



**The University of
Memphis**

BF4017 - Service Centers

Issued: February 9, 2017

Responsible Official: Asst Controller

Responsible Office: Accounting

POLICIES

Policy Statement

This policy provides the framework for the fiscal operations of University service centers and recharge operations that will assure compliance with sound accounting principles and government regulations. Service centers will adopt and maintain consistent administrative practices.

Authority

OMB Uniform Guidance (2 CFR 200) - Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Dec 2014). Section 200.468 specifically addresses specialized service facilities. Recharge centers are referred to in the Cost Accounting Disclosure Statement (DS-2) Part III, Indirect Costs. When a service center provides a highly complex or specialized service to research or other activities, the federal government refers to them as a Specialized Service Facility (SSF). As examples, an SSF may include an animal care facility, a linear accelerator, a magnetic center, an air testing lab, a wind tunnel, a central high tech computer operation or a cell sorter.

Purpose

To provide a comprehensive University policy to ensure that service centers comply with applicable Federal regulations and have consistent accounting practices.

Definitions

Billing Rate	The fee per unit of activity charged to customers to recover the costs associated with producing the goods or providing the services.
Break-Even	The situation where actual recharges and external revenues equal operating costs .
Center Overhead	Management and other overhead costs associated with the operations and management of a service center or specialized service facility. Included are allowable salaries, fringes and other costs.
Deficit	The amount by which a service center's operating costs exceeds recharges and external revenues .
Depreciation	<p>An allocation of the cost of property and capital equipment over its useful life. Annual depreciation is calculated by dividing the cost by the number of years of useful life (straight-line depreciation).</p> <p>If the federal government has provided any funding for a particular piece of equipment or building, the depreciation cannot be budgeted or charged to the service center.</p>
Direct Costs	Direct costs are those costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy.
External User	Customers outside of the organizational structure of the university. This category includes faculty, staff or students acting in a personal capacity.
Facilities and Administrative Costs (F&A or Indirect Costs)	The costs of select administrative and supporting functions of the University.
FOAP(A)	Account Structure: Fund, Organization, Account, Program, (Activity). Not all account structures will contain an activity code.

Internal User	Customers who are part of the organizational structure of the University, including academic, research and administrative departments, as well as the University's auxiliary units
Inventory	The value of goods and supplies on hand at the end of a fiscal year. Inventories with a value over \$50,000 must be accounted for in a separate general ledger account and may not be treated as a current operating expense.
Operating Costs	The total direct and indirect costs charged to the service center account.
Personal Services	Salaries, wages, and related fringe benefits associated with the service center. This includes the service center manager, professionals, secretarial and clerical, technicians, operations and other staff. Compensation allocated to the service center must be based on each employee's percentage of effort, which must be documented and maintained in the event of an audit.
Recharge	User fees recovered from internal users .
Recharge Activity	Units that are established to provide services to customers which have a university-wide mission. The distinguishing feature of this activity is the use of actual costs for the service. Examples: Purchasing Card charges or mail services (postage).
Recharge Center	Units or services that can provide a service for a college or department using only the direct cost associated with the service. The distinguishing feature of this center is the use of a billing rate to cover the cost of the service. Example: DNA analysis.
Renewal and Replacement Fund	An account used to accumulate credits for equipment depreciation charged to a service center. The funds may be used for the purchase of capital equipment or may be transferred to another fund for any unrestricted purpose with the approval of the Chief Financial Officer.
Revenue	User fees recovered from external users .
Service Center	All service centers that DO NOT fall within the definition of a recharge center, recharge activity or SSF. Distinguishing

features include annual charges in excess of \$50,000 or greater than \$10,000 to federal awards. A unit does not simply accumulate and distribute costs to other units; rather, the unit provides a good or service, and charges a fee to recover the cost of providing the good or service.

Specialized Service Facility (SSF) The University has further defined a Specialized Service Facility as one that meets all of the following criteria:

- Provides service to a select group of users rather than to overall University operations;
- Generally, has annual direct operating costs of over \$1,000,000; AND
- Generally, charges at least \$250,000 directly to federal awards.

Subsidy Other non-federal funding sources provided to cover a deficit caused by charging user fees less than necessary to recover the total operating costs of a service center.

