



TEXAS TECH UNIVERSITY

Operating Policy and Procedure

OP 62.23: Academic Service Centers

DATE: August 14, 2014

PURPOSE: The purpose of this Operating Policy/Procedure (OP) is to set forth the institutional requirements for establishing, accounting for, and monitoring academic service centers and associated rates charged to internal and external users for goods or services.

REVIEW: This OP will be reviewed in July of even-numbered years by the Managing Director of the Office of Research Accounting (ORA) and the Managing Director of Financial Services and Tax (FST) with substantive revisions forwarded to the Vice President for Administration and Finance and Chief Financial Officer (VPAF/CFO).

POLICY/PROCEDURE

1. Policy Statement

It is the policy of Texas Tech University (TTU) that academic service center accounting practices will be consistent and compliant with federal regulations and cost accounting standards, billing rates will fully recover (but not exceed) allowable costs, and rates will be reviewed annually and adjusted as appropriate. Central service units are not covered under this policy.

All service centers must comply with the cost principles set forth in this policy and must establish separate FOPs to account for the revenue and expense of service center activity. Service centers with revenue exceeding \$25,000 annually will also be subject to formal rate reviews as set forth in this policy. Service centers subsidized by more than \$50,000 annually also require a formal rate review and approval from the financial manager providing the funds.

2. Background

A service center is an operating unit providing goods or services to one or more university departments. Such a service might be available from commercial sources but, for reasons of convenience, cost, regulatory compliance, quality, or fiscal control, are often provided more effectively through an on-campus unit.

Some examples of service centers are scientific apparatus repair shops, glassblowing shops, instrument-making shops, chemical stores, data processing, central stores, and animal care facilities.

Since service center activities can result in charges directly or indirectly to federal grants and contracts, the university must comply with Office of Management and Budget (OMB) Circular A-21, Cost Principles for Educational Institutions, and Cost Accounting Standards. The government monitors the university's compliance with these regulations through the Department of Health and Human Services' (DHHS) Office of Inspector General (OIG) auditors and its negotiators

from the Division of Cost Allocation (DCA). Non-compliance with federal regulations could involve reimbursement to the government and/or penalties.

3. Definitions

- a. Academic Service Center – a center that provides services to users who are primarily within the campus community (i.e., internal users) for which it recovers some or all of the costs. Service centers may provide goods or services incidentally to the general public (i.e., external users).
- b. Specialized Service Facility – an entity that provides institutional services involving the use of complex or highly specialized facilities as defined by 2 CFR Part 220 (OMB Circular A-21, J.47). Currently, there are no specialized service facilities at TTU.
- c. Billing Rate – the rate used to recover the cost associated with producing a good or providing a service
- d. Capital Equipment – equipment with an acquisition cost of \$5,000 or more
- e. Central Service Units – separate operating units that are generally not part of academic or research units but, instead, provide services to the entire university community (i.e., these costs are included in the indirect cost pools). Examples include Information Technology, Communication Services, and Physical Plant Operations.
- f. Depreciation – the allocation of the cost of a capital asset over its economic life
- g. Surplus – the amount that the revenue generated by a service center exceeds the cost of providing the goods or services during a fiscal year
- h. Deficit – the amount that the cost of providing the goods or services exceeds the revenue generated by the service center during the fiscal year
- i. Internal User – primary customers of the service center, identified by those who pay for goods or services with a TTU FOP; sponsored project funds are considered internal funds to TTU
- j. External User – a customer over whom TTU does not have fiduciary responsibility; goods or services are not paid with a TTU FOP
- k. Output – a specified quantity of goods or services produced by a service center (e.g., copies, machine hours, labor hours) that is the basis for the calculation of the billing rate
- l. Subsidy – funds provided to a service center to cover operating costs as a result of users being charged a rate that recovers less than the total cost of the center's goods or services

4. Billing Rate

To set accurate billing rates, service centers must be able to separately identify the revenue and expenses related to each operation. Dissimilar services operated by the same department – a computer facility versus a copy center versus a machine shop – must establish separate funds and

billing rates for each service. This will ensure that one group of users is not overcharged to help offset lower prices of others.

a. Rate Calculation

The billing rate must be based on the following breakeven calculation:

$$\frac{\text{estimated costs +/- carryforward - subsidy}}{\text{estimated output}}$$

b. Allowable costs

The billing rate must be designed to recover no more than the federal allowable operating costs for the goods or services provided. All allowable expenses must be recorded directly in the service center fund. Unallowable expenses should be charged to other departmental funds.

