

Fee for Service Manual

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Controller's Department, Compliance and Accounting

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Introduction

Fee for Service (FFS) operations are established for the purpose of producing and selling goods and/or services to University departments and/or external customers. Sales must comply with the university's mission, federal uniform guidance and the fair competition policies. *Student fee programs (special course fees, study abroad fees, mandatory fees, etc.) are not FFS programs and are therefore not subject to these policies. Please See [the Policy library](#) for information regarding Course Fees.*

Customers are categorized as either internal or external for rate and billing purposes. See definitions below:

Internal: Sales of goods or services to all programs/grants/partners within the university system. These users are charged the internal rate, a reimbursement for costs incurred, and billed through Workday with an Internal Service Provider (ISP) worktag.

External: Sales of good or services to non-university customers as well as students and employees of the university when purchasing goods and services for personal use and/or personal education purposes. External customers are charged a market rate and billed through Accounts Receivable.

Please note, student fee programs (special course fees, computer fees, mandatory fees, etc.) are not FFS programs and therefore should not transfer any balances to a FFS residual program. For assistance regarding these programs please contact Compliance and Accounting.

Authorization

- Prior to starting a new FFS operation, approval must be obtained by submitting rate setting documentation to Compliance and Accounting for approval. The Cost Center Manager or Business Unit Manager must then submit a Create Program Request via Workday using the Create Request > Request Type> Program > New. This request must include the FFS rate development documentation.
- If an existing FFS operation plans to offer new goods or services on a recurring basis, the unit must submit the FFS Rate Documentation for approval to Compliance staff for review.

External Requirements for Authorization

- New programs requesting to sell to *external customers* will have the head of the Competition Committee added as an approver to the workday request to ensure that the activity does not break the [Competition with the Private Sector Policy](#) summarized as:
 - External sales activities should (1) be related incidentally to the conduct of the ISU primary missions of instruction, research, and public service or (2) exist to provide instructional and laboratory experience for students and incidentally create goods and services that may be sold to students, faculty, staff, and the public.
 - If competition with the public sector exists and/or the FFS intends to advertise, the proposed service will be reviewed for propriety of the activity and compliance with fair competition policies. Compliance will refer the request to Cheryl Ervin in Business Services for review and approval.

- Contracts are recommended for all external customers; however, contracts are required for any single agreements over \$25,000. University Counsel provides contract templates on their website, <https://www.universitycounsel.iastate.edu/contracting/assistance>. If using the provided templates and no essential changes have been made, the contract does not require additional review from counsel.
 - Approval to conduct activity as a fee-for-service unit with entities outside of the university constitutes a delegation of authority for the manager of the service center, recommended as the department chair, to enter into agreements for providing the approved services. For purposes of this policy, a "fee-for-service unit" is any unit that provides, for a fee, goods and/or services to individuals, businesses, or other entities outside the university. [Contracting Authority \(Non-employment Related\) | Policy Library \(iastate.edu\)](#)
- If an external entity needs an IRS W-9, see the Accounting Office's website for a template, <http://www.controller.iastate.edu/templates/universityforms.htm>.
- If a FFS cannot meet the external customer's demand or is unable to fulfill an agreement, the FFS is not allowed to procure supplemental resources outside the university on behalf of the customer.

RATE DEVELOPMENT

- Standard measures for applying the rate include the following but are not limited to:
 - Per Hour
 - Per Test
 - Per Deliverable
- All revenue and expenditures included in the rate need to be accounted for within the FFS program and visible in the accounting on Workday.

