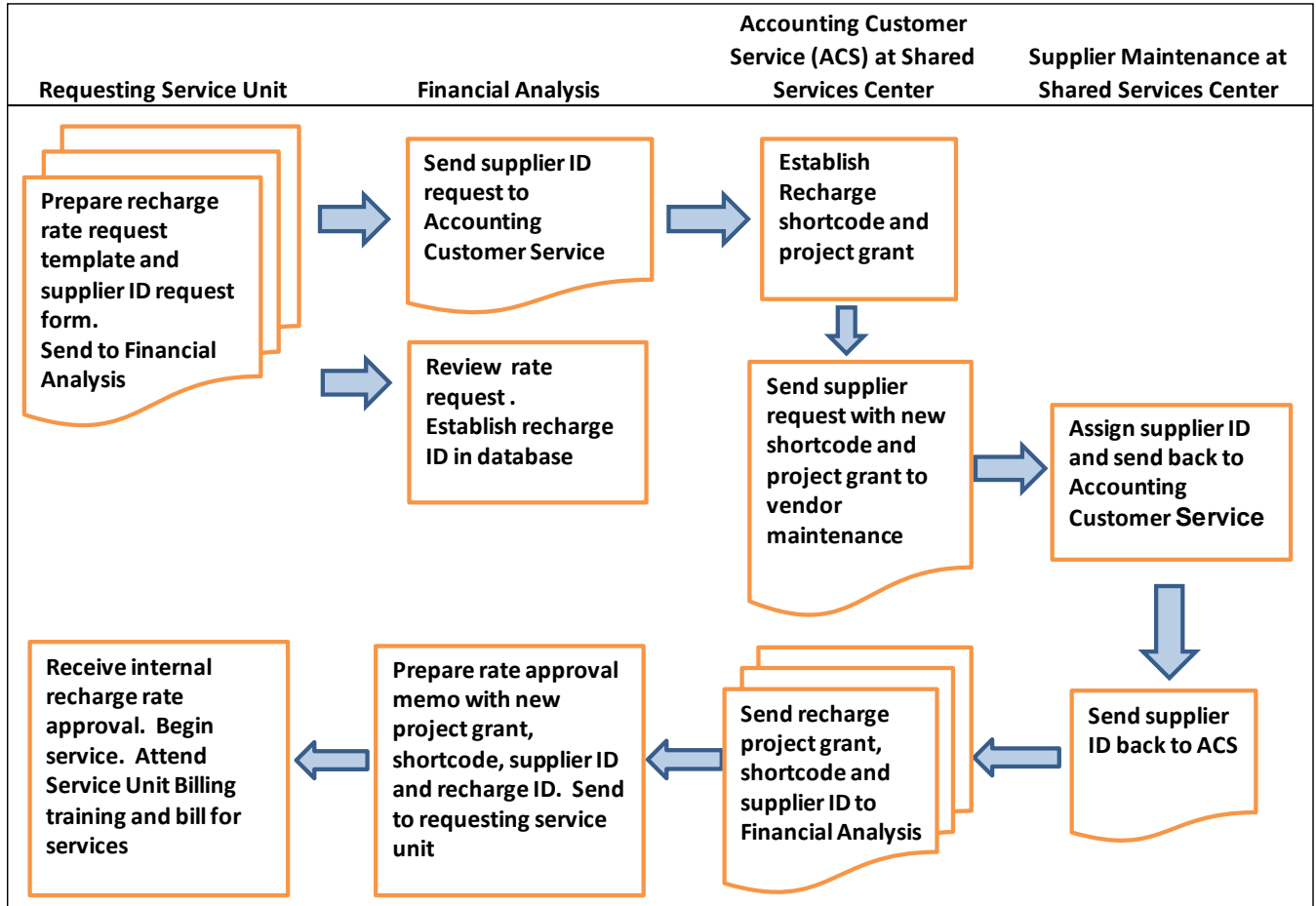
Customers should be billed monthly by submitting customer upload and billing information to Accounts Receivable at the SSC. Visit the [SSC website](#) for the most updated information and forms.

