

# Oklahoma State University Policy and Procedures

<b>STORES</b>	<b>4-0140 ADMINISTRATION &amp; FINANCE March 2025</b>
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## INTRODUCTION AND SUMMARY

1.01 This policy provides a general framework for the fiscal operations of University stores.

## REGULATIONS

2.01 Store activities may result in charges, directly or indirectly, to federal grants and contracts at OSU. Federal Uniform Guidance provides directives supporting Store and Recharge Center operation.

Uniform Guidance has two basic concepts for Store and Recharge Center Operations:

- A. recipients of federal funds are *not to recover more than cost in their store*; and
- B. they are *not to discriminate* in the price of services charged to government users and/or Sponsored Programs and to non-government users within or external to Oklahoma State University. The concept of nondiscrimination, however, does not preclude an institution from charging external users/customers higher rates than those charged to internal customers for services in order to recover overhead costs.

2.02 Cost Accounting Standards

Institutions of higher education must comply with Cost Accounting Standards (“CAS”). Essentially, these standards promote consistency and uniformity in cost accounting. The four standards are:

- A. consistency in estimating, accumulating, and reporting costs;
- B. consistency in allocating costs incurred for the same purpose;
- C. treatment of unallowable costs; and
- D. the cost accounting period.

2.03 Government Oversight

The federal government monitors OSU's compliance with Uniform Guidance through its cost and audit cognizant agencies as well as external financial audits and institutional oversight/internal controls.

## **STORE DEFINITIONS**

3.01 A **store** (also referred to as a service center or recharge center) is defined as an operating unit providing services, a group of services, or products to users principally within the university community for a fee. The services may range from highly specialized to typical, necessary functions. A store develops a rate for the activity based on actual *incurred costs* and charges users for their *actual usage*. OSU distinguishes three categories of stores, generally defined as follows:

- A. **Specialized service facilities** are defined as highly complex or specialized facilities. The rates of these facilities should consist of both direct and indirect (facilities and administrative) costs of the store and a share of university overhead costs. Only those stores designated as specialized, as determined by OSU, will be required to set rates based on a full allocation of costs. Refer to **part 12.01** for further discussion.
- B. **Major stores** are all store operations with total annual expenditures of **\$500,000** or more *per business*.
- C. **Minor stores** are all store operations with total annual expenditures of **\$50,000** or more *but less than \$500,000*.

All store operations with annual expenditures less than **\$50,000** will be known as **recharge accounts** and will not be subject to all of the procedures outlined in this policy. Recharge accounts should normally constitute a pass-through of direct costs only. For example, space and equipment costs typically are not allocated to recharge centers for recovery through the charge-out rate. Costs for recharge centers must be segregated in a separate account. Rates must be based on direct costs and must be applied uniformly to all users. Refer to the recharge account policies and procedures for further guidance.

### 3.02 Internal and External Users

**Internal users** of stores are defined as existing under the university umbrella including academic, research, administrative, and auxiliary areas which purchase services to support their work at OSU. This includes all state agencies who report to the Board of Regents for Oklahoma State University and A&M Colleges. In addition, the OSU Research Foundation, Inc. and the OSU Foundation are considered internal users.

**External users** are organizations or individuals who do not report to the Board of Regents for Oklahoma State University and A&M Colleges. External users include any members of faculty or staff, *acting in a personal capacity*.

## **RESPONSIBILITIES**

### 4.01 Administrative Head

Ultimate responsibility for the store rests with the Administrative Head of the College or Division. The Administrative Head (or their designee) has the responsibility to:

- A. fully review and approve the establishment of each new store prior to a new store account being requested from Tax and Compliance Services;

- B. review and approve all **major** store rates within his/her unit with the advice and consent of Tax and Compliance Services;
- C. review and approve all **minor** store rates within his/her unit unless the Administrative Head chooses to delegate this particular responsibility;
- D. review and approve all special requests for store rate adjustments at mid-year with the advice and consent of Tax and Compliance Services; and
- E. review the performance of all **major** stores with respect to breakeven at *fiscal year-end*.

#### 4.02 Store Manager

The Administrative Head normally delegates day-to-day responsibility to the Store Manager who monitors the operation and takes corrective actions as needed. The Store Manager has an obligation to ensure:

- A. a schedule of rates for **major** stores is prepared and submitted to the Administrative Head for review and approval by the established deadline.
- B. a schedule of rates for **minor** stores (as defined above) is prepared and submitted for approval by the established deadline.
- C. the store's financial results with respect to "breakeven" are reviewed at year-end, and future rates are adjusted for over-recoveries or under-recoveries as appropriate;
- D. the approved rate schedule is applied in accordance with CAS to all users;
- E. Store equipment is reconciled with Property Management's inventory listing as required by institutional policy.
- F. depreciation is incorporated in store rate; and
- G. billings are timely and adequately documented, and receivables are controlled and reconciled.

