

MU Service Center Manual

Purpose: Comprehensive University guidance for Service Centers to ensure compliance with applicable University, State and Federal regulations. Service Centers are revenue producing University enterprises that provide services or products primarily to other University departments.

Service Center Definitions

Distinct from Services Centers are Auxiliary Enterprises, which provide services or products on a continual basis to students, faculty, staff and the general public primarily for personal use. Auxiliaries may sell to University departments on a limited basis but such sales do not constitute a majority portion of revenues. Service Centers and Auxiliary Enterprises collectively comprise Enterprise-Like Operations.

There are three categories of Service Centers:

- Recharge Centers
- Service Operations
- Specialized Service Facilities

Recharge Center – provides services that are generally non-specialized and are not provided for the entire institution. The activity is generally incidental to total departmental activity (e.g., photocopying done on a department copier and recharged to users), and typically has revenues of less than \$50,000 annually. ¹ Recharge Centers provide a mechanism for a program, which has a single type of expense in a relatively simple costing environment, with an efficient method of recovering costs.

The unit develops a rate for the activity based on incurred costs and recharges based on usage by other funding sources. Formal cost studies are not normally conducted. Recharge Centers may only be used for the purpose of recovering **direct costs** of the activity.

Costs defined as unallowable by OMB Circular A-21 **may not** be recovered through the use of a Recharge Center. If the Recharge Center activity is an indirect cost function (under A-21), then charges to sponsored projects for the activity are unallowable. If the Recharge Center activity is a direct cost function, then charges to sponsored projects for the activity are allowable and are included in the base for F&A calculation on the project.

Recharge Centers should not receive income from sources external to the University.

While Recharge Centers are intended to breakeven they may be subsidized; however, they may not realize a surplus. Subsidies are recorded in the accounting system by transfer (Journal Entry TRE) using account 392000 for both the debit and credit side of entry.

¹ With approval of Administrative Services, Recharge Centers may exist as institution-wide entities and handle larger dollar amounts when their function is primarily one of recording transfers within the accounting system (e.g., allocation of computing costs, energy assessments, etc.).

Service Operation - includes all Service Centers that are not a Recharge Center or Specialized Service Facility. A Service Operation is created primarily for providing a service, a group of services, or products to users principally within the University community for a fee. A Service Operation develops the fee for the activities based on costs and charges users for their actual usage. Interdepartmental billings are the predominant revenue source for a Service Operation.

Service Operation rates for internal users (including federally funded and federal flow-through funded sponsored projects) may include administrative and equipment depreciation costs specific to the Service Operation. If the Service Operation activity is an indirect cost function, then charges to sponsored projects for the activity are unallowable. If the Service Operation activity is a direct cost function, then charges to sponsored projects for the activity are allowable and are included in the base for F&A calculation on the project. While Service Operations may realize income in excess of expenses as outlined in the “breakeven concept” section below, this cannot occur in transactions involving funds from federal sources. Federal sources of funds must not be charged either at rates that exceed rates charged to any other user under the same conditions, or at rates that exceed documented costs. In addition, the most preferential rate (chargeable to federal sources) must not include any costs defined as unallowable by OMB Circular A-21.

Any balance should be carried forward and result in a review for an adjustment of rates. Deficit balance carry forwards need approval by the Provost or designee in academic areas or the Vice Chancellor of Administration in all other areas. Subsidies require approval by the Provost or designee in academic areas or the Vice Chancellor of Administration in all other areas. Subsidies are recorded in the accounting system by transfer (Journal Entry TRE) using account 392000 for debit and credit side of entry.

Specialized Service Facility (SSF) – provides highly specialized or complex services to a select group of users. To qualify as an SSF, (other than Animal Care Facilities which OMB Circular A-21 dictates must be operated as an SSF), a Service Center must have an annual income of at least \$1,000,000 with at least \$500,000 originating from federal (including flow-through) sources. OMB Circular A-21 prescribes that SSF rates should consist of both direct and indirect (facilities and administrative) costs of the SSF, and that 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 university and the cognizant Federal agency.

SSF rates include all indirect costs of the activity, and also include an appropriate share of institutional indirect (facilities and administrative) costs. SSF are normally only recognized for direct cost functions. If the SSF activity is an indirect cost function, then charges to sponsored projects for the activity are unallowable. If the SSF activity is a direct cost function, then charges to sponsored projects for the activity are allowable and are excluded from the base for F&A calculation on the project. While Specialized Service Facilities (SSF’s) may realize income in excess of expenditures as outlined in the “breakeven concept” section below, this cannot occur in transactions involving funds from federal sources. Federal sources of funds must not be charged either at rates that exceed rates charged to any other user under the same conditions, or at rates that exceed documented costs. In addition, the most preferential rate (chargeable to federal sources) must not include any costs defined as unallowable by OMB Circular A-21.