Costs to include:

- Salaries and benefits for personnel assigned to the FFS as well as administrative personnel supporting the FFS. Make sure to only apply the portion of time assigned to the FFS operation.
 - Annual salaries and benefits eligible to include in the FFS rate should be calculated based on the spreadsheet which provides the number of annual budgeted hours per pay base.
 - A template is located on the Controller's website, <https://www.controller.iastate.edu/templates/universityforms.htm>
 - The labor template has the annual budgeted hours and benefit rate per pay base preset.
- Supplies consumed in the FFS operations
 - Supplies need to be allocated based on actual consumption per service or product. Examples include individual lab supplies, chemicals, materials, etc.
- Anticipated repair costs (outside or above and beyond any maintenance contract)
 - These costs should be based on a proven history of specific repairs, not a best guess of unidentified costs.
 - The variance between actual and budgeted repair costs needs to be accounted for in the next year's rate development. If the variance would cause a major fluctuation in the rates, it may be spread over no more than 3 years. Documentation tracking the amortization is required. For example, if a FFS

incurred an unforeseen repair on a piece of equipment totaling \$2,000, this amount could be added entirely to next year's budget or amortized over a longer period (up to 3 years).

- Service contracts, such as a maintenance on a piece of equipment or software licensing services
 - These expenses need to be allocated over the life of the service contract. For example, if a FFS has a 2 year service agreement for \$11,500, the service contract costs for each of the 2 years would be \$5,750.
 - It is recommended to avoid service contracts which exceed 5 years.
 - Please communicate this expense as a prepaid to the FSD specialist if contract is paid in full ahead of time.
- Shipping costs to send deliverable to customer
 - If the shipping costs are consistent across customers, they may be included in the per unit cost. For example, if the FFS is selling a book, the shipping cost would be consistent and appropriate to be used in a per unit price.
 - If wide cost variations exist because of volume and/or shipping location, shipping costs may be assessed to individual customers.
- Information Technology – computer costs and monthly IT charges that are necessary to the FFS activities.
 - Computer software costs for the FFS operations may be included and can be amortized over 3 years if the software expense exceeds \$5,000 and the software is expected to have a useful life of at least 3 years.
- Administrative costs – travel, subscriptions, office supplies, etc. that are **directly** related to FFS activities.
 - An employee who is attending a seminar on a topic that benefits the FFS
 - A subscription to keep current on a specialized field of study that benefits the FFS
- Tuition – Tuition expense is allowable, but the amount must be proportionate to the graduate student's percentage of their salary expensed on the FFS. Here is a chart for guidance, <http://www.ospa.iastate.edu/proposal/preparation/tuition>. Tuition expense for undergraduates is not allowed.
- Capital Improvements – Maintenance or renovation project costs for space in which fee for service units operate may be included in FFS rates if the total cost of the improvement budget is less than \$100,000. Costs should not be included in the rates until the project is completed, and all costs have been incurred. Capital improvements over \$100,000 are capitalized and depreciated as part of the building and the depreciation is included in the F&A calculation. The cost recovery of the improvements will need to be tracked to verify recovery does not exceed the cost expensed. These costs are not expected to be recovered in one year.