#### 4.03 Tax and Compliance Services

Tax and Compliance Services is assigned the responsibility for the following:

- A. approval of the formation of new stores and the establishment of new store accounts;
- B. assist store managers with policy and procedural matters;
- C. perform an annual review of all **major** store rate calculations prior to approval by the Administrative Head;
- D. review the performance of all **major** stores with respect to breakeven at *fiscal year-end*; and

E. review special requests for adjustments of costs at mid-year.

#### 4.04 University Accounting – Asset Management

University Accounting – Asset Management will be responsible for calculating equipment depreciation for each store.

### **RECOVERY REQUIREMENTS**

5.01 This section sets forth the policies governing stores to ensure compliance with federal cost principles.

#### 5.02 Nondiscriminatory Rates

Rates charged to *internal* users must be nondiscriminatory, and all internal users must be billed for services received. "Nondiscriminatory" means an individual store will charge *all internal users at the same rate for the same level of services or products purchased in the same circumstances*. Therefore, rates should not differentiate between users *within* the OSU community. The use of special rates, such as for high volume work and less demanding nonscientific applications, are allowed, but they must be *equally* available to all users who meet the criteria.

The university may wish to provide goods or services to a particular *internal* group of users at no charge or a lower rate than other users (e.g., audio visual services as part of an instructional program). In this situation, the store must calculate the same billing rate ***for all internal users*** based on total store expenses and total units of output. Stores may not give away or reduce their charges for goods or services. The recipient of goods or services, and/or a sponsoring account, must be charged the full amount of normal charges for the goods or services.

#### 5.03 Billing Period

Services should not be billed until the service has been rendered. Each store must operate in accordance with the university's fiscal year, which is July 1 through June 30. Stores should handle year-end billings consistently to ensure twelve months of cost recovery are associated with twelve months of incurred costs.

#### 5.04 Breakeven Concept

Store rates are generally calculated based on budgeted projections of operating expenses and projected volume of the services or products to be provided.

"Operating at breakeven" means there is no significant profit or loss as a result of charging users for the services provided in any particular period. If a store ends a given fiscal year with an actual operating surplus or deficit *within* 10% of breakeven, the profit or loss must be factored into the following year's rate calculation. Refer to the discussion of "Treatment of Over/Under Recoveries."

### 5.05 Working Capital

Each store may establish and maintain through its charges a working capital reserve, in addition to full recovery of its actual costs. OSU has established a store's working capital level *may not exceed 60 days*.

### 5.06 Long-Term Breakeven Agreements

In unique situations, when a store requires a multiple-year period in which to recover or spread-out operating costs, a long-term breakeven agreement may be negotiated. This usually occurs when operations require large initial capital equipment and building costs. However, such agreements must be negotiated by Grants and Contracts with the *cognizant agency if applicable*. The need for such an agreement must be presented to and reviewed by Tax and Compliance Services.

### 5.07 Unallowable Costs

Unallowable costs may not be budgeted or expensed on store accounts and may not be included in the user rate calculations when prohibited by Federal Uniform Guidance. Such expenses (e.g., alcohol, entertainment, unallowable travel) must be excluded from the rate calculation.

## **ESTABLISHING STORE ACCOUNTS**

6.01 All stores must maintain a separate account. Stores will be assigned a Ledger 2 account to be used solely for the purpose of accounting for the store operations. All allowable store operating costs, including depreciation, should be charged to this account. Revenues should be charged to the appropriate revenue subcodes in the Ledger 2 account. All revenues generated by external users should be charged to a separate subcode in order to segregate external and internal revenues.

In addition, each store will be assigned a Ledger 7 account, which will be used to record the depreciation credit. This account will be used as a funding source to purchase capital assets.

In order to permit proper identification of applicable equipment, all store equipment (and only said equipment) should be purchased directly from the related plant funds. This is true even if transfers must be made from other unrestricted sources to cover shortfalls in funding these equipment purchases. Transfers out of these reserves to other unrestricted accounts can be made to the extent these funds are not going to be needed for future store equipment purchases.