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Recovery Requirements

Circular A-21 contains the cost principles used to determine amounts that may be recovered from federal grants and contracts, and requires that Service Centers recover no more than cost from such sources. Therefore, unique Chartfield strings in the University accounting system will be used for tracking both expenses and revenues of Service Centers. These Chartfield strings must contain only revenues and expenditures directly related to the provision of services or products to customers of that Service Center. Funds in these Chartfield strings cannot be expended for non-Service Center activities.

The principles of Circular A-21, with regard to rates based on cost and nondiscriminatory pricing, apply to the determination of Service Center rates used for charges to federal grants and contracts. Section J.44 deals specifically with Service Centers and includes two fundamental concepts:

- **Breakeven Concept** - Recipients of federal funds are not to recover more than cost. Service Center rates are generally calculated based on budgeted projections of operating expenses and projected volume of the services or products to be provided. The goal is to calculate a rate, which will ensure that revenues reasonably offset expenses. "Operating at breakeven," means there is no significant surplus or deficit as a result of charging federal users. A five year moving average is used to define the breakeven threshold for Service Centers. The following example illustrates this concept with regard to cost (after non-cost amounts have been removed from the Chartfield):

▪ Yr1	deficit	-\$4,000
▪ Yr2	deficit	-\$2,000
▪ Yr3	surplus	\$2,000
▪ Yr4	deficit	-\$1,000
▪ Yr5	surplus	<u>\$5,000</u>
▪ Net		0

In year 5, the Center would need to have \$5000 excess revenue to remain compliant. Of course, it is unrealistic to expect exact matches between revenue and expense. A-21 recognizes this and allows institutions to set thresholds determining breakeven. MU has set this threshold as 10% of annual revenues.

- **Nondiscriminatory Rates** – Recipients of federal funds (direct federal and federal flow through) are not to discriminate in the price of services charged to government users. The Federal government should always be charged rates based on cost, or the best available rate for the same level of services or products purchased in similar circumstances. 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 administrator of a Service Center Chartfield string may discount the rate for a particular transaction, but the amount of the discount must be paid into the Chartfield string from another source of funds.
 - Discounts must be recorded in the accounting system.

Rate Cost Components and Rate Development Methodologies

The following expenses charged to a Service Center's operating Chartfield string would normally be included in the rate calculation:

- Direct Personnel
- Administrative Costs (not allowed for Recharge Centers)
- Fringe Benefits
- Materials and Supplies
- Cost of goods sold (COGS)
- Depreciation (not allowed for Recharge Centers)

Unallowable costs are listed in Section J of Circular A-21 (see Appendix A for a comprehensive list). They may not be budgeted or expensed on Service Center Chartfield strings nor included in the user rate calculations when such rates are charged to federal (direct or flow through) sources. Service Centers should not incur unallowable costs unless other sources of funds (for example customers outside the University) are available to cover them. **Examples of unallowable costs are:**

- Advertising of services or products
- Alcoholic beverages
- Bad debts
- Entertainment (e.g., amusement, social activities)
- Fines and penalties
- Goods or services not related to the Service Center
- Capital Expenses
- Anything funded by federal sources

To request and create a Service Center send this form to Accounting Services:

http://accounting.missouri.edu/excel/service_op_request_template_modified.XLS

Record Retention Standards

Certain documentation is necessary to support charges to sponsored projects. All Service Centers must adequately document their activities and maintain records to support expenditures, billings, and cost transfers. Documentation of Service Center charges should include the level of activity, the rate used to calculate the charge, and the date of the activity. Examples of documents that should be maintained are:

- Work papers showing how the charge-out rate(s) were calculated;
- Approval of rates in accordance with university policy;
- Records supporting utilization or level of activity;
- Billing records that identify the service provided to each user; and
- Effort reports of Service Center personnel.

Oversight Responsibility

Departmental and Service Center administrators are responsible for operational budgeting, planning and rate determination for Service Centers. These Administrators are responsible for ensuring that Service Centers comply with University and outside regulatory requirements and may assist in rate setting determination. The Office of Sponsored Programs will periodically review compliance with federal regulations, including rate setting, of Specialized Service Facilities.

Capital Equipment and Interest

The depreciation on equipment used may be included in the calculation of the cost of operating a Service Center (i.e., included in the Service Center rate) per Circular A-21, but not the full cost of the equipment in the year of purchase. An equipment reserve is set up for the depreciation, and purchases of capital equipment are allowed from the reserve account.

In addition, if an internal loan is obtained by the Service Center to pay for equipment purchases, then neither the principal nor interest payment can be included in the rate calculation. A-21 provides only for the recovery of interest on *external* debt.

