Materiality Threshold Policy FAQ

Why was the materiality threshold policy developed?

An external audit firm, Baker and Tilley, was hired by UCOP to review UCM's recharge practices and policies. The objectives of the audit were to evaluate the risks, policies, processes, and controls surrounding the operations and review of recharges and the recharge process, identify opportunities to enhance efficiencies, and provide recommendations to improve internal controls and compliance with UC Merced governance and federal guidance. The external audit report, submitted to Chancellor Muñoz and UCOP Senior Vice President and Chief Audit and Compliance Officer, concluded that the campus has no formalized process for sunsetting recharges in its current campus recharge policy handbook and hence the report recommended the creation of an internal policy for the establishment of new recharge units and for existing recharge units to remain an approved rate-based facility in the Recharge Policy Handbook. Without the implementation of this policy, the University risks recharge units being established that do not translate into creating new revenue for the University. Additionally, Service centers should be established to benefit an institution's teaching and research functions and create revenue for the University. If a service center is inappropriately established or no longer being used for its intended purpose, it may lead to transferring expenses across departments rather than benefiting the University.   The implementation of this policy update will reduce the risk of recharges being created as a way to increase the budget of a service unit that does not entirely translate into creating new revenue for the campus.

How does a service unit who wants to receive revenue from external clients establish an outside service agreement?

Processes are in place for a service center wishing to charge for products or services and the clients are only external sources.   Please see this link that includes templates that illustrate steps how to establish an external rate service agreement, along with rate calculation examples.

https://finance.ucmerced.edu/costing-policy-analysis/revenue-service-agreements

Can we combine multiple services/research facilities in our recharge units?

This is purely an organizational decision. POPD (Physical Operations Planning and Development) have several recharge activities (Carpentry, Custodial, Lock and Access, Plumbing etc.) and their activities are considered as one recharge unit that offers multiple services.

Can you clarify the CRU (cost recovery unit) process?

A unit may share the cost of a good or service by requesting reimbursement (internal or external parties) of actual expenses incurred; effectively making them a Cost Recovery Unit. Activities of a CRU are locally managed. Financial and Accounting Services may be consulted to determine proper accounting treatment for CRU activities. A CRU's cost-recovery mechanism may help to facilitate a unit's rate approval as it will help the unit provide sufficient financial records/documentation to meet the revenue materiality revenue threshold by Year 3 of its operations. An aspiring recharge unit may utilize the CRU mechanism to track activities in pursuit of formal approval as a rate-based unit by the campuswide recharge committee.

How does a rate based unit who is not meeting the threshold continue to provide its goods/services?

It is definitely not the intent of the materiality threshold policy to stop units from providing their goods/services. On the contrary, the policy encourages this practice as long as it produces new net revenue to the campus. As the audit report stated, the implementation of this policy update is to reduce the risk of recharges being created as a way to increase the budget of a service unit that does not entirely translate into creating new revenue for the campus.

1. Charging a rate for one's services/goods is not the only way for a unit to receive reimbursement. In lieu of a rate, units can get initially reimbursed for their services/goods based on their actual expenses. The process of getting reimbursed based on actuals is being handled by the CRU (cost recovery unit) process. Financial and Accounting Services may be consulted to determine proper accounting treatment for CRU activities. This cost-recovery mechanism can facilitate an aspiring unit's rate approval as it will help the unit provide sufficient financial records/documentation to meet the revenue materiality revenue threshold in future years.

2. Existing RBU's (rate based units) can also initiate a discussion in obtaining replacement funding from their own senior management to replace the funding formerly earned by their low-earning revenue structures, in order to become fully subsidized.

3. Units may also submit additional funding requests that will be reviewed under the campus's annual Budget Call process.

Are there other ways to collect cash from faculty or other units other than a rate based recharge?

See response above. Charging a rate for one's services/goods is not the only way for a unit to collect cash. And that is why we are encouraging aspiring rate based units to be initially reimbursed based on their actual expenses, in lieu of a rate, to receive reimbursement for their services/goods. The process of getting reimbursed based on actuals is being handled by the CRU (cost recovery unit) process.

What is the effective date of the policy? Can the timing of implementation be flexible to provide units time to plan?

The external audit report was dated February 2, 2023 and UCM has 300 days from audit report date to complete all the management recommendations in the report.   The effective date of the policy is FY23-24.

Some recharge units are not receiving the funding if the customer is using grant funding. Can additional support or guidance be provided?

All the recharge facilities under ORED primarily receive their recharge funding from extramural contracts and grants. They have a process in place that permits them to seamlessly receive grant funding for their recharge goods/services on a timely basis.

That process includes having dedicated tools, processes and personnel who work very closely with Financial and Accounting Services so that revenue from extramural contracts and grants are received in a timely manner for their recharge services. Specifically, ORED utilizes iLab (a cloud-based tool for core facility management) to schedule and invoice users. On a monthly basis, a staff member in ORED sends out invoices for approval by both the Principal Investigator and the Research Administrator/Fund Administrator. Weekly follow-up occurs should the request for approvals be unanswered. If the request goes unapproved for longer than three follow-ups, the PI's school administration is contacted for mitigation.