

## Policy 1410

### Internal Service Providers

<b>Responsible Office</b>	Finance and Administration	<b>Effective Date</b>	7/1/95
<b>Responsible Officials</b>	Assistant Vice President & Controller Associate Vice President for Research Administration	<b>Last Revision</b>	6/30/2011

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### Scope

This document sets forth the policy regarding the registration and accounting processes and business practices required by all University Internal Service Providers (ISPs). Additionally, this document identifies the requirements for establishing rates and the charging of those rates to internal and external users.

### Policy Statement

All ISPs are required to register with the ISP Standards Committee annually to function as an ISP and must comply with this policy.

Program Income is not covered by this policy. Please refer to [Policy 1308](#) *Program Income Associated with Sponsored Programs* for definition and proper treatment.

### Reason for the Policy

The reason for this policy is to ensure that:

- the accounting practices of ISPs follow University accounting policies;
- the accounting and business practices of all ISPs at the University are consistent;
- the University has consistent standards, formats, and content for ISP billing transactions;
- the University complies with the relevant federal costing regulations, including [2 CFR Part 220 \(OMB Circular A-21\) Appendix A](#), which provides guidance for the treatment of Specialized Service Facilities (SSFs);
- sales to external customers of goods and/or services where equipment or facilities were federally funded or financed with tax exempt debt, do not violate the provisions of the federal funding or tax exempt indentures; and
- the University appropriately reports Unrelated Business Taxable Income (UBTI), property taxes, and state sales tax.

### Definitions

#### Internal Service Provider (ISP)

An Internal Service Provider is a unit that regularly provides goods and/or services to other University Organizational Units or Departments and charges for those goods or services. ISPs include: Specialized Service Facilities, Recharge Centers, and Cost Allocation Units, as defined in this section.

### **Specialized Service Facility (SSF)**

A SSF is organized to provide goods and/or services to other organizational units and charge for those goods and/or services. The end user typically determines the level of goods and/or services that is provided. SSFs have annual expenses of at least \$1 million or charges to federal funds of at least \$250,000. The Yale Animal Resource Center (YARC) is an example of a SSF.

### **Recharge Center**

A Recharge Center is organized to provide goods and/or services to other units and charge for those goods and/or services. The end user typically determines the level of goods and/or services that is provided. Generally, if annual expenses are less than \$1 million and charges to federal funds are less than \$250,000, then the ISP is considered to be a Recharge Center, not a SSF. The ISP Standards Committee may make exceptions by classifying some operating units that fit the Recharge Center criteria as SSFs. An example of an ISP that is currently listed as a Recharge Center is the Drosophila Kitchen.

### **Cost Allocation Unit**

A Cost Allocation Unit aggregates and distributes goods and/or services to other units. The Cost Allocation Unit typically determines the level of goods and/or services that will be provided to the unit. The Facilities ISP that charges utility costs is an example of a Cost Allocation Unit.

### **External Users**

External Users are non-University entities that are purchasers of ISP goods and/or services. External Users include faculty, staff, or students who purchase the goods and/or services in a personal capacity. Agencies (e.g., Yale Elizabethan Club and Howard Hughes Medical Institute), corporations and affiliated hospitals are also considered external users.

### **Facilities and Administrative (F&A) Rate**

The F&A rate is the percentage that is applied to expenditures related to sponsored awards in order to recover expenses related to certain general administration, departmental administration, depreciation, interest, utilities, and other facilities costs.

### **Source System Identifier**

A Source System Identifier is a unique identifier assigned by General Accounting to each ISP to be used in a specific part of the batch name. The Source System Identifier is used when the ISP produces the billing transactions for their charges to end users.

### **Unrelated Business Taxable Income (UBTI)**

In limited situations, the University generates UBTI, which is derived when the University regularly carries on a trade or business activity unrelated to its mission or tax exempt purpose.

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## **Policy Sections**

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### **1410.1 Internal Service Provider (ISP) Standards Committee**

The ISP Standards Committee is a standing committee that meets at least annually. Either of the two Responsible Officials (Assistant Vice President & Controller or Associate Vice President for Research Administration) may convene these meetings.

The purpose of this committee is to:

- review the registration of new ISPs on a quarterly basis;
- annually review the updated registration forms for registered ISPs that have significant changes to their registration information;
- maintain transaction standards related to ISP activity;
- make recommendations to the Provost, the Professional Schools, and to the departments;
- make recommendations to ISPs with regard to compliance issues and accounting and business practices; and
- grant exceptions to ISP Policy 1410,

The ISP Standards Committee should include representatives from the Controller's Office, Office of Research Administration, Office of Budget and Planning, School of Medicine, Office of the Provost, Capital Projects Group, Office of Business Transformation, Procurement, and other designated representatives of ISPs.

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### **1410.2 Registration of Internal Service Providers**

All operational units who wish to operate as an ISP must submit a registration form to the ISP Standards Committee via General Accounting, except as described below. General Accounting will be the point of contact for departments for any new or updated registration form submissions.