Inventory

Service Centers should maintain an inventory of parts and supplies used in providing the service (e.g., a machine shop, telecommunication or networking) to ensure that these costs are expensed in the year they are used. Physical inventories of raw materials, work in process, finished goods, and re-sale merchandise, must be taken on a regular basis.

Appendix B

Sample Specialized Service Facility Survey

Introduction

Using a survey is an effective tool for gaining an understanding of the various Specialized Service Facility practices within the university. The following Specialized Service Facility Survey is used to assist management with identifying the types of Service Center activity and their related operations.

Background:

1. Specialized Service Facility name
2. Unit affiliation
3. Services provided
4. Affiliated Service Centers (if any) and nature of affiliation
5. Customers (major customers/%dollar volume)
6. Total annual budget
7. Full-time equivalent staff
8. Funding from other than user fees (if any)
9. Financial administrator (survey preparer)
10. Management personnel
11. Accounting personnel
12. Other significant personnel
13. Organization chart

Accounting Procedures:

1. Bookkeeping:
 - a. Basis accrual
 - b. Journals/ledgers
 - c. Reports

2. Cash:
 - a. Bank accounts (if any)/uses
 - b. Cash disbursements/expenditures procedures and controls/authorized personnel
 - c. Cash receipts/revenue procedures and controls/authorized personnel
 - d. Reconciliations

3. Procurement procedures (description of the process the Service Center uses for purchasing).

4. Supplies and routine services:
 - a. Capital expenditures
 - b. Inventory
 - c. Subcontract services

5. Inventory:
 - a. Items/volume/value
 - b. Accounting/perpetual (continuous or on-line)/periodic/cyclical/other
 - c. Restocking policies and procedures
 - d. Physical inventory/frequency

6. Capital expenditures:
 - a. Policy/funding
 - b. Accounting/records
 - c. Items/volume
 - d. Controls over government and University-owned property
 - e. Physical inventories/records reconciliation policies and procedures

7. Outstanding debt:
 - a. Description (internal, i.e., treasurer's advance; or external, i.e., Bonds or taxable, etc.)/interest rate/term
 - b. Accounting

8. User receivables:[this section should probably be adjusted to reflect local processes]
 - a. Billing procedures (source, accuracy, timeliness, etc.)
 - b. Invoices
 - Pre-numbered and accounted for
 - Processed manually or automated
 - If automated, user approves the bill before processing
 - c. Aged trial balance generated and reviewed
 - d. Collection procedures

9. Cost accounting:
 - a. Direct cost categories (inclusive of interdepartmental charges)
 - b. Internal (cost initiated at Service Center level) indirect cost categories

- c. External (costs initiated at departmental level) indirect cost categories/sources
 - d. Controls to ensure accuracy, completeness and consistency
 - e. Does your department complete a space survey?
 - f. If yes, how do you classify the space for the Service Centers (i.e., federal research, nonfederal research, instructional, dept. admin. or other institutional)?
 - g. Do you complete a survey of personnel effort devoted to Service Center activities (e.g., an effort survey).
10. Historical financial results:
- a. Unrestricted surplus (deficit)

Usage Fees/Pricing:

- 1. Standard billing unit (CPU, time, per item, by the pound, etc.)
- 2. Basis of usage rates (calculation, statistics, direct/indirect costs include/exclude costs, credits, etc.)
- 3. Frequency of rate adjustment reflecting current basis
- 4. Different rates for same service (reason, to whom, etc.)
- 5. Users who are not charged for usage/reason. Indicate how these costs are accounted for.
- 6. Effect of surplus/reserves on rate
- 7. Usage records
- 8. Controls to ensure all usage is identified and accounted for

Cost Allowability Under OMB Circular A-21:

Identify (check off) the following cost categories (if applicable) that are included in the cost basis used to charge for goods and services. The “basic rate” is comprised of expenses (costs) that serve as the basis for charges to federal and other internal users. The “Full Rate” includes costs that are **excluded** from the basic rate but are factored into the cost basis for charges to non-governmental users. Also, for those costs identified below, describe the nature of the costs and indicate the approximate dollar amount.

Cost Category	Nature of Cost	Amount	Basic Rate	Full Rate
Advertising*			*	
Alumni Activities				
Bad Debts				
Commencement/Convocation				
Depreciation/use charge				
Donations to other organizations				
Fines and penalties*			*	
Fringe Benefits				
Fund-raising				
Goods or services for personal use of employees				
Individual salaries in excess of the NIH salary cap				
Insurance reserves for risk of loss				
Insurance losses				
Interest – internal				
Interest – external				
Investment management				
Legal Fees*			*	
Lobbying				
Membership in civic or community organizations.				
Membership in social, dining or country clubs				
Personal living expenses				

Prior accounting period proposal costs				
Recruiting*			*	
Scholarship and student aid				
Selling or marketing costs*			*	
Stockroom inventory*			*	
Student Activity				
International Travel *			*	
Travel other than coach*			*	

Categories blacked out **may not** be used in the base rate charged to federal customers or flow through.

