UTDBP3114 - External Sales Policy Statement

The University of Texas at Dallas (University) recognizes that in the ordinary course of fulfilling its educational, research, and service mission, opportunities may arise for the sale of goods and provision of services to organizations and individuals outside of the University. The purpose of this policy is to ensure external sales activities comply with federal and state laws, adhere to University of Texas System and University guidelines, and follow consistent business practices.

Policy Overview

External sales units are established to provide goods and services to unaffiliated, external organizations or individuals in exchange for value. The term "unit" refers to an organizational subset engaged in a specific activity. Value may be defined as general worth, measurable usefulness, monetary worth, or importance. External sales units are expected to offer goods or services that are unique, convenient, and not readily available from the private market place.

Any University department intending to establish or maintain an external sales unit must submit a written request, approved by the division or school executive officer, to the Vice President for Budget and Finance/Chief Financial Officer or his/her designee. External sales units may expose the University to contract and credit risk, therefore, initial approval and ongoing review is required.

Costs necessary to operate approved external sales units may be identified and charged to customers based on approved rates. The rates charged for goods and services are computed by the external sales unit and are reviewed by Accounting and Financial Reporting (AFR). Rates must be set so that the external sales unit at least breaks even over a period of one year. A recurring deficit greater than 10% of annual cost must be resolved with the AFR department.

Auxiliary enterprise units, which are established and intended to service customers affiliated with the University community (primarily students, faculty, and staff) are not subject to this policy. To the extent that sales activity of auxiliary enterprise units extends beyond the intended customer base to external organizations or individuals, those activities must comply with this policy. Units expecting to charge for goods or services provided to other University departments must also comply with the Service Department policy UTDBP3033.

Use and Management of External Sales Units

Departments may engage in external sales only when the activity is consistent with the mission of the University and aligns with the department's normal business. All costs associated with providing goods and services to external parties must exceed $10,000 annually in order to engage in external sales activity. In addition, authorization to obtain or use an external sales unit does not, in any way, convey authority to sign or enter into a contract on behalf of the University. All agreements must route through the appropriate channels prior to providing any goods or services. The following review process is required for each agreement including agreements for external sales activities that may be similar to prior agreements or for which the unit expects to use an existing external sales cost center.

- The Office of Contract Administration (OCA) will review all non-procurement related agreements including those for external sales activity
  - All agreements originating from University schools will be reviewed in concert with the Provost's Office
- Tax Compliance will review agreements to ensure that federal unrelated business income tax and state sales tax requirements are understood and addressed
• If the OCA identifies characteristics associated with sponsored programs, agreements will be routed to the Office of Research for review.

Agreements for one-time, nonstandard services, such as those with specific or specialized scopes of work defined by the customer, should be routed to the Office of Research for consideration as a sponsored program. Agreements that result, or may result in any transfer or creation of intellectual property must also be routed through the Office of Research for consideration as a sponsored program. External sales activity is not collaborative in nature and should not include intellectual property terms in agreements.

External sales units shall not compete with local businesses providing substantially the same goods or services. Local is defined as being within 10 miles of the University.

Guidelines for External Sales Units

No University resources may be used in the generation of external sales revenue. Any cost incurred in the course of providing goods or services to external organizations or individuals must be recorded to the cost center recognizing the revenue. Examples of these direct costs include salaries and benefits, materials and supplies, rental costs, repairs and maintenance, equipment, etc. The University may assess a fee for central services utilized by the external sales unit but not directly charged to the unit. Examples of these indirect costs include an allocation of human resources, purchasing, financial service support, utility and other similar costs.

A written request to establish an external sales unit must be submitted to the Vice President for Budget and Finance/Chief Financial Officer or his/her designee. The request must be approved by a school's dean, or the appropriate vice president and include the following information:

• Description of the goods or services to be provided
• Description of all other providers of the goods and services within 10 miles of the University
• Listing of potential customers, including University customers
• Projected annual cost to operate the external sales unit
• Copy of the completed rate study worksheet
• Name and phone number of the person responsible for financial administration of the external sales unit
• Anticipated external sales unit start date

Requests to establish external sales units will be reviewed by AFR utilizing the following criteria:

• The request is complete and has appropriate approvals
• The request includes a statement of purpose which is consistent with the University's mission and complies with federal and state law, as well as with University of Texas System and University policies and procedures
• The rate calculations are accurate and adhere to state and federal policies including general accounting standards

AFR will communicate the results of the review to the requesting school or division upon completion. The communication will include financial information assigned to the external sales unit, such as the new cost center and approved budget if applicable. Please see the External Sales Procedure for more information and details related to the rate study worksheet.

