

Internal Service Centers (ISCs)

Presented to Fiscal Agents Network
Group

May 7, 2008



Internal Service Center Defined

- ✦ Unit providing a good or service to other UNM departments
- ✦ Separate entity (control of revenues & expenses)
- ✦ Ongoing activity
- ✦ Charges all internal users equally at a rate calculated to break even over fixed time



Current Process

- ✦ Submit questionnaire for ISC determination
- ✦ Submit Rate proposal (budget) to Fin Svcs
- ✦ Request new Index and Fund in P181 program
 - Exceptions may be allowed on North Campus
- ✦ Bill throughout year using approved rate
- ✦ Rates reassessed and submitted each subsequent year



Proposed New Process

- ✦ Set-up process remains the same
- ✦ Two classifications of ISC:
 - **Major** (over \$100,000 estimated annual expenses)
 - **Minor** (under \$100,000) – must still be regular, ongoing activity
- ✦ Consistent with other universities
- ✦ Both must develop rates annually; only Major submits rates to Financial Services for approval
- ✦ Minor rates and activity subject to review



Units Reallocating Direct Costs

- ✦ Not an ISC
 - small-scale copy “centers”
- ✦ No rate development
- ✦ Credit to original Index/Account code charged, at amount charged
- ✦ Possible exception – charges incurred in previous fiscal year



Copy Centers

- ✦ Applies to copy centers that do not qualify as an ISC
- ✦ Credit is to New account code:
 - 0699 Miscellaneous Services
- ✦ Two acceptable billing methods:
 - Fixed per copy rate (est. costs/est. copies)
 - Variable per copy rate (% of total copies)
- ✦ Charge customer using 63C0 Copying Gen



Fixed Per Copy Rate

☀ Examples:

Estimated costs for year (toner, paper, rental, etc.)

\$2,000

Estimated copy volume for year:

40,000

Billing rate calculated as $\$2,000/40,000 =$
.05 per copy



Variable Per Copy Rate

Total copy volume for the month = 10,000

Total copy costs for the month = \$375

Department ABC made 4,000 of the copies

Department ABC is charged 40%

(4,000/10,000) of the copy costs

Charge to Department ABC = \$150 ($\$375 \times 40\%$)

ABC's cost per copy = .094 ($\$375/4000$)



Non-ISC Activities

- ✦ Sales are Immaterial AND Infrequent
 - Immaterial: Less than \$20,000/year
 - Infrequent: Not on a regular, ongoing basis
- ✦ Must maintain documentation on how amount charged was determined
 - Failure may cause charges to be reversed
- ✦ Credit 0699 Miscellaneous Services
- ✦ Account 8045 now only for “transfers” < \$5,000



Billing Rates

Budgeted Expenses
+ Prior Year Deficit (within 10% of total
costs)

Or

- Prior Year Surplus

—————
Budgeted Usage Base (hours, units,
samples, etc.)



Billing Rates

- ✦ Inability to provide documentation about how billing rates were determined can result in charges being disallowed.
- ✦ It is the ISC's responsibility to calculate rates and submit for approval when applicable.



Billing Rates

- ✦ Major Internal Service Center rates:
 - Due to Financial Services for review/approval on or before March 15 for FY10
 - Adjusted rates reflecting surplus/deficit adjustment due by August 15
- ✦ Minor Internal Service Center rates:
 - Must be available for review at any time
- ✦ All ISCs should review rates at mid-year and adjust if necessary (worksheet available)



Accounting

- ✦ Deficit in excess of 10% must be covered by departmental unrestricted funding
- ✦ ISCs subject to NSF reject effective 01/01/09
 - Budgets must be entered to allow spending
- ✦ Credits recorded in 06xx acct codes
 - (not 0619, 0699)



Depreciation

- ✦ Full cost of capital equipment cannot be included in rate
- ✦ Depreciation can and should be included, except for equipment purchased with federal funds



Reserves

- ✦ 60-day “Operating Reserve” of estimated expense may be accumulated (16.67% of expense budget)
 - Must be justified and documented
 - Excluded from “surplus” calculation
- ✦ “Capital Reserve” allowed to extent of depreciation recovered
 - Excluded from “surplus” calculation
 - S/b transferred to a Plant Fund index
 - Contact Property Accounting to set up



Surplus Calculation Example

0610 Internal Sales billed for year
\$500,000

Less Operating reserve accumulated
(16.67% of \$300,000 **est.** op expenses)
(50,000)

Less Depreciation recovered
(25,000)

Net costs recovered for year
\$425,000

Total **actual** Operating Expenses for year
\$350,000

Net over-recovery from operations
\$75,000



Deficit Calculation Example

0610 Internal Sales billed for year

\$300,000

Less Operating reserve accumulated

(16.67% of \$300,000 **est.** expenses)

(50,000)

Less Depreciation recovered

(25,000)

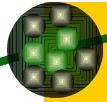
Net costs recovered for year

\$225,000

Total **actual** Operating Expenses for year

\$350,000

Net “under-recovery” from operations



Questions??

Thank you