

# THE UNIVERSITY OF ALABAMA IN HUNTSVILLE

## SERVICE CENTER & SPECIALIZED SERVICE FACILITY POLICY

<b><u>Number</u></b>	07.06.02
<b><u>Division</u></b>	Contracts and Grants
<b><u>Date</u></b>	September 30, 1995
<b><u>Purpose</u></b>	This policy provides direction on establishing and adjusting the billing rates for Service Centers and Specialized Service Facilities.

Service Centers and Specialized Service Facilities are defined as operating units established for the primary purposes of providing a service, a group of services, or products to users principally to the university community. Service Centers and Specialized Service Facilities recover their costs through charges to benefiting users.

Because the activities of Service Centers and Specialized Service Facilities can result in charges to Federal grants and contracts, the government monitors the University's compliance with these regulations. This policy helps ensure that UAH consistently applies sound cost accounting practices and complies with applicable government requirements (e.g., A-21, A-133, A-110).

### **Policy**

#### **Service Centers**

Service centers are operating units that provide special services to the university community with annual billings directly charged to sponsored research contracts and grants accounts of at least \$100,000. Service Centers with annual billings under \$100,000 will be known instead as "Recharge Centers". This policy is not formally applicable to recharge centers; however, recharge centers can use it as a guide.

Service Centers are subject to the following requirements:

1. An operating account for accumulation of direct costs must be established. Costs related to service centers should not be co-mingled with other expenses.
2. Internal users of service centers are those units within UAH (including academic and auxiliary areas) that purchase services from other UAH units to support their work at UAH. This also includes work which is federally sponsored, because those Federal projects are part of UAH. A unique subcode will be provided, by the Director of Accounting and Financial

Reporting, for the interdepartmental transfer of services between orgs. This account code should be used as an expense for those orgs receiving the service and a credit to the service center. Use of the account code for “other interdepartmental services” is prohibited.

3. Proposed billing rates must be submitted on an annual basis, but no later than July 31, to the Service/Recharge Center Policy Committee for audit and review. The submission should include the proposed operating budget, the methodology used to determine the rates, and rate calculations including any over/under recovery from prior years- see the Rate Development Worksheet – SR 10-03 in Forms section. Billing rates are based on cost and must be applied uniformly to all users. Billing rates may not be based on what others charge for similar services. In some cases, it may be necessary to establish rates at less than full cost, but under no circumstances may rates exceed cost over the accepted operating cycle (five years). Cost includes direct expense as well as over/under recovery from the prior year although certain items as defined below must be excluded from the rate calculation.

Direct Cost includes the following:

- Salaries, wages and related fringe benefits
- Supplies and materials
- Subcontracts and outside services
- Other service center operational costs

The following costs must be excluded from billing rates:

- Capital acquisitions
- Debt principal payments and internal interest
- Transfers
- Depreciations

Unallowables- Include, but are not limited to the following categories:

- Entertainment
- Bad debts
- Advertising
- Public Relations
- Alcoholic beverages
- Contributions and donations
- Good or services for personal use

The proposed operating budget submitted as part of the rate approval process should be in sufficient detail, i.e., at the expenditure account code level, to identify those costs that are excluded from the rate calculations.

Questions regarding allowability of costs should be directed to the Director of Accounting and Financial Reporting.

4. A five year cycle is considered an appropriate time period for a Service Center or Specialized Service Center to operate at no better than breakeven.
5. The calculation shown below is the most common way to compute a Service Center rate:

$$\frac{\text{Budget Expenses} \pm \text{Prior Years Deficit or Surplus}}{\text{Budgeted Level of Activity (e.g., number of labor or machine hours)}}$$

6. No capital equipment acquisitions are allowed in the operating account. The operating budget will include a line for depreciation and an actual entry will be recorded to charge the operating account and credit the plant fund equipment reserve account (mechanism to provide funding).
7. Service Centers as of September 30, 1996 include Machine Shop and Johnson Research Center Environmental Lab.
8. To establish new, or change existing Service Centers, departments should complete the Enclosure (1) questionnaire and Enclosure (2) rate development schedule. This policy does not require documentation for Service Centers generating less than \$100,000 annually. To speed approval of their requests, departments must:
  - a. Identify each Service Center as a separate entity with a distinct department fund number;
  - b. ensure the Service Center performs a single function or a sufficiently similar group of functions;
  - c. provide defined objectives and descriptions of goods and services provided by the Service Center;
  - d. quantity, in terms of goods or services, the benefit derived from the Service Center;
  - e. show that the Service Center will generate a reasonable level of activity.