EQUIPMENT

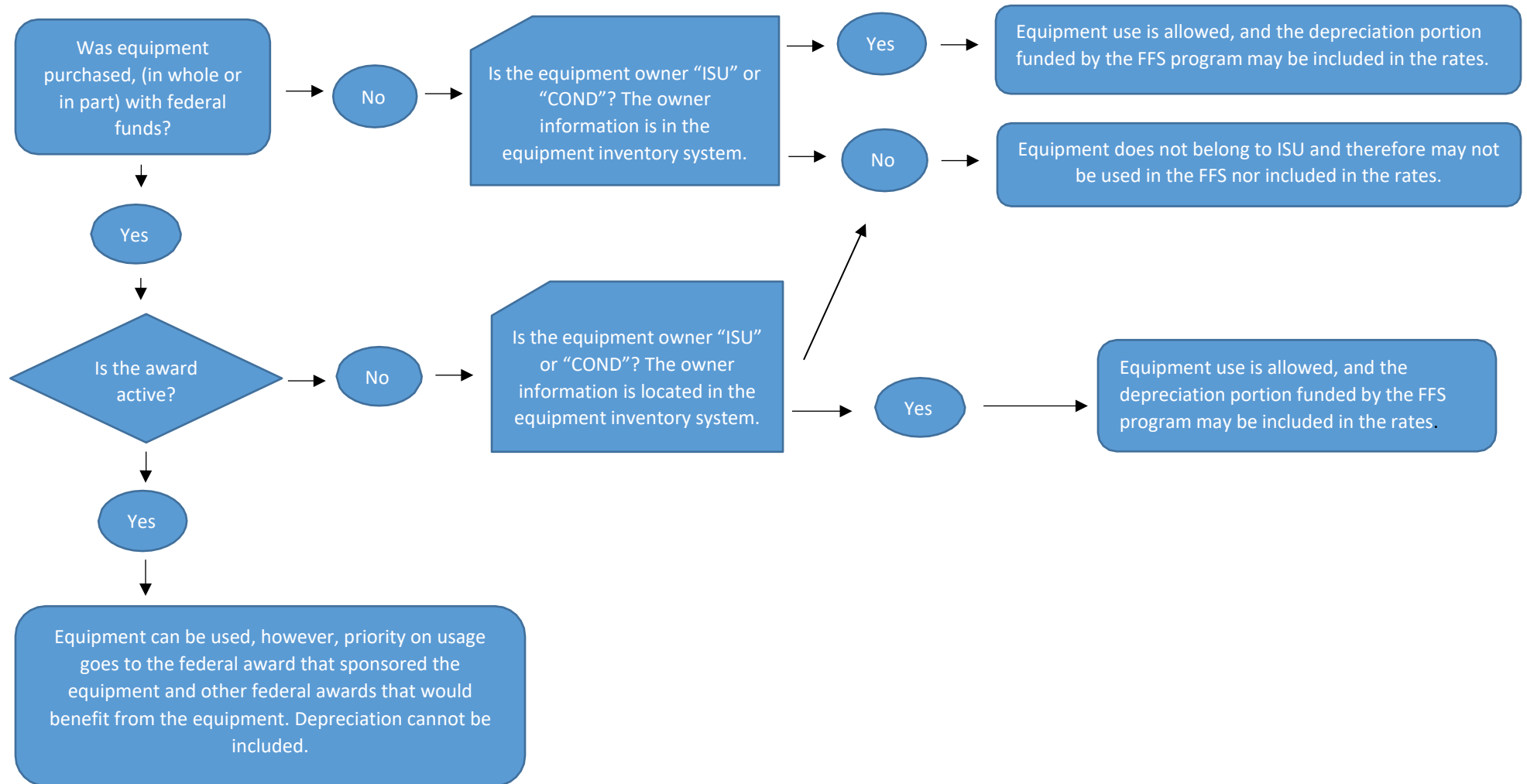
- The equipment inventory system assigns a useful life to each piece of equipment, based on the asset category, and provides the estimated annual depreciation. This annual depreciation should be used in the FFS rate
- Equipment may be used in a FFS operation and included in the rate, but there are some exceptions as outlined below.
 - FFS funded
 - Equipment purchased directly by the FFS may be used and included in the rate. If the equipment cost was split with another program(s), only the portion paid by the FFS is allowable in the rate.

