

ADMINISTRATIVE POLICY

Selling Goods and Services to External Customers (30 Day Review)

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Effective Date: October 1996**Last Update:** December 2013**Responsible University Officer:**

- University Controller

Policy Owner:

- Director of Treasury Accounting and Internal/External Sales

Policy Contact:

- [Keith Jansen](#)

POLICY STATEMENT

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Units may engage in direct sales of goods and services to individuals, groups or external entities when the production of those goods or services is consistent with the normal activities of the unit and substantially supports the teaching, research or outreach mission of the university. In so doing, the University must not unfairly compete with the private sector.

Direct sales of goods and services means an exchange of tangible or intangible property or services by the University with external customers for monetary consideration. The following factors will be considered and weighed in determining whether a direct sale of goods or services will be authorized:

- The goods or services represent the transfer of knowledge or expertise from the University to the public.
- The goods or services support and extend the University's teaching, research or outreach mission.
- The prices charged for the goods or services takes into account all direct and indirect costs of providing the goods or services as well as the competitive price of such items in the public market.
- The goods or services are not commonly available or otherwise easily accessible in the public market.
- The provisions of goods or services represents an opportunity to utilize existing capacity or under-performing assets in order to reduce the University's internal costs of providing the goods or services.

Obtaining Initial Approval

Any unit desiring to conduct external sales activity must obtain initial approval for the general sales activity. See Procedure: [Obtaining Approval to Conduct External Sales Activity](#). After receiving initial approval for the general sales activity, on-going accountability and oversight will be provided as defined in this policy.

Units must ensure revenue and costs of external sales activity are separated from internal sales activity when establishing sales activity operating accounts in the financial system. When generating any sales of goods or services from a sponsored project, units should also refer to Administrative Policy: [Managing Program Income Earned on Sponsored Projects](#). When planning or approving business activities, deans, department heads, and other administrators must ensure that these activities are consistent with this policy and Board of Regents Policy: [Direct Sales of Goods and Services](#).

Units are responsible for any taxes, fines or penalties resulting from noncompliance with this policy.

Assessing the Risk Profile of Sales Transactions

Units will use the [on-line risk assessment survey](#) to determine whether a sales transaction is classified as low, medium or

high risk. These classifications will define the accountability and operating procedures that must be followed by units that sell to external customers, as well as the oversight and monitoring procedures that must be followed by central units.

Low Risk Sales

- Units will self-monitor and provide local oversight regarding pricing decisions and financial implications.
- Units have the discretion as to the method used to process sales activity. Units may choose to either use a University-approved contract or bill customers via the EFS billing system.
- Units are responsible for management of compliance activities (e.g. collecting and payment of sales tax)
- Controller's Office will review low-risk sales activities every 4-5 years for compliance with the policy
- Controller's Office will keep a repository of all external sales contracts

Medium Risk Sales

- Units will work with the Controller's Office to complete an External Sales Activity form, a formal rate development, and a contract
- Controller's Office will provide pricing assistance for units requesting the service
- Controller's Office is responsible for monitoring and providing oversight
- Controller's Office will review medium risk sales activities every 2-3 years for compliance with the policy

High Risk Sales

- Units work with the Controller's Office to complete an External Sales Activity form, a formal rate development, and a contract
- Deans or their financial officer's acknowledgement of lower than cost rates and other high risk factors
- The Controller's Office will provide pricing assistance for units requesting the service.
- Units work with the Controller's Office to evaluate market prices
- Units work with the Controller's Office to determine the financial stability of the customer for high dollar contracts
- Units work with the Controller's Office to determine any export compliance issues
- The Controller's Office is responsible for monitoring and providing oversight. Controller's Office will review high risk sales activities every 1-2 years for compliance with the policy

Use of Contracts

For external sales transactions classified as low risk, units can either use a University-approved contract or bill customers via the EFS billing system, which incorporates University-approved terms and conditions. For external sales transactions classified as medium or high risk, units must use a University-approved agreement (contract) for external sales transactions. This agreement, or contract, can be either a standard agreement found in the University policy library or a unique agreement approved by the Office of the General Counsel. To determine risk level, see Appendix - External Sales Risk Assessment or the [on-line risk assessment](#).

Pricing of External Sales

The price charged for goods and services to external customers should take into account all direct and indirect costs of providing the goods and services as well as the competitive pricing of such items in the public market. A best practice for pricing should always at minimum recover direct costs, and whenever possible recover overhead and profit to the extent the market allows. Units selling to both external customers and federal grants and contracts cannot unfairly charge federal grants and contracts.

External sales activities generally should be self-sustaining. However, in situations where University facilities would otherwise sit idle, incremental revenue may be desirable even if allowable indirect expenses are not fully recovered. Many University facilities carry fixed overhead costs that will be incurred regardless of how a facility might be used with an external customer base. In these situations, units are allowed to conduct external sales to help partially cover indirect costs that

would otherwise be paid by the University.

Tax Requirements

Units conducting external sales have a legal obligation to collect Minnesota sales tax on taxable sales.

Units are permitted to engage in activities that generate unrelated business income and are responsible for complying with the related tax procedures.

Exceptions

The Vice President and Chief Financial Officer may grant exceptions to the policy based on written justification. Gifts and sales related to sponsored projects are handled through different policies and procedures (see Related Information). License for rights under the University patent, trademark, or copyright, including software support and maintenance are handled through different policies and procedures (see Related Information.)

REASON FOR POLICY

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To implement Board of Regents Policy: [Direct Sales of Goods and Services](#) and to ensure that external sales activity complies with federal and state regulations. The intent of the policy is to help units identify and mitigate legal, insurance, and tax financial risks; to streamline the process for establishing external sales activity; to accurately accumulate all costs within an identified, segregated set of accounts; to recognize subsidies to the operation; to establish rates based on total costs; and to ensure that an external sales unit is self-supporting.

PROCEDURES

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- [Obtaining Approval to Conduct External Sales Activity \(30 Day Review\)](#)
- [Establishing an External Sales Accounting Structure \(30 Day Review\)](#)
- [Establishing External Sales Rates \(30 Day Review\)](#)
- [Establishing External Sales Agreements \(Contracts\) \(30 Day Review\)](#)
- [Unrelated Business Income Tax Procedures, and Collecting and Remitting Minnesota Sales Tax on External Sales Transactions \(30 Day Review\)](#)