### **Specialized Service Facilities**

Specialized Service Facilities are operating units that provide highly complex specialized services to the university community with annual billing of \$1,000,000 or more.

1. The definition of Specialized Service Facilities per Circular A-21:
  - a. The costs of institutional services involving the use of highly complex or specialized facilities such as electronic computers, wind tunnels, and

reactors are allowable, provided the charge for the service meets the conditions of b through d below.

- b. The cost of each service normally shall consist of both its direct costs and its allocable share of indirect costs with deductions for appropriate income or Federal financing as described in Section C5.
- c. The cost of such institutional services when material in amount will be charged directly to users, including sponsored agreements based on actual use of the services and a schedule of rates that does not discriminate between federally and nonfederally supported activities of the institution, including use by the institution for internal purposes. Charges for the use of specialized facilities should be designed to recover not more than the aggregate cost of the services over a long-term period agreed to by the institution and the cognizant Federal agency. Accordingly, it is not necessary that the rates charged for services be equal to the cost of providing those services during any one fiscal year as long as rates are reviewed periodically for consistency with the long-term plan and adjusted if necessary.
- d. Where the costs incurred for such institutional services are not material, they may be allocated as indirect costs. Such arrangements must be agreed to by the institution and the cognizant Federal agency.
- e. Where it is in the best interest of the Government and the institution to establish alternative costing arrangements, such arrangements may be worked out with the cognizant Federal agency.

2. Specialized service facilities' rates should include the direct and the indirect costs of operating the center plus or minus any under or over recovery from the preceding year. The Director of Accounting and Financial Reporting will help the center in calculating its allocable share of the University's indirect costs. See the service center section 3 above for the allowable direct costs, the costs that should be excluded and the unallowable costs.

Indirect Costs Include:

- Depreciation on buildings and equipment
- External interest
- General and administrative
- Operation and maintenance of plant

3. All of the requirements of service centers outlined in 4, 5, 6 and 8 apply to Specialized Service Facilities.

4. There are no Specialized Service Centers as of September 30, 2010.

### **Cost Accounting Standards**

Research institutions must now comply with the federal Cost Accounting Standards 501, 502, 505, and 506. Essentially, these standards promote consistency and uniformity in cost accounting.

The four standards pertain to:

- consistency in estimating, accumulating, and reporting costs;
- consistency in allocating costs incurred for the same purposes;
- treatment of unallowable costs;
- cost accounting period.

Each of these standards is implicit in this policy.

## **COMPLIANCE RESPONSIBILITIES**

**Service/Recharge Center Review Committee** - A committee comprising representatives from the Compliance Office, the Dean's Office, the Office of Sponsored Programs, Legal Office and Contracts & Grants Accounting has the responsibility for:

- Overseeing the formation of service/recharge centers and the establishment of their accounts
- Performing an annual review and approval of rates for the selection of service centers
- Reviewing the performance of selected service/recharge centers annually, with respect to break-even at midyear and at fiscal year end
- Periodic review of financial status of service centers with respect to budget vs. actual expenditures
- Approving service/recharge center requests for rate changes during the year

**Deans** - Ultimate responsibility for review of desirability and feasibility of service centers and recharge centers rests with the dean (or equivalent for non-academic units). Responsibilities include:

- Fully review and approve the establishment of each new service/recharge center, prior to an account being requested from the Accounting & Financial Reporting Office (See Request for Establishing a New Service/Recharge Center - SR 10-01.) Factors such as consistency with UAH mission, availability of similar service (particularly on campus) and the ability to identify separate costs should be considered before approving
- Review and approve the rate calculation, and supporting documentation for the rate, prior to submission to the Service/Recharge Center Review Committee (See Rate Development Illustration - SR 10-02 and Rate Development Worksheet - SR 10-03)
- Review and approve the annual rate calculation and budget

- Ensure centers will operate in accordance with federal cost principles and University policies and procedures
- Respond to all audit findings related to the Service/Recharge Center
- Monitor financial position with the respect to 'break-even' semi-annually

**Department Head** - The Department Head is responsible for serving as a liaison between the Service/Recharge Center Manager and the Dean, as well as providing oversight for the activities of the Service/Recharge Center Manager.