E-mail Contact Information:

- Financial Analysis recharge@umich.edu
- Patrick Woods pajwoods@umich.edu
- Sponsored Programs sponsoredprograms@umich.edu
- Tax Department taxreporting@umich.edu
- Treasurer's Office treasury@umich.edu

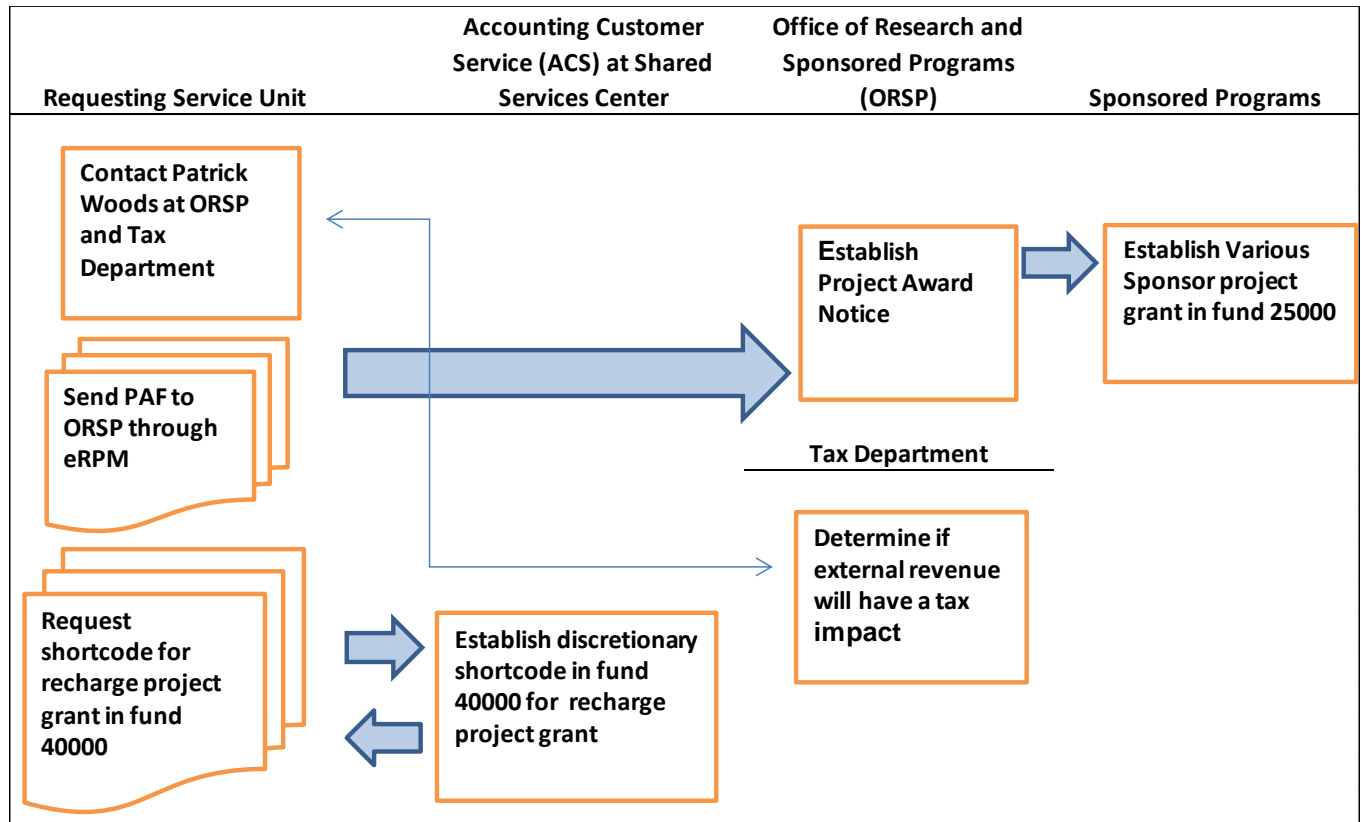
Flow Charts and Examples

Establishing an Internal Rate



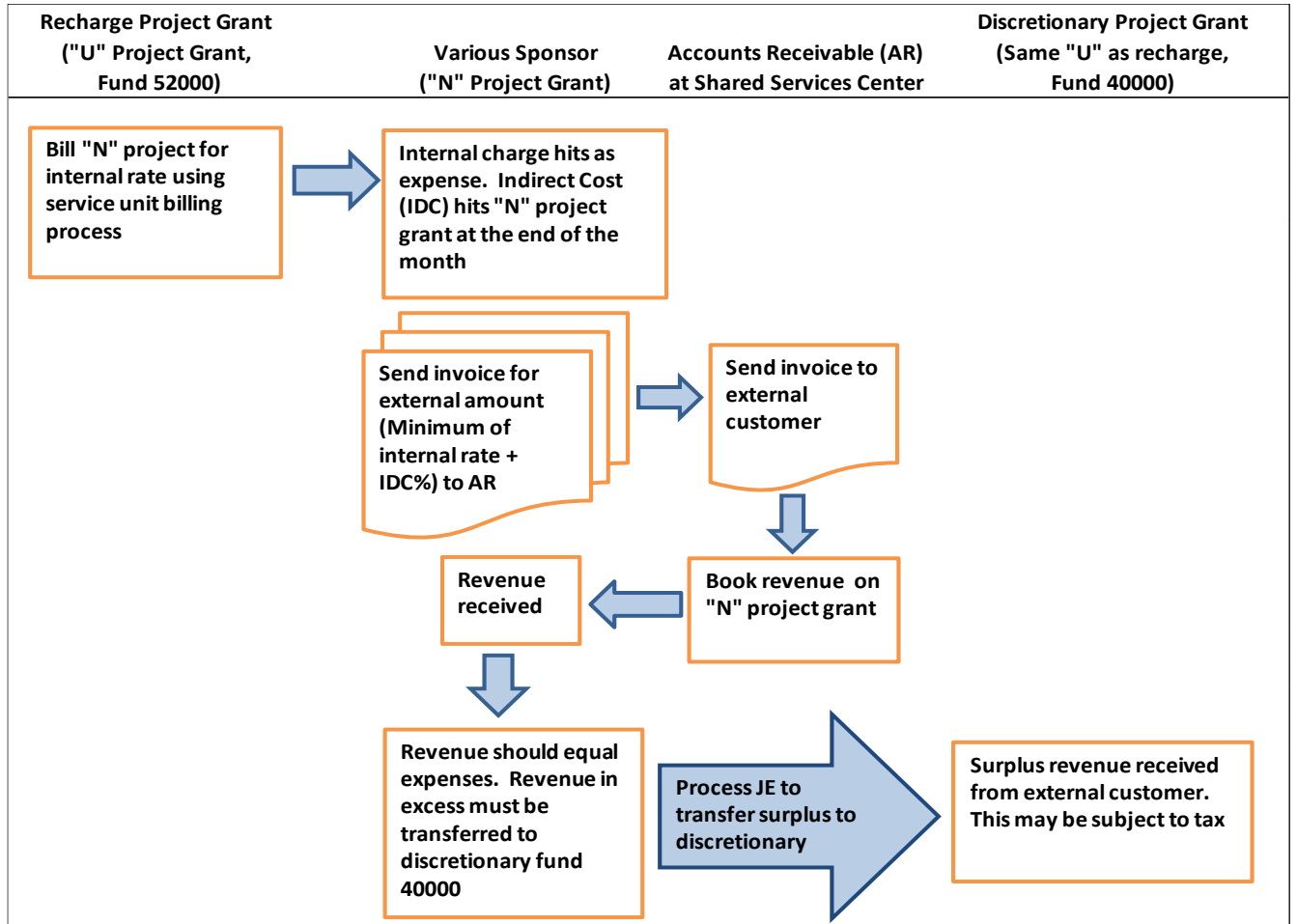
1. Contact Financial Analysis to establish internal recharge rate
 - Submit a [Recharge Rate Request Template](#)
 - Submit [Request for New Recharge Supplier Form](#)
 - Financial Analysis will work with the SSC to establish a recharge shortcode and/or project grant in fund 52000
 - Establish a discretionary shortcode and/or project grant in fund 40000

Establishing an External Rate



1. Upon receipt of approved internal recharge rates contact Patrick Woods in ORSP
 - Submit the [Proposal Approval Form \(PAF\)](#) through eRPM
 - Submit copy of internal recharge rate approval memo
 - Establish various sponsor project grant in fund 25000
2. Contact Tax Department
 - Review service, cost, internal rate + indirect cost
 - Discuss rates charged in excess of internal rate + indirect cost
3. Set external rate
 - Must be at least internal rate + indirect cost
 - If external rate is higher than internal + indirect cost, then that is a surplus

Billing for an External Service



1. Process SUB to charge expense of internal rate to various sponsor project grant and to credit recharge revenue to recharge shortcode
2. Prepare invoice for various sponsor at external rate
3. Send invoice to SSC Accounts Receivable
4. Revenue will hit various sponsor project grant
5. Transfer any surplus from various sponsor to designated fund project grant
6. Prepare appropriate forms to pay unrelated business income tax to the Tax Department, *if necessary* – *confirm with the Tax Department*

Example 1

A. External rate equals internal rate + indirect cost at 29% (current Other Sponsored Activity Indirect Cost Rate)

1. Chartfields

- Recharge project grant: U023456, Fund 52000
- Various Sponsor project grant: N032123, Fund 25000
- Discretionary project grant: U023456, Fund 40000
- Internal rate: \$100
- External rate: \$129 (\$100 + 29%)