* Items marked with an asterisk **may** be used in the base rate charged to federal customers or federal flow through, please consult:

http://www.whitehouse.gov/OMB/circulars/a021/a21_2004.html

PS Account	Short Description	Explanation with OMB References
721900	Business travel A-21 exclusion	Includes expenses for travel via chartered aircraft in excess of the cost of allowable commercial airfare (J.48.d); all receptions (J.15); that portion of the cost of institution-furnished autos that relate to personal use by employees (including transportation to and from work) (J.8.g).--see also J.1.f, J.2, J.3, J.6, J.11, J.13, J.15, J.17, J.24, J.25, J.28, J.31, J.37, J.38, J.42, J.45, J.48.c
723500	Postage A-21 exclusion	Includes postage expenses that relate to meetings and conferences with the primary purpose of lobbying (J.24.a), fund raising (J.22.b), alumni activities (J.3), or any other activity identified as unallowable.--see also J.1.f, J.4, J.6, J.11, J.13, J.15, J.17, J.18, J.19, J.21, J.25, J.28, J.31, J.37, J.38, J.41, J.42, J.45
724900	Telephone A-21 Exclusion	Includes communication expenses for meetings and conferences with the primary purpose of lobbying (J.24.a), fund raising (J.22.b), alumni activities (J.3), or any other activity identified as unallowable.--see also J.1.f, J.4, J.6, J.11, J.13, J.15, J.17, J.18, J.19, J.21, J.25, J.28, J.31, J.37, J.38, J.41, J.42, J.45

725500	Marketing A-21 exclusion	Includes production and distribution of magazines, newsletters, radio and TV programs, direct mail, and exhibits, unless directly related to the performance of a sponsored research program, and purchase of promotional items (J.1.f, J.42).--see also J.3, J.6, J.15, J.37
726100	Insurance A-21 exclusion	Includes insurance expenses for receptions (J.15), picnics (J.15), commencement and convocations (J.6); and exhibit space at conventions, conferences, and trade shows (J.1.f).--see also J.3, J.4, J.11, J.13, J.18, J.21, J.25, J.31, J.37, J.38, J.42, J.45
727300	Copy service A-21 exclusion	Includes student publications (J.45), commencement programs (J.6), brochures, etc, for the recruitment of students, alumni (J.3) and development (J.22.b) activities, and anything for the promotion of the institution and its programs (J.1.f, J.42).--see also J.4, J.11, J.13, J.15, J.17, J.18, J.19, J.21, J.24, J.25, J.28, J.31, J.37, J.38, J.41, J.42, J.45
734100	Supplies A-21 exclusion	Includes supplies for commencement (J.6), convocations (J.6), receptions (J.15), alumni (J.3) and development (J.22.b) activities; tickets to shows, concerts, or sporting events for entertainment purposes (J.15); and promotional items such as memorabilia, souvenirs, etc. (J.1.f, J.42)--see also J.2, J.4, J.11, J.13, J.17, J.18, J.19, J.21, J.24, J.25, J.27, J.28, J.31, J.37, J.38, J.41, J.42, J.45
743300	Other dept exp A-21 exclusion	Includes costs for exclusion, not captured in one of the other accounts.--J.2, J.4, J.8.f, J.9, J.11, J.13, J.16.b, J.17, J.18, J.19, J.20.a, J.21, J.22.a, J.24, J.25, J.27, J.28, J.31, J.37, J.38, J.41, J.42, J.45
741610	Rent/Lease Office Equip A-21	Includes the rental of furniture, equipment, plants, etc. for receptions (J.15), picnics (J.15), commencement and convocations (J.6); and exhibit space at conventions, conferences, and trade shows (J.1.f).--see also J.3, J.11, J.13, J.16.b, J.18, J.24, J.25, J.28, J.31, J.37, J.38, J.41, J.42, J.45
751400	Profess Serv-A-21 exclusion	Includes costs of professional and consulting services for fund raising (J.22.b) and alumni relations/activities (J.3); commencement speakers (J.6); and bad debt collection (J.4) costs.--see also J.1.f, J.6, J.11, J.13, J.15, J.17, J.18, J.21, J.24, J.25, J.28, J.31, J.37, J.38, J.41, J.42, J.45

J.xx references are to section J of OMB Circular A-21