Surplus The amount by which a service center's recharges and external revenues exceed operating costs. Any surplus must be carried forward to the next fiscal year to be included in the calculation of future billing rates.

Unallowable Costs Unallowable costs are costs that are not eligible for reimbursement on sponsored projects as either direct or indirect and must not be recorded in service center accounts.

However, these costs should be considered in the total cost of providing the service in order to determine surplus or subsidy amounts.

Unit of Activity A specific quantity of a service center's product such as a copy, an hour of machine time, an hour of labor, or any other reasonable measurement that is the basis for the computation of the billing rate.

User Fee The fee per **unit of activity** charged to customers to recover the costs associated with producing the goods or providing the services.

Procedures

Types of Service Centers

There are several common elements that any service center including recharge activities, recharge centers, and SSFs must be aware of and follow. In addition, each of the service center types have additional elements that must be followed. Below are the common elements:

- All recharges and external revenues must be credited to the service center FOAP(A) using the appropriate general ledger accounts;
- Service center recharges and external revenues must generally equal cost;
- Federal grants and contracts cannot be charged a higher rate for goods and/or services than any other internal or external users;
- Surplus amounts are carried forward and are included in the calculation of future billing rates;
- External users (excluding the federal government) may be charged a higher rate than internal users; AND
- All use of facilities and or services must be tracked and considered in billing rate calculation.

SPECIAL NOTE: A surplus generated by higher billing rates to external users can be withdrawn from the service center account and used for any unrestricted purpose only to the extent that the revenue per unit of activity exceeds total operating costs per unit of activity. However, care must be exercised to properly document that billings to external users created the surplus.

Recharge Activity:

- Only actual costs are charged and recharges will be treated as offsets to costs.

Recharge Center:

- Standard billing rates may be developed and used.
- Recharges must be used to offset actual costs.

Service Centers:

- Require the establishment of a unique FOAP(A) for the purposes of budgeting and accounting for its operations.

- All direct costs of service center operations, actually incurred and documented, must be charged to the service center FOAP(A).
- Charges may include direct cost and cost center overhead.
- Permit indirect costs for equipment depreciation.
- Multiple services and billing rates may be developed and used.
- Costs need to cover the services provided and be reviewed and adjusted annually.
- Deficits may need to be covered from other sources.
- Surpluses may remain in the center.

Specialized Service Facility (SSF):

- Requires the establishment of a unique FOAP(A) for the purposes of budgeting and accounting for its operations.
- All direct costs of SSF operations, actually incurred and documented, must be charged to the SSF FOAP(A).
- Depreciation, and operations and maintenance must be charged to the SSF FOAP(A) if included in the billing rate.
- SSF FOAP(A)s that include equipment depreciation in their billing rates will have a separate discrete renewal and replacement FOAP(A) which will be used to record accumulated depreciation credits. SSFs that also include building depreciation and operations and maintenance costs in their billing rates will have another separate discrete renewal and replacement fund FOAP(A) which will be used to record accumulated indirect cost credits for those items. Generally, these FOAP(A)s may be used as a funding source to purchase capital assets for the SSF. Transfers from the renewal and replacement FOAP(A)s to other unrestricted funds may be made with the specific approval of the Chief Financial Officer.

Billing Rates

The following formula should be used to compute the **billing rate** for Recharge Centers, Service Centers and SSFs:

Budgeted **operating costs** +/- prior year **carry forward** /
Expected **units of activity**



For assistance in developing rates, a Rate Development Worksheet is provided in the link section of this policy. This is not a required form.

The calculated rate is then applied to the actual level of this activity when charging users. For example, a computer with estimated annual **operating costs** of approximately \$100,000 and no **carry forward** from the prior year has an estimated output of 1,500 hours during that year. This would result in a rate of $\$100,000/1,500 \text{ hours} = \66.67 per hour. If a department uses the computer for four hours, then it should be charged $4 \times \$66.67$ or \$266.68.

Some service centers or SSFs may need to establish separate rates for the various services provided within the service center or SSF. Each service provided within the service center or SSF may have a separate FOAP(A). The separate FOAP(A) and billing rates would provide more accurate charges to all users than one blended rate based on all of a service center's or SSF's costs. The billing rate of each service provided must be documented.