When requesting a Store Fund, include the following information:

- A. a description of the products or services to be provided;
- B. a description of the users of these services;
- C. an explanation of how the store rate was determined, including:
  1. a detailed budget of annual expenses for the store;
  2. a description of the unit of service (i.e., the measure of utilization such as labor hours, machine hours, CPU time, etc.) and estimated activity for the budget period; and

3. the rate calculation, using budgeted amounts and the projected level of activity for the first year of operation. (If a new store is established mid-year, the initial budget and breakeven period may be for longer than twelve months.)
- D. the name, title, phone number, and signature of the Store Manager;
- E. the signature of the Administrative Head, indicating acceptance of operating and financial responsibility for the store;
- F. justification of the need to create the new store, including an explanation as to why other internal or external providers of this service are not being used in lieu of establishing the new store operation; and
- G. requests for the creation of the following new accounts for each business line:
  1. Operations—for operating revenues and expenses;
  2. Equipment—for capitalization of equipment; and
  3. Unexpended plant fund—for depreciation of equipment, buildings, and non-structural improvements.

## **STORE RATE COST COMPONENTS**

### 7.01 Direct Personnel

An appropriate portion of the salaries and wages of all personnel *directly* related to the store's activities (e.g., lab technicians or machine operators) should be included in the rate calculation and charged to the store's *operating* account. The portion of such an individual's salary which should be charged to the store account is the percentage which represents the proportion of effort applied to this activity versus the individual's other OSU activities.

### 7.02 Administrative Staff

The appropriate portion of the salaries and wages of administrative staff supporting a store, even if it is only for a *portion* of their time, should also be charged to the store operating account and should, therefore, be included in the rate calculation. This category does **not** include support which is only general administrative support (e.g., that which might be incurred by the Administrative Head in reviewing proposed rate changes). However, it **does** include effort applied in *direct management* of the store operations (e.g., the maintenance of the store billing system). The portion of such an individual's salary which should be charged to the store account is the percentage which represents the proportion of effort applied to this activity versus the individual's other OSU activities.

### 7.03 Fringe Benefits

Stores will be allocated fringe benefit costs of all personnel directly charged to the store operating account. These costs should be included in the rate calculation.

#### 7.04 Supplies and Expenses

##### Materials and Supplies

The costs of materials and supplies needed to operate the store should be included in the rate calculation. Volume discounts may make it prudent to order large quantities of supplies at times. Over-accumulation of inventory should be avoided.

##### Store Inventories

Commonly, a store will base its operations on an inventory (e.g. a chemical stockroom) or will maintain an inventory of parts and supplies used in providing the service (e.g., a machine shop). Stores maintaining inventories for these purposes may not treat unused inventory costs as a current operating expense in computing billing rates. Unused inventories maintained for resale will need to be accounted for as assets of the university. A physical count of inventory must be taken at least annually.

##### Other Costs

Other costs associated with the operation of stores which may be included in store rates are:

- A. rental and service contracts;
- B. special conferences related specifically to the store; or
- C. professional services.

#### 7.05 Credits to Expenditure Accounts

Credit adjustments resulting from returned goods, overpayments or erroneous charges should be recorded as a credit to the expense account originally charged.

#### 7.06 Capital Equipment

Capital equipment is defined as an item with a value greater than \$5,000 and a useful life of more than two years. Federal guidelines do not allow the purchase cost of a capital item to be recovered through store rates. It is appropriate, however, to recover the depreciation, external interest, or capital lease costs associated with said asset. Therefore, the purchase price of capital equipment should **not** be charged to the store account but rather to the store-related Ledger 7 account. Equipment which is not capitalizable may be treated as a store operating expense in calculating billing rates.

#### 7.07 Depreciation

Depreciation is a charge to current operations which distributes the cost of a capital asset, less the estimated salvage value, over the *useful life* of the asset in a systematic and logical manner. Depreciation will be calculated using the straight-line method. Under no circumstances shall depreciation exceed the total acquisition cost of the asset. Depreciation is not allowable on assets fully depreciated by the university, including assets which have outlived their depreciable lives.

**All** stores should include depreciation on equipment in the rate calculation.

**Major** stores should also include depreciation on buildings and non-structural improvements in the rate calculation. Building depreciation will be allocated to each store based on the square footage identified with the store in the university's space survey.