Allowable operating costs include:

- (1) Salaries, wages, and fringe benefits of technical personnel directly related to service center activity and administrative personnel in direct support or management of the service center (the cost of individuals working on more than one activity should be allocated to the benefitting activities on a reasonable basis);
- (2) Supplies and materials required to operate the service center;
- (3) Other directly related expenses required for the operation of the service center such as equipment maintenance, rental and service contracts, and professional services;
- (4) Facility expenses (such as utilities and custodial costs) paid directly by the service center for the occupied space;
- (5) Depreciation on equipment purchased with non-federal funds; and
- (6) Administrative service charge (ASC) on qualifying centers (see below)

c. Excluded costs

Certain costs that must not be included in the billing rate because they are recovered through another means or are specifically unallowed by federal regulations include:

- (1) Indirect costs such as building depreciation, campus-provided facility and operations services (such as utilities, maintenance and custodial costs), and general administration costs;
- (2) Acquisition cost of capital equipment;
- (3) Other costs that have already been directly funded by a sponsored project; and
- (4) Federal unallowable costs such as bad debt, interest, and alcoholic beverages (refer to OP 65.08, Attachment C, for a complete list of unallowable expenses).

d. Carryforwards

Because billing rates are developed with estimated variables, there will be variances between estimated and actual revenues and expenses. Resulting fund surpluses or deficits (after transfer of the annual depreciation expense) must be carried forward and factored into the subsequent rate development. A fund surplus may not be transferred out of the service center FOP. Any exception to this rule will be rare and must have approval of the VPAF/CFO.

- (1) A fund deficit will be added to the estimated costs in the subsequent fiscal year, increasing the billing rate.
- (2) A fund surplus in excess of 60 days of operating expenses will be subtracted from the estimated costs in the subsequent fiscal year, reducing the billing rate.

5. Depreciation Expense and Equipment Replacement Costs

Service centers with annual depreciation of \$10,000 or more may include depreciation expense in the estimated costs when developing the billing rate. Depreciation is calculated monthly through Banner; the amount can be provided to the department for billing rate development purposes by SPAR. If depreciation is included in the service center rate, a corresponding equipment replacement fund is required. The department is required to establish a separate 17B fund through the New Fund Request System. FST will transfer the recovered depreciation cost from the service center fund to its corresponding equipment replacement fund at the close of each fiscal year. Capital acquisitions must be made directly from the center's equipment replacement fund.

If the service center equipment was purchased with federal dollars, the associated depreciation is not an allowable cost. For equipment funded partially with federal dollars, depreciation expense will be reduced proportionately.

6. Administrative Service Charge

Service centers with revenue of \$100,000 or more are subject to an administrative service charge (ASC). The ASC rate will be set annually by the VPAF/CFO. The ASC may be reduced/waived by the VPAF/CFO. The ASC will be calculated and charged to the service center on a quarterly basis by the Budget Office.

The ASC rate will not exceed the uncapped general and administrative rate of the university's most recent Facilities and Administrative (F&A) Rate Agreement. At the time of this policy, the ASC rate was 2 percent, and the university's uncapped general and administrative rate was 11.21 percent.

7. Cost Allocation

Where separate billing rates are used for different goods or services provided by a center, the costs related to each good or service must be separately identified through a cost allocation process. Cost allocations will also be necessary where a cost partially relates to the operation of the service center and partially to other activities of the department/organizational unit. Cost allocations should be made on an equitable basis that reflects the relative benefits each activity receives from the cost.

8. Consistency

Rates cannot discriminate between internal users. All users and funding sources must be charged the same rate for the same level of goods or services under the same circumstance. The use of special rates, such as volume discounts, is allowed, but they must be equally available to all users who meet the criteria.

9. External Users

With prior approval from ORA, service centers may provide goods or services to users outside the institution on a **limited basis**. External users cannot be charged at a rate less than that charged to internal users. External users may be charged at a higher rate by adding the TTU negotiated indirect cost rate (and sales tax rate, if applicable) to the approved billing rate or simply charging the “market rate.”

The external user distinction is very important to ensure proper treatment for unrelated business income tax (UBIT) and sales tax. Service centers should consult [OP 62.15](#) and [OP 62.30](#) to ensure that institutional policies are followed for the identification and accounting of taxable activities. FST will determine the appropriate tax treatment of service center activity.

10. Interest Revenue

Interest earned on service center fund balances is credited directly to the service center fund, thereby reducing billing rates.