- If the purchase of equipment creates a deficit balance on a FFS program, the depreciation recovery will bring the program to a break-even balance over the useful life of the equipment.
- Equipment Depreciation - To fully cost FFS rates, the annual depreciation on equipment used to provide goods or services in the operation should be factored into the rate. Equipment is defined as a moveable asset valued at \$5,000 or more with a useful life of one or more years. All equipment meeting this definition is recorded in the University's equipment inventory system in Workday. See also, the Equipment Inventory website, <http://www.controller.iastate.edu/far/inventory%20control.htm>. Please contact the equipment accountant (see page 1), with any questions regarding equipment inventory.
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- Federally funded
 - The flow chart on page 7 illustrates whether federally purchased equipment (in whole or in part) may be used and included in the external rates.
 - Federally purchased equipment is either titled to the university or the federal agency. Equipment with any other owner is not university owned and may not be used in a FFS nor transferred, disposed of, or removed from campus.
 - University titled, federally purchased equipment (in whole or in part) is useable in the FFS operation if the original sponsored project need is being met. Most federal agencies require that equipment be retained for continued use on the project throughout the life of the award. Some sponsors reserve the right to transfer title to a third party after the end of an award period.
 - Some equipment purchased using federal grants or other sponsored funds have a clause which prohibits the use of such equipment for revenue generating activity, please review documentation in relation to any equipment planning on being used.
 - There is a potential of charging other federal Worktags for using equipment that has already been purchased with federal funds. If equipment was partially funded with federal funds, only the portion funded by the FFS program may be used in the FFS rate.
- Other funded
 - Equipment purchases funded by a Program other than FFS or federally funded may be used in the FFS but may not be included in the internal rate.
- If equipment is used for more than one service, its cost should be allocated to each service so that the total amount doesn't exceed the equipment's annual depreciation. For example, if equipment is used 60% of the time for service A and 40% of the time for service B, its annual depreciation cost should be allocated 60% to service A and 40% to service B.
- Fabricated equipment with a combined total cost of \$5,000 or more (even if all individual components are below \$5,000) must be reported to the equipment accountant for recording the asset into the equipment inventory system. See University Policy Library – Equipment Acquisition - <http://www.policy.iastate.edu/policy/equipment/acquisition>
- Provide all equipment inventory tag numbers for equipment which will be used in the FFS operation when filling out the request for a new program.

- If two or more FFS programs want to purchase a piece of equipment and use the equipment in each of their FFS operations, the depreciation must be prorated accordingly. All programs need to be written into the PO or a portion of the equipment expense must be moved (via a journal) to the other program(s) using the equipment. Each FFS will need to keep detailed documentation showing what they are charging for depreciation, keeping in mind that all programs combined cannot recover more than the allowable annual depreciation.
- Any equipment funding adjustments need to be done using a journal within 90 days of the in-service date of the equipment.
- One-time exceptions will be allowed as follows: If the FFS operation has already included equipment depreciation in its rates for equipment that was not purchased on the FFS program; and if the equipment was purchased on or after July 1, 2015, the equipment can be moved using a journal to the FFS program. For proper handling of this move, please contact Compliance.
- In the rare case where a FFS operation determines a useful life is substantially longer or shorter than the University's assigned useful life provided in the equipment inventory system, the FFS may be able to use an alternative useful life in their rate determination only if they receive prior approval from Compliance. To obtain approval for an alternative useful life, the FFS must provide justification based on historical experience. Any exceptions to university depreciation schedules must be documented for the life of equipment to ensure excess depreciation is not charged to internal users. Make sure that Compliance has received a copy of this documentation

Is the use of federal equipment allowed? If so, can it be included in a FFS rate?

(Please contact the equipment accountant (see page 1) with any questions regarding the equipment inventory system)



Guidelines for Internal Rates

- FFS operations are expected to operate on a break-even basis for internal customers. Rates should be based on costs.
 - All internal customers must be charged the same rates for the same services provided.
- Subsidy – FFS operating costs which are paid by another program.
 - If a FFS receives funds to subsidize a specific cost (i.e. supplies), the projected costs will need to be reduced by the subsidy amount. The subsidy will reduce the internal rate for all internal customers. FFS subsidies are only allowed from unrestricted funds. The subsidy should be accounted for using a journal entry with revenue code, *RC10144 Internal Income-Fee for Service Subsidy*, on the Income (FFS) side of the transaction and a spend category related to the expense being subsidized on the expense (subsidizing program) side of the transaction.
 - If a department wants to subsidize the cost of an individual transaction, the cost of the service can be split between the buying program and the subsidizing program. This can be done at the time of the billing, or the subsidizing department can request their Finance Specialist create a journal entry to move costs to the program paying for the subsidy.