A service center or SSF 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. Higher prices may not be charged for a service in order to subsidize losses on another service. The total of revenues, recharges, expenses and carry forward from the prior year for all services included in the service center or SSF will be used when calculating the **surplus** or **deficit**.

Service center or SSF rates should be calculated for a given fiscal year. When a service center or SSF is established in mid-year, rates may be set for a period shorter or longer than twelve months so that the end of the first break-even period coincides with a fiscal year-end.

Billing Rate Cost Components

Direct Costs

Billing rates need to be developed for Recharge Centers, Service Centers and Specialized Service Facilities. Recharge Activities will use actual direct costs.

Salaries: An appropriate portion of the salaries and wages of all personnel directly related to the service center's activities,

including administrative support personnel, should be included in the rate calculation and charged to the service center's operating account. The portion of such an individual's salary that should be charged to the service center account is the percentage that represents the proportion of effort applied to this service activity versus the individual's other University activities. This portion should be determined via a documented, auditable method of personnel's activities.

Fringe Benefits: Service centers will include fringe benefits of all personnel directly charged to the service center operating account. These costs should be included in the rate calculation.

Supplies and Expenses: The costs of materials and supplies needed to operate the service center should be included in the rate calculation. Over accumulation of inventory should be avoided.

Inventories: Commonly, a service center 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). Service centers maintaining inventories for these purposes may not treat unused inventory costs exceeding \$50,000 at the end of the fiscal year as a current operating expense in computing billing rates. Unused inventories valued over \$50,000 that are maintained for resale must be accounted for as assets of the University. A physical count of inventory must be taken at least annually and reported to Financial Reporting in accordance with the schedule sent out by the Accounting Office.

Inventory gains or losses must be considered as a credit or charge to the current operating expenses of the service center and must be used when calculating billing rates.

Other Costs: Other costs associated with the operation of recharge operations or service centers which may be included in its rates are:

- Minor non-capitalized equipment;
- Rental and service contracts;
- Special conferences related specifically to the service center or recharge operation; AND
- Professional services.

Supplies and materials

Capital Equipment: Federal guidelines do not allow the purchase cost of a capital asset to be recovered through service center rates. Therefore, the purchase price of a capital asset must not be charged to the service center operating FOAP(A), but rather to the renewal and replacement FOAP(A). If insufficient funds are available in the renewal and replacement FOAP(A), a transfer may be made from other non-federal sources (such as a departmental FOAP(A)) into the FOAP(A). It is appropriate, however, to recover the depreciation (see following section), external interest, or capital lease costs associated with that asset.

F&A Costs

Equipment Depreciation: Both service centers and SSF may include nonfederal equipment depreciation costs when computing their billing rates. If depreciation is included in the billing rate, a journal entry will be recorded by Financial Reporting to transfer an amount equal to the actual depreciation expense of the equipment to the service center or SSF's renewal and replacement FOAP(A). Depreciation is not allowable on assets fully depreciated. Under no circumstances shall depreciation exceed the total acquisition cost of the asset.

Each year, the service center or SSF will need to budget the transfer to renewal and replacement FOAP(A) for an amount equal to the actual depreciation charges of the service center or SSF.

If the federal government has provided any portion of the funding for a piece of capital equipment, whether or not the title has reverted back to the University, the depreciation for that particular equipment cannot be included in the billing rates. Federal funding of equipment is identified by the fact that it was paid for by a federal grant account. The funding source of a specific item of existing equipment can be obtained from Financial Reporting.

Building Depreciation: SSFs may also include a depreciation charge on buildings in the rate calculation. If included in the billing rate, building depreciation will be allocated to each SSF based on the square footage identified with the SSF in the annual space inventory.

If the federal government has provided any portion of the funding for a building, the depreciation charge for that building cannot be included in the billing rates.

Operations and Maintenance Costs: Space occupied by all SSFs should be identified and designated as such during the annual space inventory. Space which is occupied by SSF equipment must be assigned as SSF space, rather than departmental space.

Operations and maintenance rates are assessed on a net assignable square footage basis. SSF's may include operations and maintenance costs in calculating their internal and external billing rates.

Unit of Activity

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

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

Another basis of allocation may be a measure of the output of the service center or SSF. An output based rate is calculated when the total cost of the service center is divided by the total anticipated number of units produced per year (e.g. pages printed, samples analyzed, etc.).