AFR will conduct an annual review of all external sales units prior to the establishment of the unit's operating budget for the following year. A key aspect of the review will be to ensure that all costs necessary to provide goods and services are accounted for within external sales unit cost centers.

Annual reviews consist of:

• Ensuring assets listed as "in use" for the external sales unit are properly classified and depreciated
• Reviewing the prior year’s forecast as noted in the rate study compared to actuals for the same period
• Ensuring the usage is reasonable for calculating the annual rate
• Review of financial reports to ensure that rates result in at least a break even net position over one fiscal period
• Ensure that deficits are being resolved within one year of occurrence
• Review the total volume of activity for the fiscal year to ensure that the external sales unit continues to meet the threshold of $10,000 in operating cost
• Review the rate calculation proposed for the following year
• Ensure that depreciation included in the rate is transferred to an appropriate capital reserve cost center for future replacement of capital equipment

If at any time, it is determined by the Vice President for Budget and Finance/Chief Financial Officer or his/her designee that an external sales unit no longer meets the criteria to engage in external sales activity, the necessary steps will be taken to notify the responsible parties and close the external sales cost centers.

If units expect to engage in sales activity to both external and internal customers, approval must also be obtained to become an Internal Service Provider.

**Invoicing and Accounts Receivable**

All invoicing activity must be performed within the University's accounting system. Exceptions may be considered by AFR only when an alternate system provides significant capabilities required by the department that are not available within the accounting system.

Transactions in which goods or services are started or provided to an external organization or individual prior to receiving full payment or value from the external entity are subject to additional requirements described in the Accounts Receivable policy.

**Responsibilities**

**External Sales Unit Responsible Person:** Submit a request to establish a new external sales unit. Manage the daily operations of the external sales unit. Maintain at least a break-even financial position on an annual basis. Collaborate with AFR to complete an annual review and rate analysis. Maintain detailed records supporting charges to customers. Originate invoices and manage collection activity for goods and services provided on credit.

**Vice Presidents / Provost / Deans:** Review new external sales unit requests. Review any analysis and recommendations to discontinue external sales units. Fund any deficits or disallowed costs created by external sales units within the school or division.

**Office of Contract Administration:** Review external sales agreements routed to OCA through the established contract workflow. If OCA believes a contract abides by established contracting standards, the OCA will route the agreement to Tax Compliance and collaborate with AFR in the review process established by this policy prior to execution of the agreement.

**Tax Compliance:** Review external sales agreements to ensure that federal unrelated business income tax and state sales tax requirements are understood and addressed prior to execution of the agreement. Use the annual review of external sales units in conjunction with other data in the annual analysis of unrelated business activities.

**Office of Research:** Review external sales agreements routed to the division through the established contract workflow. The Office of Research will also review any agreements for one-time, nonstandard services or agreements that may result in a transfer or creation of intellectual property to ensure the activity is established as a sponsored program. If agreements are determined to be sponsored programs, this policy will not apply and the established process to create a sponsored project will be followed.
Accounting and Financial Reporting: Collaborate with OCA, Tax Compliance and the Office of Research to ensure that external sales agreements have been properly reviewed prior to beginning the financial compliance review. Collaborate with the external sales unit responsible person to complete and review the rate calculation for all external sales units to ensure compliance with applicable policies and procedures. Monitor the rates charged to ensure consistency with current rate calculations. Notify the external sales unit responsible person if reviews identify practices inconsistent with applicable policies and procedures. Provide relevant data to Budget and Resource Planning and Tax Compliance for all external sales units reviewed during the fiscal year.

Budget and Resource Planning: Ensure the approved operating budgets developed in the rate study worksheets are accurately entered into the University's accounting system. Include the operating budget for external sales units in the review of overall departmental resources allocated to each budgeted unit. Ensure the salary allocation used for each rate study is accurately entered into the budget planning system.

Who Should Know This Policy

- Provost and Vice Presidents
- Deans
- Directors and Fiscal Officers
- Department Heads and Administrators
- Principal Investigators
- Office of Research
- Office of Budget and Finance

Record Keeping

The external sales unit will maintain detailed records supporting charges to external customers as well as information required for computing billing rates. These records will include the following:

- Contact information of external organization or individual requesting the goods or services
  - Contact information must include the correct physical address of the external party
  - Post office box addresses must not be used
- Description and cost of the goods or services being provided
- Financial information necessary for computing billing rates

Related Policies

Internal Service Providers – UTDBP3033

Policy History

- Issued: 2019-07-22

Policy Links

- Permalink for this policy: https://policy.utdallas.edu/utdbp3114
- Link to PDF version: https://policy.utdallas.edu/pdf/utdbp3114
- Link to printable version: https://policy.utdallas.edu/print/utdbp3114