11. Fund Establishment

a. Service Center Fund (17Axxx)

- (1) The department is required to establish a separate 17A fund through the [New Fund Request System](#). The request to establish a new service center fund must contain the following:
 - (a) A description of the goods or services to be provided;
 - (b) The source of revenue and types of expenditures to be incurred;
 - (c) A statement describing how the service center will benefit the teaching and research functions of the organizational unit;
 - (d) The name, title, and contact information for the individual responsible for billings;
 - (e) The method and frequency of billings; and
 - (f) An indication of whether there will be billings to external users or sponsored projects
- (2) The following are also required to complete the setup process:
 - (a) The [Service Center Rate Development Worksheet](#) if revenue is anticipated to exceed \$25,000 annually and/or the center is subsidized more than \$50,000 annually.
 - (b) The service center equipment listing (if applicable). A complete inventory list is available in the Property Inventory Web application at <https://www.fiscal.ttuhs.edu/propinv/>. Indicate on the inventory list which assets will be used by the service center.

b. Equipment Replacement Fund (17Bxxx)

The department should contact FST to establish a separate 17B fund through the New Fund Request System for each service center with annual depreciation of \$10,000 or more (if recovered in the service center rate).

12. Review and Approval

New fund requests with initial billing rates will be reviewed and approved by FST (new fund) and ORA (rate) when submitted. Fund requests without substantiation of university benefit will not be approved. ORA will ensure subsidies are authorized.

Annually, departments must submit updated *Rate Development and Equipment Listing* forms to ORA. Failure to comply could result in deobligation of the center's budget. SORA will review rate changes to ensure carryforwards are appropriately accounted for and subsidies are authorized. New rates are effective upon approval by ORA.

Approved service center rates are published at <http://www.depts.ttu.edu/fst/ServiceCenterRates.asp>.

13. Charging for Services

- a. To accurately match revenue with the associated expenses, service centers are expected to bill internal and external users before the close date of each fiscal month (i.e., the 10th of each month) in which the services are rendered or goods are provided. Timely billings will help ensure there are 12 months of revenue and 12 months of expenses when evaluating annual fund balances.
- b. No goods or services can be provided for which a charge will be levied against any institutional fund until a budget has been approved and entered into Banner.
- c. All revenue of the service center must be recorded in the assigned fund. To ensure proper tax treatment, revenue from internal sales should be credited to 5E0xxx, and revenue from external sales activity should be credited to 5E1xxx. Revenue should never be recorded as a credit to an expenditure code.
- d. Advanced billing for goods or services is not allowed.
- e. Detailed procedures for charging internal customers are included in [OP 62.26](#).
- f. Receipt of funds from external customers must be received, deposited, and reconciled in accordance with [OP 62.07](#).
- g. File retention, including all supporting documentation related to charges for goods or services, must be retained by the service center for a period of not less than the current fiscal year plus three prior fiscal years. The files shall be available for review and examination by the state auditor, Office of Audit Services, and other external auditors or duly authorized individuals.

14. Roles and Responsibilities

- a. Department/Service Center
 - Request service center fund and calculate billing rate in accordance with this policy.
 - Maintain equipment listing and request equipment replacement fund as needed.

- Monitor service center fund balances and provide updated billing rates to ORA annually.
- Charge users consistently and in accordance with this policy and [OP 62.26](#).
- Ensure that only federal allowable costs are included in the billing rate and charged to the service center fund.
- Ensure all revenue and allowable expenses of the service center are recorded within the service center fund and revenue is properly coded to distinguish between internal and external customers.
- Retain documentation for required period of time for audit purposes.

b. Financial Services and Tax

- Maintain equipment records that differentiate federal and service center equipment from other university equipment.
- Review/approve service center and equipment replacement fund requests in New Fund Request System.
- Transfer recovered depreciation from the service center fund to the equipment replacement fund before the close of each fiscal year.
- Advise departments on the proper procedures for charging internal customers and the proper tax treatment and cash-handling procedures for external sales.
- Report any unrelated business income and sales tax to the proper taxing authorities, including filing required tax reports and remittance of tax collected.
- Monitor billing for compliance with documentation requirements and approved rate.

c. Office of Research Accounting

- Review and approve initial billing rates.
- Provide departments with depreciation figures upon request.
- Monitor service center fund balances.
- Review annual rate revisions for appropriate treatment of carryforwards.
- Approve the sale of goods or services to external users.

d. Budget Office

- Calculate and record the administrative service charge each fiscal quarter.
- Deobligate budgets upon request by ORA in accordance with this policy.