Guidelines for External Rates

- All external customers must be charged a minimum of the internal rate. If your college assesses and collects the 3% administrative fee on external sales, the external rate must also include this cost. If you are unsure of your college's policy, contact your cost center manager.
- The external rate for customers may include a profit. It is recommended you research what the market will bear and charge the same amount. This ensures the university is not in competition with the private sector.

BILLING

- Billing internal and external customers PRIOR to delivery of goods or services is generally not allowed.
- If 2 or more FFS programs (Program worktags) are providing goods or services to a single external customer and would like to send one invoice for the combined billing, please make sure both programs are listed for their perspective charges on the invoice.
- If more than one service exists on the program, keep track of the revenue and expenses per service for review purposes at the end of the year.
 - o Using department detail (DD) worktags could assist with tracking revenue and expenses for different services offered.
- Billing invoices must include but are not limited to:
 - o Date
 - o Sold to [name, address, email, phone number]
 - o Contact Name
 - o UR Customer Number
 - o Business Purpose
 - o Selling Agency, which will drive Revenue Category worktag
 - o Quantity
 - o External Billing Rate
 - o Order Number- something for the department to be able to reference

Internal ONLY – Additional Guidelines for Billing

- Internal billing must be done NO LESS than once a month. Weekly billings are strongly encouraged.
- Billings for internal sales should be done through your Finance Specialist with an integration journal.
- Internal Billing:
 - o The ability to initiate IB's requires authorization and an Internal Service Provider (ISP) worktag.
 - ISP worktag is 1:1 with a program and is requested within Workday: Create Request > Request Type: Internal Service Provider (ISP) – New.
 - o Attachments should have enough billing details to fulfill university documentation needs for buyers and for audit purposes.
 - o Most Internal billing uses Revenue Category RC10037 Internal Income- Miscellaneous
- If a department would like to partially fund the cost of a buying program, the FFS can bill the buying program and the supporting program. For example, XYZ department would like to subsidize 25% of their department's purchases from a specific FFS operation. The FFS would bill the buying program and XYZ's subsidizing program, allowing the FFS to recover the full cost of the service expense.
 - o If the FFS does not have the ability to split a transaction, the buying department can have their Finance Specialist create a journal entry for the subsidized portion from the buying program after the charges have been incurred.

BILLING EXTERNAL CUSTOMERS

- External billing must be done **no less** than quarterly. Monthly billings are strongly encouraged.
- Access and training are required to enter invoice information into the UR system in ADIN. Access requests for administrative systems may be located at <https://iastate.service-now.com/it>.
- External billings must use the University's central billing system. This is completed either through manual entry in the University Receivable (UR) system in ADIN or via batch transfer. Please note that the Accounts Receivable Office sends billing statements, not invoices, monthly to customers. It is the selling department's responsibility to create, distribute, and retain invoice details for **10 fiscal years**. An invoice template is available upon request from the Accounts Receivable Office.
- Payment should be remitted to the Treasurer's Office for charges billed through the UR system. The mailing address may be found on the following website [Bill Payment | Treasurer's Office \(iastate.edu\)](#)
- Payment via ACH/Wire transfer can be set-up by contacting ubill@iastate.edu to request banking details.
- Point of Sale transactions are defined as any good or service that payment, such as cash, check or Credit Card transaction, is presented at the point of sale.
- See the following websites for information regarding point-of-sale transaction:
<https://www.treasurer.iastate.edu/cash-management>
- <https://www.treasurer.iastate.edu/creditcards>

ANNUAL RATE REVIEW

Each FFS must accomplish a rate review on an annual basis.

Process:

1. When it is 30 days before the review date the Cost-Center Manager (CCM) will receive a Workday notification alerting them of the upcoming review requirement for all FFS Programs under their responsibility.
2. The Cost Center Manager will be the liaison between any other responsible parties by which the FFS has, and a Compliance Accountant (see page 1 for contact).
3. The following documentation will be to be given by email to the Compliance accountant:
 - a. Rate Structure worksheet
 - b. Labor-rate worksheet
 - c. Copy of Service Center Personnel Agreement (For any non-faculty working the service)
4. Documentation will be reviewed, checked for accuracy, completeness, and allowance under university, federal, and state guidelines. Corrections, or questions regarding what was provided will be followed up in a timely manner.
5. The review process is complete once the service has been determined to be operating properly and the rate used is allowable.
6. Non-compliance of this process within 90 days will ultimately result in the inactivation of the Fee for Service or Service Center, barring exceptions.