Stores which have "**specialized equipment**" are encouraged to work with Asset Management to establish an accurately estimated useful life for said equipment. For the purposes of these policies and procedures, specialized equipment is defined as *equipment which is unique to the specific store activities and not common to other university departments.*

#### 7.08 Disposal of Equipment

**Major stores** should include a gain or loss from the disposal of equipment.

#### 7.09 Federally Funded Equipment

Depreciation of equipment purchased by the **federal** government, whether or not title has reverted back to the university, **cannot** be included in user rates.

It is important the government is not charged for equipment depreciation through a user charge and *again* through the depreciation portion of the research indirect (F&A) cost rate.

#### 7.10 Debt Funded Equipment

Federal regulations allow only for the recovery of interest associated with the debt for the purchase of equipment if **all** three of the following criteria are satisfied:

- A. an external financing source was used;
- B. equipment costs are over \$25,000; and
- C. the arrangement is agreed to by the cognizant agency if appropriate and necessary.

#### 7.11 Space

Space occupied by all **major** or **minor** stores should be identified and designated as such during the annual space survey. Space which is occupied by store equipment must be assigned as store space, rather than departmental space.

#### 7.12 Operation & Maintenance and Utility Costs

All **major** stores will be allocated utilities and operations & maintenance costs. Major stores should include these costs in calculating their internal and external user rates.

**Minor** stores will not usually be assessed utilities and operations & maintenance costs *except in extraordinary usage situation and when appropriately accounted.*

### **RATE DEVELOPMENT**

#### 8.01 General Rate Defined

A store rate is the cost per unit of output used to recover the expenses of the store. To compute this rate, departments should use the following equation:



## Budgeted Expenses +/- Prior Year Under/Over Recoveries (within +/- 10%)

### Budgeted Level of Activity (Usage Base)

The budgeted usage base or denominator in the above formula is the volume of work expected to be performed as expressed in units (e.g., labor hours, machine hours, CPU time or any other reasonable measurement). The calculated rate using the budgeted activity is then applied to the **actual** level of this activity when charging users.

Store rates should be calculated for a fiscal year. When a store is established in mid-year, rates may be set for longer than twelve months, so the end of the first break-even period coincides with a fiscal year end.

### 8.02 Types of Usage Bases

The usage base or activity level is used to arrive at a billing rate which reasonably allocates store costs in proportion to those receiving its benefits. Selection of an appropriate usage base is essential to ensure users pay only their share of the costs for the services rendered. Two methods are most commonly used to determine the usage base: consumption and output. These methods distribute costs based on a unit of measurement (e.g., hours, pounds, or gallons).

A consumption base is used when expenses are directly proportional to the amount consumed. For example, assume labor and equipment usage costs can be accurately identified as being consumed on an hourly basis. This means, for each hour of service, a proportional increase in labor and equipment usage occurs. In this case, the store would base the charges on the number of hours of service provided.

Another basis of allocation may be a measure of the output of the store. An output-based rate is calculated when the total cost of the store is divided by the total anticipated number of units *produced* per year (e.g., pages printed).

### **Projected Expenditures**

Annual store expenses are budgeted in the same way as other departmental expenditure accounts. Budgeting considerations may include changes in operating expenses, changes in depreciation, or other known fluctuations. The establishment of a separate account and clear identification of cost types by subcode will facilitate annual submission of projections.

### **Projected Revenues**

Stores should attempt to match the amount of revenues with the budgeted level of expenses through development of user rates. When estimating sales or usage levels, considerations may include prior year performance as well as known future needs of internal and external users.

### 8.03 Review of Rate Calculations

Each year, all **major** stores must submit a budget and rate schedule by the established deadline for the following *fiscal* year for review and approval by Tax and Compliance Services and the

Administrative Head. The budget and rate schedules should be developed to correspond to the university's fiscal year as the rates submitted will become effective July 1.

#### 8.04 Treatment of Over/Under Recoveries

Although stores target breakeven through budgeting and rate setting, seldom do expenses exactly match revenues. OSU has defined a breakeven policy stating a store's surplus or deficit for a given fiscal year should not exceed 10% of annual operating **expenses**, computed as of the final closing of the books on June 30.

To the extent a store's annual operating surplus or deficit is **within** the breakeven range of +/- 10%, this surplus or deficit must be applied to the following year's rate calculation so the operation will breakeven over time.

#### 8.05 Surpluses

When it appears a store is going to end a given fiscal year with an operating **surplus** for the twelve months **exceeding** the 10%, this excess surplus (the portion beyond the 10%) should be adjusted via a mid-year reduction in rates.

Stores which have accumulated surplus funds through overstated billing rates may not transfer these funds out of the store operating account as the balance must be used to adjust subsequent billing rates.