Registration is complete when General Accounting has provided a Source System Identifier for the ISP's JSA transactions. Quarterly the ISP Standards Committee is made aware of new registrations.

All ISPs, whether or not registered, must adhere to the billing process as stated in section 1410.3. Unregistered ISPs do not need to adhere to tracking or rate calculation processes as stated in sections 1410.3 and 1410.4,

Only Registered ISPs may use the ISP JSA Journal Category for their billing transactions.

ISPs that meet either of the following two criteria do not have to register as ISPs:

- If annual revenue generated from other University departments (not within the same department as the ISP) is less than \$10,000, and sponsored awards are not charged.
- If allocations (i.e. Cost Allocation Units only) are all within the same department (e.g. copier, postage and answering services) and there are no allocations to sponsored awards. Cost Allocation Units should credit the same expenditure type as the original transaction, unless the ISP Standards Committee has approved credits to an internal income account.

Annually, General Accounting will send the current ISP registration information to each ISP for review. Each ISP must confirm to General Accounting that the information is still accurate or send updated registration forms with changes. . The ISP Standards Committee will be notified of all significant changes in registration information.

Refer to Procedure [1410 PR.01](#) *Internal Service Providers: Registration and Annual Renewal* for more details.

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### **1410.3 Accounting and Billing**

The department that is responsible for the ISP must establish a unique account for the ISP. All revenues and expenses that the department budgets for the ISP must flow through this unique account in sufficient detail and in accordance with University accounting policy. This department is responsible for registering the ISP and developing and maintaining accounting systems and procedures to ensure compliance with all appropriate federal regulations and University policy.

Revenue from internal and external customers must be segregated to the proper internal revenue and external revenue accounts. Revenue earned by SSFs and Recharge Centers will be recorded in unique

internal and external revenue accounts. Cost Allocation Units will either record revenue as a credit to a revenue assessment account, if the department charge is to an expense assessment account, or will credit the original expenditure type charged when the vendor invoice was processed when costs are distributed to departments. Cost Allocation Units should not charge an internal income account for costs distributed to Yale departments. However, the ISP Standards Committee may grant an exception to allow certain larger Cost Allocation Units to credit internal income (for example, KBT and Medical School Stockrooms).

General Accounting will prescribe the specific transaction format, the Source System Identifier, and accounting methods to be used by each ISP to allow for the proper monitoring of the ISP and to allow user departments to properly account for the receipt of the ISP goods and/or services. The ISP uses the Source System Identifier when the ISP bills for the goods and/or services that it provides.

If an adjustment to an original charge is a result of the ISP's error, the ISP is responsible for making the correction. If an ISP uses a sub-system for billing, the adjustment to the original invoice, whenever possible, should be generated through the sub-system. If the ISP is trying to credit a sponsored award whose PTAE0 does not validate, they must contact GCFA to assist with removing those charges from the award. Any other change to the original charge which is not the result of an ISP error should be done by the department as a cost transfer. If the change will be permanent, departments should contact the ISP with updated charging instructions.

It is imperative that all source system owners maintain reconciliations of their respective systems to the General Ledger on a monthly basis, as well as at year-end. The timely review of transactions and reconciliation of all University systems and accounts is critical to maintaining the integrity of the University's accounting records. Source system owners and business offices must maintain financial transaction documents that are sufficient to monitor and support the accuracy and completeness of data entered from their systems into the JSA/GL applications.

The ISP is expected to bill internal and external users by the cutoff date of the fiscal month in which services are rendered and/or goods are provided, where practical. ISP billing practices must be documented and approved by the ISP Standards Committee.

Refer to Procedure [1410 PR.03](#) *Internal Service Providers: Accounting and Billing* for more details.

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#### **1410.4 Rates and Charges**

The ISP must develop, on an annual basis, a schedule of rates and charges for all users of the ISP's goods and/or services. This schedule should include rates for all users within the University and for External Users, as defined above. All users within the University who charge sponsored awards must be charged consistently at the same rates, unless discounts are charged to a unique expenditure type. University customers who charge non-sponsored awards may be charged a surcharge equal to the pro-rated share of the ISP's federally unallowable costs under [2 CFR Part 220 \(OMB Circular A-21\) Appendix A](#), which must also be recorded in a unique expenditure type. External Users are to be charged at rates at least equal to or higher than the rates charged to internal non-sponsored users, unless known to be charging federally sponsored funds (i.e., other research institutions). In this case, internal sponsored rates, plus the University F&A rate should be charged. Any discounts or special arrangements with end users must be disclosed on the annual registration form to ensure that ISPs are in compliance with federal regulations.

ISPs should establish rates based on allowable costs that will result in a "break even" situation (i.e., revenues will equal allowable costs). Exceptions to an annual break-even plan must be approved by the appropriate budgetary authority during the annual budget process. All ISPs will submit rates that comply with federal regulations annually to GCFA or other designated central office. GCFA will periodically review a sample of those rates to confirm compliance with the policy so that all rates are reviewed cyclically. Annually GCFA will review SSFs revenue and expenses to verify compliance with federal regulations and reasonableness of fund balance. GCFA will inform the ISP Standards Committee of any

issues that arise during its review. The Budget Office will annually review Cost Allocation Units with large dollar impact with regard to any deficit or surplus in these units.