Under both methods, rates must be calculated using total units of activity without consideration of whether charges were actually billed to user, including student use.

Projections

Projected Operating Costs: Annual expenses are budgeted in the same way as other departmental expenses. Any allowable F&A included in the billing rate should be included in the current expense line. Budgeting considerations may include changes in operating expenses, changes in depreciation, or other known fluctuations. Separate FOAP(A)s and clear identification of cost types help to facilitate the annual projections.

Projected Recharges and Revenues: Like other University departments, recharges and revenues for service centers or SSFs are budgeted by account code. Service centers or SSFs must attempt to match the amount of recharges and revenues with the budgeted level of expenses through the development of billing rates. When estimating sales or usage levels, considerations may include prior year performance as well as known future needs of **internal** and **external** users and other environmental effects.

At fiscal year end, it may be necessary to accrue expenses and/or recharges and revenues via journal vouchers to appropriately account for the service center's activity during the correct accounting period.

Monitoring Procedures

Interim Review

Service center financial managers must evaluate the financial position and rates periodically throughout the year to assess the break-even status. During the Fall and Spring budget cycles, service centers must submit budget revisions reflecting projections for final recharges, revenues and expenditures to Dean/Director for approval and then to Financial Planning.

Annual Rate Evaluation

Recharge center rates are approved at the departmental level. Service center or SSF rates are required to be calculated annually by the department and submitted to Dean/Director for approval and Financial Reporting for compliance review. All proposed rates should be submitted to Financial Reporting annually by December 31 and approved by January 31 for the following fiscal year.

The department making the proposed rate change will be responsible for initiating a request with accompanying justification, the Service Center Rate Request Form and Budget Revision Form as required. The request will be forwarded

to Financial Reporting for review, completeness and compliance with Cost Accounting Standards and University policy. Once the rate is approved, the budget revision will be forwarded to Financial Planning.

Billing Procedures

Billings must be based upon measured and documented utilization that is properly authorized for the account charged. External users must be billed by the Bursar Accounts Receivable Department in accordance with [BF4021 - Cash Handling](#). A detailed statement of charges may be provided by the service center in addition to the Bursar's invoice based on established billing rates for the recharge center, service center or SSF. Transfer vouchers will be used for interdepartmental charges. Before services are performed, the internal user must provide a FOAP(A) to be billed monthly as work progresses or upon completion of the work. No additional customer approval will be required prior to submission of the transfer voucher to Accounting. The service center should maintain documentation of request for service and approval to charge.

Documentation to support the charges must be retained by the billing department. Advance billing for services or products is not allowed. The transfer voucher should provide the department charged with the following information:

- Description of charge;
- Number of units consumed; AND
- Rate charged per unit.

Billing System Controls Service centers and SSFs will issue invoices at least monthly. Billing activity must be reconciled to the applicable accounts and errors corrected prior to the next billing.

Cash Controls All cash collections must comply with the guidelines set forth of the [BF4021 - Cash Handling](#).

Record Retention It is the responsibility of the service center or SSF management to maintain records of the details contained in all charges and to answer inquiries concerning those charges. Service center or SSF charges are subject to audit as long as the grants or contracts they charge remain subject to audit. All service center or SSF activity must be documented and records must be maintained to support expenditures, billings

and cost transfers. Each service center or SSF must retain the following:

1. Workpapers documenting their rate calculation(s);
2. Justification of the selected unit of activity;
3. Documentation, including invoices, of actual costs of operations; AND
4. Records documenting and measuring the total use of the services or products – billable and any non-billable.

See the [BF4005 - University Records Management Program](#).

Establishing New Service Centers

When a department determines that a new service center or SSF should be established, the service center manager must submit a request to the Dean/Director. The request must include the supporting documents listed below. If approved, it will be forwarded to Financial Reporting for review, evaluation, and approval of rates. Once approved, the information will be forwarded to Financial Planning for assessment of the impact on the University budget. Financial Planning will forward budget revision to division Vice President or Provost for approval. The request will include the following:

1. The Service Center Application/Renewal form will be used to set up the service center or SSF operating FOAP(A), set up the renewal and replacement FOAP(A) and to obtain required information. See link below.
2. Submit Change in Organizational Unit Form (if new org is needed).
3. The Rate Development Worksheet Form including a detailed budget of annual operating costs to be included in the billing rate (s), a description of the unit of activity, estimated activity for the budget period, the rate calculation using budgeted amounts, and the projected level of activity for the first year of operation. If the establishment of the service center or SSF is mid-year, the initial budget and break-even period may be shorter than twelve months. This form is recommended for usage; however, an alternate rate worksheet may be acceptable. This will be determined on a case by case basis with the Manager of Financial Reporting.