Additional Guidelines for Annual Rate Review

Any deficit or surplus generated at year-end needs to be included in the next year’s rate calculation. Below is an example of adjusting the next year’s **internal** rate budget:

<u>Year 1 Budget</u>		<u>Year 1 Actual</u>		<u>Year 2 Budget</u>	
Expenses:		Revenue:		Expenses:	
Salary	12,000.00	170 tests	16,433.33	Salary	14,500.00
Supplies	500.00			Supplies	675.00
Depreciation	2,000.00	Expense	15,200.00	Depreciation	2,000.00
Projected Expense	14,500.00	Internal Surplus	1,233.33	Projected Expense	17,175.00
				Subtract Prior Year Internal Surplus	1,233.33
				New Projected Expense	15,941.67
Estimated use is 150 tests				Estimated use is 180 tests	
Price per test	96.67			Price per test	88.56

Operating Surplus

- Revenue in excess of cost existing from external sales must be transferred from the FFS program into a FFS Residual (IRT1029) program annually as part of the rate review process. (FFS Residual programs are accounts to set aside the external surplus.) Documentation must be attached to the transfer to show how the amount was determined. These surplus funds do not need to be factored into on-going rate adjustments. Putting the external surplus into a FFS reserve program (IRT1029) allows the funds to be used for various purposes.
- These IRT1029 funds may be used for any allowable costs, including those that are not related to the FFS.
- IRT1029 funds must follow the same University guidelines as other discretionary programs. Any purchases must have an ISU business purpose and comply with Regents and ISU spending policies. Goods or equipment purchased with discretionary funds are the property of the University and are not personal property.
- Inactivation of Residual fee for Service accounts (IRT1029) will coincide with closure of the fee for Service sibling account (IRT1035).

Below is an example of a simple budget for a FFS offering a single service. The unit of measure is based on hours. There are 2 employees working on the FFS, Joan at 50% and Aiden at 10%, totaling **1,012.8 annual hours** (see the labor table below, rates may change). The current market rate \$30/hour based on current market conditions. Total cost to be recovered to break even, \$14,641.45 (\$18,399.00 expenses + \$55,142.29 salaries/benefits).

<u>Estimated Expenses</u>	<u>Cost</u>
Labor - Per hour (see table below for calculation)	\$54.45
Supplies	\$6,789.00
Maintenance Contract on Equipment #123457 \$2,700 for a 2-year contract	\$1,350.00
Shipping Costs	\$2,198.00
Depreciation (annual)- Equipment tag #123456	\$4,250.00
Total expense (excludes labor and benefits)	\$14,641.45
	<u>Rate</u>
Internal Rate - cost	\$14.46
Market Rate	\$30.00
University 3% administrative fee for external customers	\$0.90
External Rate	\$30.90

Example of Pooled Average Labor Model: Calculates an average labor rate and is applicable when multiple people with varying labor rates provide the same service but it makes no difference which employee provides the service.

**All items in the gray colored cells will need to be populated. (Employee Name, Pay Base, Salary, Benefit Rate, and % of time/service.)*

Employee Name	Pay Base (Select from Dropdown) <small>*Click on the cell, in the upper right hand corner the dropdown arrow will appear.</small>	Salary	Benefit Rate %	Total Salary & Benefit	% of time/service	Time committed to FFS	Non FFS Work	Total
Joan Clark	P Base (Full-time P&S)				% of time/service	50%	50%	100%
					Budgeted Hours/Service	836	836	1,672
		72,500	34.50%	97,513	Salary & Benefit Rate	48,756	48,756	\$ 97,513
					Per Hour Rate	58.32		
Aiden Matthews	Full-time E Merit (ISU employee for 1-4 years)				% of time/service	10%	90%	100%
					Budgeted Hours/Service	177	1,591	1,768
		43,800	45.80%	63,860	Salary & Benefit Rate	6,386	-	\$ 6,386
					Per Hour Rate	36.12		
					Total Budgeted Hours/Service	1,012.80		
					Total Faculty Salary & Benefits/Service	\$55,142.29		
					Per hour rate	\$54.45		