At the end of each fiscal year, the activity of the ISP will result in a calculated deficit or surplus. Any calculated surplus in excess of 60 days normal operating expenses must be deducted from future rates. Any calculated deficit should be added to future rates, unless waived by the appropriate budgetary authority. Any carry forward amount will be reflected in a future year's rate (e.g., a surplus generated in fiscal 2009 will be reflected in fiscal 2011 pricing).

Refer to Procedure [1410 PR.02](#) *Internal Service Providers: Rate Calculations* for more details

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#### **1410.5 Revenue from External Users**

Before an ISP provides goods and/or services to External Users, the ISP should notify the ISP Standards Committee, who will consider the following:

- ISP facilities or equipment that were purchased with federal funds;
- ISP facilities or equipment that were financed with tax exempt debt;
- Tax consequences such as UBTI, property tax, and sales tax;
- Community related issues if ISPs are competing with local businesses; and
- Relevant export controls.

These activities will normally be reviewed as part of the initial or annual ISP registration process, but may be reviewed at any time at the request of an ISP. The Standards Committee will recommend appropriate action.

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#### **1410.6 Record Retention**

Documentation in support of the rates and charges must be maintained by the ISP for audit purposes and in accordance with Policy [1105](#) Retention of University Financial Records. The records of ISP charges should adequately document the activities of the ISP and support expenditures and billings activity. ISPs should note that sponsored awards may last 10 or more years, and therefore should consult GCFA before any records are discarded.

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### **Related Information**

Policy [1105](#) Retention of University Financial Records

Policy [1308](#) Program Income Associated with Sponsored Programs.

Procedure [1410 PR.01](#) Internal Service Providers: Registration and Annual Renewal

Procedure [1410 PR.02](#) Internal Service Providers: Rate Calculations

Procedure [1410 PR.03](#) Internal Service Providers: Accounting and Billing

[2 CFR Part 215 \(OMB Circular A-110\)](#) and [2 CFR Part 220 \(OMB Circular A-21\) Appendix A](#).

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**Contacts**

Subject	Contact	Phone
Rate calculations and other Federal costing regulations	GCFA	785-4954
Registration and accounting practices of an ISP	General Accounting	432-9708
Budget process	Office of Budget and Planning	436-5460
External contracts	General Counsel	432-4949
Tax related issues	Tax Department	432-5530

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**Roles and Responsibilities**
**ISP Business Managers & Department Administrators**

Complete initial and annual ISP registration forms in accordance with this Policy. Complete requests for unique organizational units or operating projects, if necessary. Calculate compliant rates for ISP. Ensure that the appropriate expenditure types are used for ISP transactions. Notify General Accounting if department administrator changes. Be cognizant of Program Income requirements in order to determine to which policy departmental income is subject. Adhere to all other requirements of this policy.

**Appropriate Budgetary Authority**

Reviews anticipated rates and charges of all ISPs for each new fiscal year and determines whether deficit fund balances should be cleared at fiscal year end or offset by future revenue.

**Controller's Office**

Reviews the transactions of ISPs to ensure that internal and external revenues are segregated properly. In conjunction with its Tax Department, the Controller's Office provides guidance with regard to sales tax, property tax, and UBTI. The tax department also files the appropriate tax returns related to UBTI.

**General Accounting**

The General Accounting department of the Controller's Office is the point of contact for any ISP or end user interaction with the ISP Standards Committee. General Accounting coordinates review and approval of initial and annual registration forms, inputs ISP data into registration table, issues Source System Identifier, provides new unique organization units or operation projects, assists with Registration Form completion and retains all records related to the registration process. General Accounting monitors ISP transactions for correct use of SSI, timeliness and completeness of transactions, as well as, reports and remits sales tax.

**ISP Standards Committee**

Approves any requests for exceptions to this Policy. Provides subject matter expertise to ISPs as necessary to ensure compliance with provisions of this Policy.

**General Counsel and Tax Department**

Review contracts with External Users of the University's goods and/or services, when necessary.

**Capital Projects Group**

Review financing of buildings used for ISP activity with external sales.

**Grant and Contract Financial Administration (GCFA)**

Ensures review of the rates, revenues and expenses by a central office of each SSF and Recharge Center in accordance with annual review schedule for compliance with federal regulations, reasonableness of the fund balance, and the treatment of F&A and equipment costs.

**Offices of the Provost and Dean of the School of Medicine**

Review ISP rates of those ISPs in their school(s) for compliance with this policy. Contact GCFA with any concerns. Resolve violations of this policy brought to its attention by the ISP Standards Committee.

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## **Revision History**

Revised 6/30/11. Revised 11/16/07. Revised 7/10/01.

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