

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

When to use this document

Use this document when the following circumstances are true:

- The unit has established a recharge rate to provide the good or service to internal University of Michigan (U-M) customers.
- The unit wishes to provide the same goods or services to external customers.

When providing goods or services to **external customers only** -

Please [contact Enterprise Financial Planning & Analysis](#)

1. What is an internal recharge unit?

An internal recharge unit provides a good or service to another U-M department. The recharge rate is comprised of direct costs incurred to provide the good or service, with the intention for the activity to break even. Units should consistently apply recharge rates to internal customers.

For more information on recharge rates, see the [Enterprise Financial Planning & Analysis website](#).

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

External billing occurs when a unit wishes to provide goods or services to external customers and is currently providing those goods or services to U-M customers under an existing internal recharge rate.

3. What price should a recharge unit charge external customers?

At a minimum, the selling price should equal the approved internal recharge rate plus the Other Sponsored Activity indirect cost rate (currently 29%).

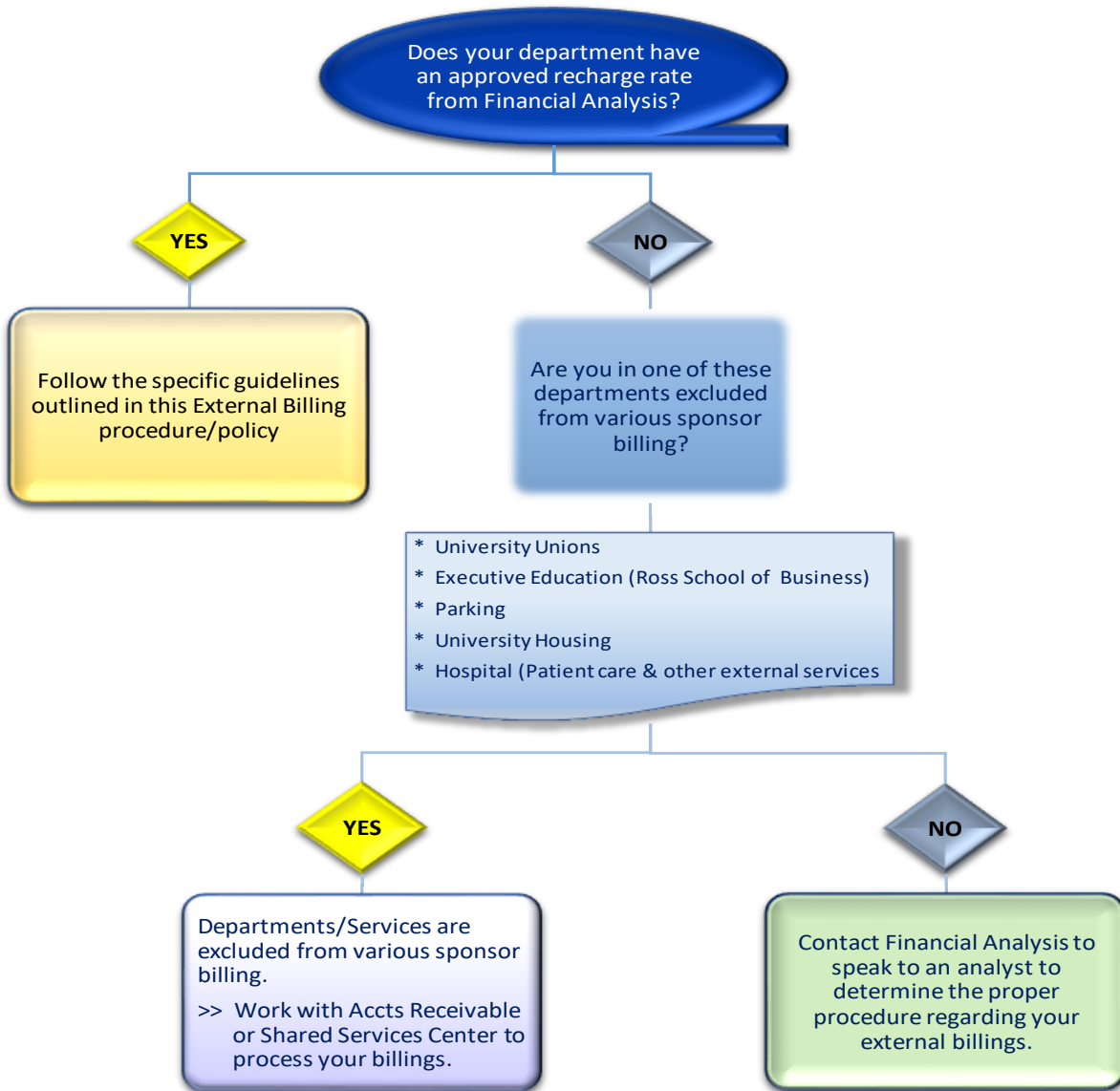
Recharge units selling goods or services to external customers should be aware that these activities might generate taxable income. For questions related to taxable income, contact the [Tax Department](#). For external customers only, recharge units may set the selling price at what the market for the good or service will bear.