Additional guidelines for Externally selling programs

- o Deficits generated should be included in the next year’s rate calculation.
- o Surplus generated from external revenue can be used to subsidize rates for internal customers or transferred to a FFS residual program (IRT1029).

Here is one example how a FFS can determine their external surplus.

The FFS projected 80% external and 20% internal customers, but at the end of the year the actual percentages were 85% external and 15% internal. The market rate charged to external customers was a 60% markup over costs. For the year in review, total expenditures were \$100,000. The FFS total revenue should be approximately \$151,000 (\$136,000 external and \$15,000 internal).

\$ 136,000.00	External Revenue (100,000 x 85%) x 1.6
\$ (85,000.00)	Expenditure portion of the external sales (\$100,000 x 85%)
\$ (4,080.00)	University 3% admin fee, if applicable (\$136,000 x .03)
\$ 46,920.00	External Surplus available to be transferred to a FFS residual program

ACCOUNTING FOR FEE FOR SERVICE PROGRAMS

- Only services/goods that are “like and similar” should be combined in a service program. This aids with the proper calculation of rates and the allocation of surplus/deficit recoveries by program account.
 - o Using department detail (DD) worktags could assist with tracking revenue and expenses for different services offered.
- Accurate accounting for program expenses and revenues is critical for tracking of accurate over/under recoveries and proper rate calculations. The following accounting practices assist in ensuring this is accomplished.
- Fee for Service programs should “match” revenue with expenditures so that a true financial picture can be obtained for the program.
- Revenue should be properly recorded as a credit in a revenue ledger account, not incorrectly booked under an expense ledger account. The practice of recording revenue as a negative expense distorts the financial statements and results in unnecessary analysis of the program to identify these entries and eliminate them from the rate calculation.
- External revenue must be recorded with a revenue category that uses Ledger account 4650. Please contact us if you do not know which RC to use.
- The departmental program must track usage including at a minimum: the date of the sale or service, unit cost, and total dollars charged to the user.
- Rate calculations and supporting documentation must be maintained on-file by the department and made available for review upon request by ISU Controller’s department as well as internal, state, and federal auditors.
- The department must have published rates readily available upon request. It may be recommended to publish rates online.

RECORD RETENTION

FFS operations are responsible for retaining all financial and budget records that document the development of rates for goods and services and the actual rates in effect for specified periods of time for a period of no less than 10 fiscal years. For Internal Billings, the FFS must also retain transaction detail and supporting documentation. For external sales, the FFS should retain transaction detail and supporting documentation for a minimum of 5 years. <http://records.policy.iastate.edu/view.php?id=259>.

DISSOLUTION OF SERVICES

When a FFS operation ceases to exist, contact Compliance and Accounting for proper method of closure. Remaining balances cannot be spent down from the FFS program, as the FFS has more restrictive guidelines outlined here:

Surplus Originating from Intramural Revenue

- If surplus is less than 10% more than cost for the service provided, then it may be combined with external revenue.
- If surplus is more than 10% of associated costs for the service, then the surplus revenue will need to be refunded to the customers on a pro-rata basis.

Surplus originating from External Revenue

- Surplus revenue, or the profit between the internal activity and the external activity will need to be transferred to a Residual Fee for Service account (see [Operating surplus](#)).
- Once the Residual account has been spent of its funds fully the corresponding ISP may be inactivated.

Program Deficit

- The remaining amortization (remaining expense) of an equipment purchase must be moved to a department level program.
- If expenses were not matched to revenue, then expenses should be moved to a department level program.