2. Process SUB to charge \$100 to N032123 (this credits U023456, fund 52000 \$100)

3. Prepare invoice for \$129 and send to Accounts Receivable

• N032123 SOA

- Revenue = \$129
- Expense = \$100
- Indirect Cost = \$ 29
- Balance = \$ 0 (No JE necessary)

Recharge 52000		Various Sponsor 25000	
Expense	Revenue	Expense	Revenue
	\$100 (Account 410XXX)	\$100 (Account 616070)	
		\$ 29 (Account 625170)	\$129 (Account 406025)

Example 2

B. External rate is greater than internal rate plus indirect cost at 29%

1. Chartfields

- Recharge project grant: U023456, Fund 52000
- Various Sponsor project grant: N032123, Fund 25000
- Discretionary project grant: U023456, Fund 40000
- Internal rate: \$100
- External rate: \$150 (\$100 + 29% + \$21)

2. Process SUB to charge \$100 to N032123 (this credits U023456, fund 52000 \$100)

3. Prepare invoice for \$150 and send to Accounts Receivable

- N032123 SOA

- Revenue = \$150
- Expense = \$100
- Indirect Cost = \$ 29
- Balance = \$ 21

4. Process JE to transfer \$21 from N032123 to U023456, fund 40000

- Debit N032123 \$21 and Credit U023456, fund 40000 (\$21)

5. Prepare tax forms and pay any necessary tax to the Tax Department

	Recharge 52000		Various Sponsor 25000		Discretionary 40000	
Expense	Revenue	Expense	Revenue	Expense	Revenue	
	\$100 (Account 410XXX)	\$100 (Account 616070)				
		\$ 29 (Account 625170)	\$150 (Account 406025)			
		\$ 21 (Account 624430)			\$21 (Account 624805)	

Appendix:

Example 1 – External Activity on Various Sponsor P/G **WITH NO** surplus revenue

In this example, a unit is billing external entities **ONLY** the internal rate + indirect cost

1. Recharge unit processes Service Unit Billing (SUB) upload to the various sponsor P/G in order to properly record expenses to be billed to external customer. This is a sample of the SUB transaction.

	Account	Fund	DeptID	Program	Class	P/G	Amount	Voucher Ref
DR	616070	25000	123456	10000	31000	N032123	100.00	Inv.#102343
CR	410XXX	52000	123456	RCHRG	92320	U055555	(100.00)	Recharge revenue

As part of the month end close process, the Indirect Cost Allocation will post (assume for this example the IDC rate is 29%). This is a sample of the transaction that would hit the Statement of Account on the various sponsor Chartfield.

	Account	Fund	DeptID	Program	Class	P/G	Amount	JE Ref
DR	625170	25000	123456	10000	31000	N032123	29.00	IDC-BASIS 50, RATE 29.00%

2. Once the current month's activity is officially closed, departments should review their activity in the various sponsor P/G to determine if surplus external revenue exists. If no surplus external revenue exists, no additional steps are needed.
 - If surplus external revenue exists (above the approved internal recharge rate), then a JE must be processed (see next example).

Example 2 – External Activity on Various Sponsor P/G WITH surplus revenue

In this example, a unit is billing external entities the internal rate + indirect cost + margin/surplus

1. Recharge unit processes Service Unit Billing (SUB) upload to the various sponsor P/G in order to properly record expenses to be billed to external customer. This is a sample of the SUB transaction.

	Account	Fund	DeptID	Program	Class	P/G	Amount	Voucher Ref
DR	616070	25000	123456	10000	31000	N032123	100.00	Inv.#102343
CR	410XXX	52000	123456	RCHRG	92320	U055555	(100.00)	Recharge revenue

2. As part of the month end close process the Indirect Cost Allocation will post (assume for this example the IDC rate is 29%). This is a sample of the transaction that would hit the Statement of Account on the various sponsor Chartfield.

	Account	Fund	DeptID	Program	Class	P/G	Amount	JE Ref
DR	625170	25000	123456	10000	31000	N032123	29.00	IDC-BASIS 50, RATE 29.00%

3. Once the current month's activity is officially closed, the department reviews their activity in the various sponsor P/G to determine the external surplus revenue. If surplus external revenue does exist, a JE will need to be processed to move this surplus external revenue to the department's designated fund. This is a sample of that journal entry.

	Account	Fund	DeptID	Program	Class	P/G	Amount	JE Ref
DR	624430	25000	123456	10000	31000	N032123	25.00	TRF surplus external revenue/s 12/17
CR	624805	40000	234567	DISCR	31000	U012345	(25.00)	TRF surplus external revenue/s 12/17