If your unit does not already have, a recharge established, or if your unit has a subsidized rate, [contact Enterprise Financial Planning & Analysis](#).

4. 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 Planning & Analysis at recharge@umich.edu.
 - Contact Patrick Woods in ORSP when providing goods or services to external customers to determine and establish a various sponsor project grant.
 - 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 Planning & 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. The Office of Research and Sponsored Projects (ORSP) prepares a (PAN) Project Award Notification or Project Award Change (PAC) as appropriate for the full amount of the proposal. Patrick Woods is the main contact in ORSP for the establishment of the PAN process.
5. [Sponsored Programs](#) establishes various sponsor project grants and short codes.
6. Contact the [Tax Department](#), who will determine if the 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: External rates, at a minimum, must equal the amount on the rate approval letter from Financial Planning & Analysis (internal rate) plus indirect cost of 29%.
- Process your service unit billings (SUB) using the internal recharge rate to charge the costs of providing the good or services 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, click [here](#) for the AR Various Sponsor Customer Upload Template.
 - Complete the template and submit through the AR Various Sponsor Customer Request eForm [here](#).
- Bill customers monthly by submitting customer upload and billing information to Accounts Receivable at the SSC.
 - For billing upload templates, click [here](#) for the AR Various Sponsor Billing Upload Template
 - Complete the template and submit through the AR Various Sponsor Billing Request eForm [here](#).
 - For payments on AR invoices, please direct your customers to the remittance information at the bottom of their invoice. Checks should be sent to: Box 223131, Pittsburgh PA 15251-2131.

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 internal recharge rate + 29% indirect cost is surplus revenue.
 - If this occurs, process a journal entry to move the surplus revenue in the sponsored project (various sponsor project grant) grant to the designated fund.
 - Note: It is recommended that this journal entry be processed at the time of invoice to clear the sponsored project grant each month.
- Review balances of various sponsor project grants annually and move any surplus revenue balance 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 at least annually (monthly recommended) and request rate revisions as needed.
- Submit rate renewals one month prior to expiration date on approval letter.
- Accumulate all costs related to delivering the good/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. Enterprise Financial Planning & Analysis responsibilities:

- Review and approve internal 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 the Office of Research and Sponsored Projects.

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, at a minimum, the selling price should equal the approved internal recharge rate plus the Other Sponsored Activity indirect cost rate (currently 29%). If you do not have an internal recharge rate, please contact [Enterprise Financial Planning & Analysis](#).

What is an external customer?

An entity outside the university, such as Ford, Michigan State University 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. At a minimum, external customers must be charged the internally approved rate plus the other sponsored activity indirect cost rate. If your department chooses, they can also charge an additional amount (to be determined by your department) on top of the internal rate and associated indirect costs.

How do I submit an invoice for an external customer?