#### 8.06 Deficits

When it appears a store is going to end a given fiscal year with an operating **deficit** for the twelve months **exceeding** the 10%, this excess deficit (the portion beyond the 10%) should be adjusted via a mid-year increase in rates.

#### 8.07 Pricing of Multiple Services

A store providing more than one service may sometimes make a surplus on some services and a loss on others. Combining the results of various services is acceptable as long as the mix of users of each service is not different, and the higher prices charged to one set of users are subsidizing only those losses charged to the approximate group of users.

### **MONITORING PROCEDURES**

#### 9.01 Mid-Year Review

The store manager should evaluate the store's financial position and rates periodically throughout the year to assess their position with respect to breakeven.

#### 9.02 Request for Rate Change During the Year

Store rates should be adjusted as soon as it is evident a store will not fall within breakeven range using the calculated rate. A mid-year rate adjustment for a **major** store will be subject to review by the Administrative Head and Tax and Compliance Services. The new rate will be approved by the Administrative Head (or his/her designee) with the advice and consent of Tax and Compliance Services.

## **BILLING PROCEDURES**

10.01 All billings should be charged to OSU accounts via campus vendor invoices (CVI). External users should be billed via invoice. Billings must be based upon *measured* and *documented* utilization which is properly *authorized* for the account charged. All billings will be at established store rates. The support for the charges should be retained by the store to answer any user or audit inquiries.

The invoice or CVI must provide sufficient documentation of the charges, enabling the documents to "stand alone" in the event of a subsequent review.

The invoice should contain a description which will aid in determining why a particular amount was charged to an account. When charges are divided among multiple account numbers, a basis for the allocation must be provided. Advance billing for services or products is not allowed.

### 10.02 Billing External Users

Before a service is provided to an external customer, he/she will be queried as to whether the service is available through the private sector. The purpose of this inquiry is to ensure the university is not in competition with the private sector.

At a minimum, external users will be charged for the full direct costs of the store operation. An allocable share of the university's indirect (F&A) costs of the store operation may be charged to external users. *At no time will an external customer be charged less than the federal government and internal users.* The federal government will always be treated as the most favored customer. Sales tax, when applicable, must be charged to all external users who do not provide a tax-exempt certificate.

### 10.03 Billing System Controls

Internal billings, if not immediately charged, should be prepared no later than during the first week following the end of the month. On a monthly basis, the store activity should be reconciled to the subledger system. Reconciling items must be followed up and corrected prior to the next month-end closing.

### 10.04 Cash Controls

Some stores, due to the nature of their services or products, have cash sales. Cash sales are treated in the same manner as sales to external users (i.e., a portion of university overhead costs and applicable sales tax must be added to the cost of the goods).

All store cash collections must adhere to OSU Policy & Procedures Letter 3-0331.

## **RECORD RETENTION**

11.01 It is the responsibility of the store management to maintain records of the details involved in all store charges and to answer inquiries concerning those charges. Store charges are subject to audit as long as the grants or contracts they charge remain subject to audit. All store activity must be documented and records maintained to support expenditures, billings, and cost transfers.

## **SPECIALIZED SERVICE FACILITIES**

12.01 Specialized Service Facilities are defined as highly complex or specialized facilities. The rates of these facilities should include their appropriate share of university overhead costs.

The university has defined its specialized service facilities as meeting all of the following criteria:

- A. the store incurs substantial annual expenses and charge-out volume;
- B. treatment of its indirect (F&A) costs within the store rate rather than as part of the overhead pool would "materially" affect the university-wide overhead rate; and
- C. its services should not be easily available from external vendors or have been the subject of an agreement between the university and the cognizant agency.

If a store meets the criteria to be considered a specialized service facility, the store rates must be set to recover both its direct costs and its allocable share of the university's administrative and facility-related indirect (F&A) costs. The costs to be charged to a specialized service center are:

- general and administrative;
- operations and maintenance, including utilities;
- depreciation/use allowance of equipment and buildings; and
- external interest, if approved by the cognizant agency.

The general and administrative and building use allowance costs allocable to specialized service facilities will be provided by Tax and Compliance Services. Stores designated as specialized service centers will be required to follow the procedures for **major stores** (with additional rate components) as set forth in these policies and procedures.

### **13.01 Policy Deviation**

**Any request to deviate from this policy must be submitted to Tax and Compliance Services for primary review. A formal approval for any deviation will be at the discretion of the Vice President for Administration and Finance or designee.**