4. Provide a list of capitalized equipment by decal number to be utilized by the service center (whether or not equipment depreciation will be included in the rate).
5. A Budget Revision Form detailing the budget for each new account including all positions, benefits, travel, telephone, printing, current expenses, minor capital costs, recharges, and revenues.

A service center providing similar services to the same population may require multiple FOAP(A)s in order to efficiently manage the operation and accurately compute different billing rates. (e.g. Printing and Duplicating Services could be set up as two FOAP(A)s within one service center for management purposes.) In this case, several FOAP(A)s will utilize one fund so that revenues, expenses (net of recharges), and the surplus or deficit (fund balance) for the operation as a whole may be readily identified. The associated renewal and replacement accounts will be established in the same manner.

Closing Out

If a service center or SSF ceases to operate, Financial Reporting should be notified. The Service Center Director/Manager must ensure that records are maintained in accordance with the records retention policy above.

Roles and Responsibilities

Service Center Director/ Financial Manager

Ultimate responsibility for each service center or SSF rests with the appropriate Provost/Vice President and the Service Center Director. Responsibilities include ensuring that:

- Submit a schedule of proposed rates to Financial Reporting annually by December 31 for rates applicable to the following fiscal year;
- Monitor and resolve surplus and deficit balances timely (factored into subsequent billing rates);
- The service center's projected financial results with respect to break-even are reviewed as part of the Fall and Spring budget cycles with appropriate adjustments to operations and budgets;
- Expenditures are monitored for appropriateness and that the approved billing rates are being used;
- Financial Reporting is notified immediately of new capital equipment purchases so that depreciation will be calculated accurately;

- The approved rate schedule is applied uniformly to all users;
- The service center's equipment is reconciled with Financial Reporting's inventory listing on an annual basis, and specific equipment funded through federal sources is specified;
- If depreciation is incorporated in the service center rates, the depreciation charge/transfer must be obtained from Financial Reporting;
- Billings are timely and adequately documented;
- Receivables are reconciled.

Dean/Director

- Approve establishment of a new service center;
- Assume financial responsibility for operating deficit of service center or SSF;
- Approve rate adjustments and related budget revisions.

Financial Reporting

- Review and approve all requests to establish new service centers or SSFs;
- Monitor service center or SSF balances periodically and notify the service center manager when the surplus or deficit is excessive;
- Review and approve all proposed future fiscal year service center or SSF rates annually; and
- Review closure documentation when an area requests that a service center or SSF be eliminated.

Appropriate VP/ Provost

- Approve establishment of a new service center;
- Assume financial responsibility for operating deficit of service center or SSF.

Related Forms



**Service Center Rate
Development Worksheet**

<http://memphis.edu/accounting/pdf/acct16.pdf>

**Change in Organizational
Unit**

<http://bf.memphis.edu/forms/tech/tech09.htm>

**Service Center Application/
Renewal**

<http://memphis.edu/accounting/pdf/acct15.pdf>

**Permanent Budget
Adjustment BD02 (Base)**

<http://bf.memphis.edu/forms/budg/BD02.php>

**Temporary Budget
Adjustment BD04 (Current)**

<http://bf.memphis.edu/forms/budg/BD04.php>

Links

Cash Handling Policy

[BF4021 - Cash Handling](#)

**University Records
Management Program**

[BF4005 - University Records Management
Program](#)

**Charges to Sponsored
Agreements**

[BF4014 - Charges to Sponsored Agreements](#)

Revision Dates

BF4017 – Supersedes UM1722
UM1722 -- Revised February 9, 2017
UM1722 - Issued: June 28, 2011

Subject Areas:

Academic	Finance	General	Human Resources	Information Technology	Research	Student Affairs
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