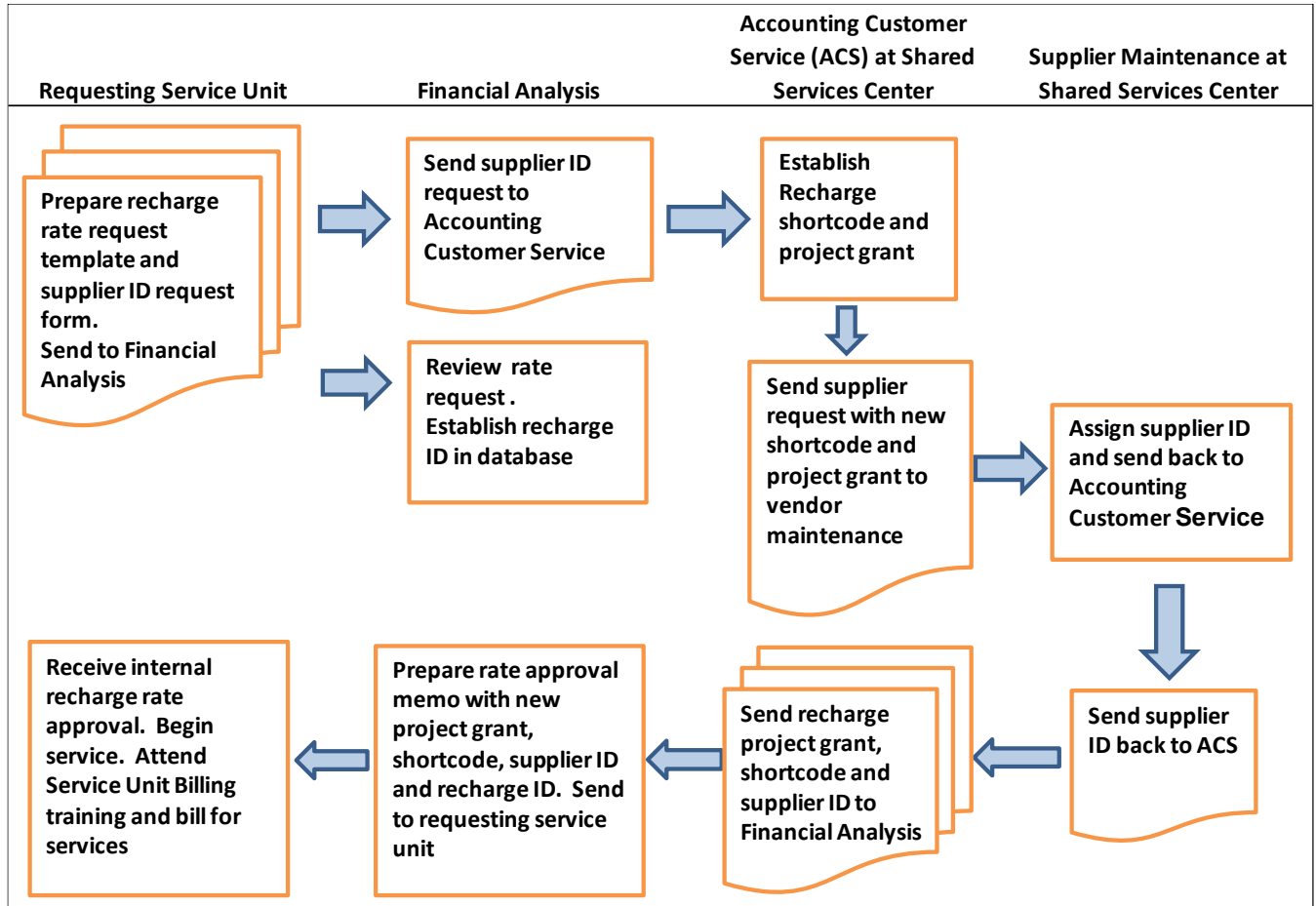
Customers should be billed monthly by submitting customer upload and billing information to Accounts Receivable at the SSC. Visit the [SSC website](#) for the most updated information and forms.

