External Billings by Service Units

The rules for processing billing to external clients for services rendered via an internal service unit are somewhat complicated. This document is meant to help alleviate some of the confusion around the process.

Generally services provided to external customers by internal “recharge” operations should be billed using an external rate, which is a different rate than the normal rate (internal rate) used for Service Unit Billings (SUBs). This rate should reflect the prevailing market rates at the time. This is done to avoid competition with external organizations and avoids potential issues with regard to our 501c3 status, from operating a business outside of our charitable, educational scope. The rate should cover the actual costs of the servicing unit, indirect costs to be applied via the billing process in Sponsored Programs and the amount necessary to offset any Provost’s Office “tax” that would be applied through the billing process. (See below)

The first step for any service unit which provides services to external clients is to contact the Office of Research and Sponsored Projects (ORSP) representative for your school or college to determine if the billing must be processed via Sponsored Programs. If the determination is that it should be billed via Sponsored Programs, please follow the process laid out in Section 1 below, otherwise, use the process as laid out in Section 2.

To find out who is the ORSP Representative for your school or college, this can be looked up at the following website: http://orsp.umich.edu/orsp-staff

Section 1 – Sponsored Programs Billings
ORSP will typically only handle those recharge units which are part of the University’s core mission (Instruction, Research and Public Service). If an external billing goes thru ORSP, then it will generally have an Indirect Cost applied to it, which will be defined by ORSP. ORSP reviews the contract to ensure that it meets market rates and covers the service unit’s fixed costs and indirect costs. The Sponsored Projects are established with a type of “Various Sponsors” to allow them to be used for multiple billings. ORSP also works with the Tax Department to ensure that Unrelated Business Income Tax is collected as is appropriate to the situation.

The accounting happens as follows:

1. Unit has Accounts Receivable bill the purchaser.
2. Accounts Receivable will credit the revenue to Sponsored PG immediately.
3. The Servicing Unit bills Sponsored PG via SUB for the direct costs of the purchase (their rate amount).
4. The system automatically applies the Indirect Cost Rate via the monthly allocation process to the Sponsored PG.
5. A manual JE using transfer accounts transfers the "profit" (if any) to the Designated Fund.
6. Sponsored PG should now be zero.
Section 2 – Billings outside of Sponsored Programs

If it has been determined that your billing does not need to be administered through ORSP on a Sponsored Project/Grant, then your unit should bill the external customer directly and deposit 100% of the funds received into the Designated Fund (Fund 40000) for Academic Units or Auxiliary Fund (Fund 5xxxx, not including Fund 52000) for Auxiliary Enterprise Units, such as the Hospital, Housing, Parking etc.) at account 414350 (External Department Revenue). Your unit should then process an internal billing via the Service Unit Billing (SUB) tool, charging the internal rate to the same chartfield in the Designated or Auxiliary Fund that received the external revenue. This will cause an expense to be placed into those chartfields and a Recharge Revenue (typically account 410000) to be deposited into your Recharge Chartfields (Typically Fund 52000).

Things to keep in mind for billings outside of Sponsored Programs:
The above process creates an expense in your unit’s chartfields which could be subject to the Provost’s Office “tax” and the rates being charged to External Customers should take this into account.

Things to keep in mind regarding all external customers:
Faculty, Staff and Students (including student organizations) are external customers. They should be billed in one of the methodologies listed above. This even applies for one-time use scenarios.
An internal rate may be charged to an external customer, provided that there is a legitimate business reason for the decision that will meet with approval from auditors. A legitimate business reason should include the ways in which using the internal rate for an external customer furthers the core mission of the University (including Instruction, Research and Public Service). This exception frequently happens with charges to students for services related to their academic studies.

Please note that as a rule, rental of University space (excluding the Union and League) to an external organization for anything requiring a contract must have the contract reviewed and approved by the Space Information Office. For this, please contact Mark Eboch at 734-615-9023 or email him at meboch@umich.edu.