**Service/Recharge Center Manager** - Day-to-day responsibility for the Service/Recharge Center is provided by the manager, who monitors the operation and takes corrective actions as needed. The Manager has an obligation to assure that:

- An annual schedule of rates, with supporting calculations, is submitted to the Controller's Office for review by the Service/Recharge Center Review Committee, with detailed supporting documentation available for an audit upon request
- The financial position with respect to 'break-even' (see following section on break-even) is reviewed periodically so the rate may be adjusted if necessary
- The approved rate schedule is *applied uniformly* to all users
- Billings are timely and adequately documented, and receivables billed are controlled and reconciled
- Records of the details contained in all Service Center charges are maintained for audit as long as the grants or contracts they charge remain subject to audit. Each Service/Recharge Center activity must be documented and records maintained to support expenditures, billings and cost transfers including:

1. salary and wage documents for seven years,
2. rate calculation work papers,
3. justification of the selected activity base for rate development (See Rate Development Example - SR 10-02 )
4. documentation of actual costs of operations (personnel and operating costs),
5. approval of the rate from the review committee, if applicable,
6. records documenting and measuring sale of the services or products.
7. maintaining inventory system

**Contracts and Grants Accounting** - This office has responsibility for:

- Assisting Service/Recharge Center managers with policy and procedural matters related to accounting operations
- Assisting centers in annual rate calculations for incorporation in the budget
- Assisting centers in establishing expenditure, revenue and capital budgets; and
- Periodic review of financial status of Service Centers

**Internal Audit** will include a selection of Service/Recharge Centers in their work plan to ensure compliance with OMB Circular A-21 and the policies set forth in this document.

## RECOVERY OF COSTS

**Nondiscriminatory Rates** - Rates charged to internal users must be nondiscriminatory, and all users must be billed for services received. "Nondiscriminatory" means that *all users are charged the same rate for the same level of services or products purchased in the same circumstances.* Therefore, rates should not differentiate between UAH users (which includes federal and non-federal-sponsored projects.) The use of special rates, such as for high volume work, are allowed, but they must be equally available to all users who meet the criteria. (The federal government does not object to charging **external** users a higher rate than that charged to internal users. However, rates must be justified as covering costs and not as profit.)

**Billing Period** - Services must be billed **after** the service has been rendered; prepayments are not appropriate. The centers will operate in accordance with the University's fiscal year, October 1 through September 30. Centers should handle year-end billings consistently each year, to assure that twelve months of revenue are associated with twelve months of incurred cost.

**Break-even (Revenues equal Expenditures/Costs)** – Service/Recharge Centers should target break-even through budgeting and rate setting, but normally revenues and expenditures do not exactly match. The University has defined a break-even policy stating that a Service/Recharge Center'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 September 30. Under or over recovery of costs should be calculated based on actual revenues and expenditures, without regard to budgeted funds. (See Revenues and Expenses Worksheet - SR 10-04.) To the extent the annual operating surplus or deficit is within the break-even range of +/- 10%, that surplus/deficit must be applied to the following year's rate calculation(s) so the operation will break-even over a 5 year period.

**Mid-Year Treatment of Over/Under Recoveries** - When it appears that a Service/Recharge Center is going to end a given fiscal year with an operating **surplus or deficit** for the twelve months **exceeding** the 10%, this excess

(the portion beyond the 10%) surplus or deficit should be addressed in a midyear adjustment of rates.

**Unallowable Costs** - Unallowable costs may **not** be budgeted or expensed on Service/Recharge Center accounts and they may **not** be included in the user rate calculations as prohibited by OMB Circular A-21. Typical unallowable costs include, **but are not limited to**:

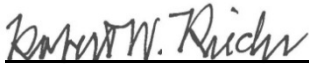
- Advertising and public relations costs
- Alcoholic beverages
- Bad debts
- Contingency provisions
- Entertainment costs
- Fines and Penalties
- Insurance and indemnification
- Memberships, subscriptions, and professional activity costs of a social or individual nature
- Selling and marketing costs

See OMB Circular A-21, Section J for a complete list of unallowable costs.

**Review**

The Office of the Vice President for Research and Economic Development is responsible for the review of this policy every five years (or whenever circumstances require).

**Approval**



\_\_\_\_\_  
Chief University Counsel



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Vice President for Research and Economic Development

**APPROVED:**



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President