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

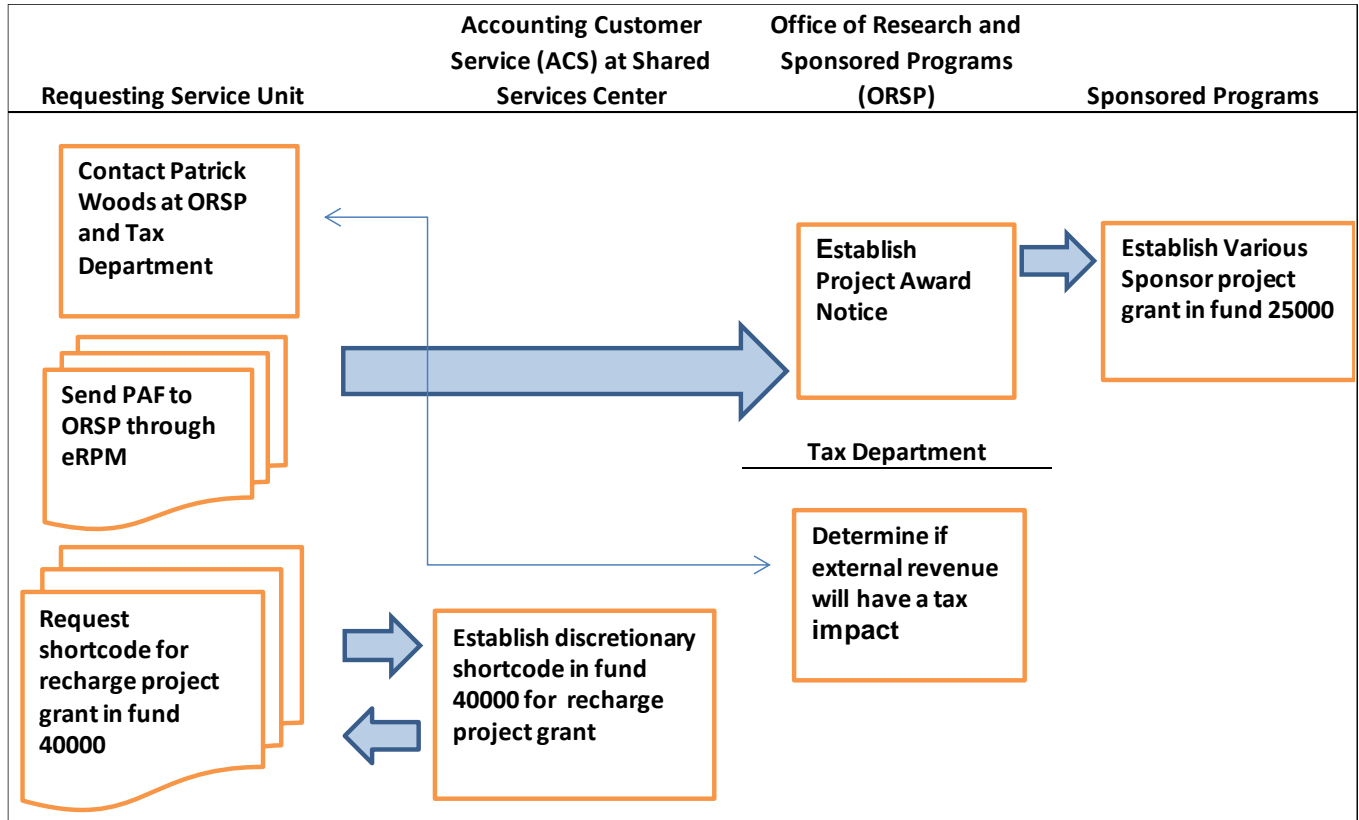
Flow Charts and Examples

Establishing an Internal Rate



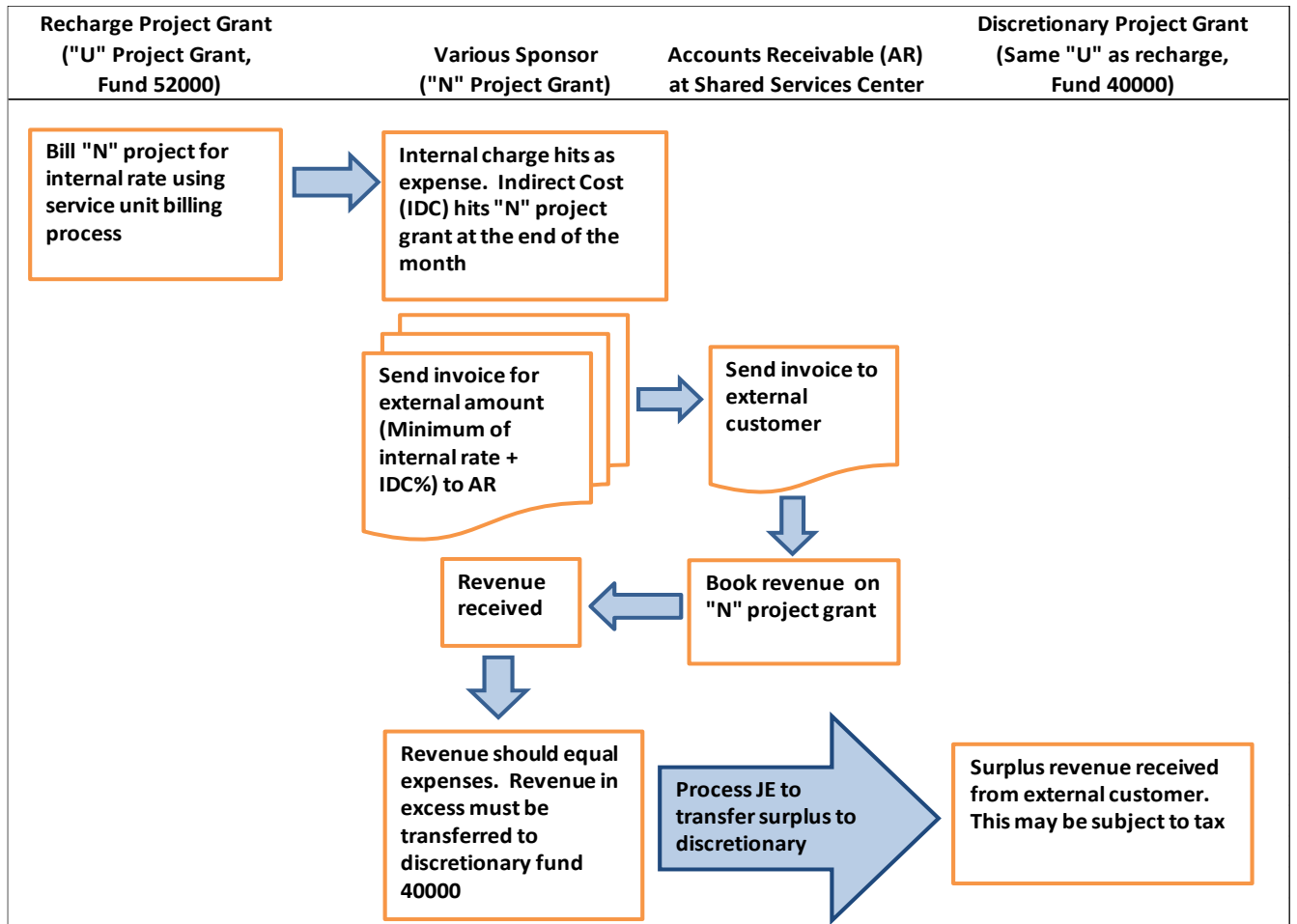
1. Contact Enterprise Financial Planning & Analysis to establish internal recharge rate
 - Submit a [Recharge Rate Request Template](#)
 - Submit [Request for New Recharge Supplier Form](#)
 - Financial Planning & Analysis will work with the SSC to establish a recharge shortcode and/or project grant 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 surplus revenue

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 billing at the full external rate (internal rate + indirect Costs + additional external rate)
3. Send invoice to SSC Accounts Receivable
4. External revenue from various sponsor invoice will be processed to the various sponsor project grant
5. Review the various sponsor project grant balance frequently and transfer any surplus revenue from various sponsor project grant 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 Billing 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.

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

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

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