B-020 Policy Manual for Fiscal Operation of Service Centers

Policy Statement

This policy provides a framework for the fiscal operations of University of Miami’s service centers that will ensure compliance with sound business practices, financial accounting and reporting principles, and governmental regulations. It also provides guidelines for establishing and operating a service center, determining appropriate billing rates, and ensuring compliance with applicable federal regulations.

University of Miami conducts business under rules and regulations of federal, state, and local municipalities. Policies and practices must adhere to government regulatory costing principles, such as those contained in the Office of Management and Budget Guidance, Part 200, “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards” (Uniform Guidance), as well as internal university accounting policies and practices. As required by the Uniform Guidance, University of Miami has incorporated the applicable federal Cost Accounting Standards (CAS) in this policy and disclosed the provisions of this policy in the university’s required Disclosure Statement to the Department of Health and Human Services.

Related Policies

[Links to related policies]

Reason for the Policy

University of Miami has established the Policy Manual for Fiscal Operation of Service Centers contained herein to provide consistent financial and operational practices among the applicable units and to ensure compliance with government regulations.

Definitions

[Additional definitions if necessary]
A. **Service Center** – department or functional unit that performs specific technical or specialized services primarily for the benefit of other University internal users. Users are charged billing rates that are intended to cover the aggregate costs of the center. Services may also be provided to external users on an incidental basis, but require monitoring.

B. **Specialized Service Facility (SSF)** – type of service center that provides highly complex or specialized services and has annual billings of at least $1,000,000.

C. **Internal Users** – University of Miami investigators, units, or departments where billing rates are charged to a University account.

D. **External Users** – Non-University of Miami investigators, units, or departments where services are provided under a vendor or fee-for-service agreement.

**Establishing a Service Center**

A Service Center should only be established if the service is primarily to the university community. Requests for new service centers are reviewed and approved by the Office of Research Administration. The request for a service center account must include:

1. A billing rate worksheet (please follow this link for [Service Center Rate Development Template and Instructions]).
2. A business plan to describe the services, benefit, target customers, and projected budget.
3. Submit above two documents, pre-approved by the department head and fiscal administrator, to your corresponding campus reviewer:
   a. Coral Gables Campus – submit to Office of Research Administration.
   b. RSMAS Campus – submit to RMSAS Business Office.
   c. Medical Campus – submit to Office of Research, Research Education and Innovative Medicine.
4. Upon approval of the business plan and billing rate(s), submit an Account Create Form (please follow this link for [Controller’s Forms]):
   a. Request a new unrestricted operating account; include a copy of the rate approval from the Office of Research Administration.
   b. Request a new plant reserve account if the estimated budget is $100,000 or greater and depreciation is included in the billing rate(s).
5. Once the operating account is created, update payroll distributions in DHRS and purchase orders so that expenses reflected in the billing rate worksheet are recorded in the new operating account.
Account Management

Service center activities should be separately accounted for and not commingled with other University activities. Specifically:

1. Operating Account - a separate, unrestricted operating account for accumulation of direct costs and revenues must be established.
2. The service center administrator is responsible for managing account activity to ensure all related expenses are reflected in the account.
3. Service centers should maintain detailed records of annual usage (i.e. number of units provided for each service, number of internal users versus external users) for use in billing rate development.
4. Plant Account – a dedicated plant account should be established for service centers that have at least $100,000 or greater in annual billings and which rates include depreciation.

Billing

All services provided must be billed to the user at the approved rate and recorded in the operating account. If the department subsidizes services to its members, the subsidized usage must be charged to an appropriate departmental account and the credit recorded in the service center account. For example, if the internal user rate that a federal award pays is $100 per unit, and a graduate student pays a subsidized rate of $60 per unit, the subsidized difference of $40 per unit must be charged to an appropriate departmental account and a total credit of $100 per unit recorded in the service center account. On the surface, it would appear the graduate student pays less. However, coupled with the corresponding subsidy, the revenue per unit received for the graduate student user is the approved rate of $100 per unit.

Charges to all users must be based on actual usage and should be timely, accurate, and documented. Prepare an invoice specifying the name of the service, number of units, and the approved billing rate.

1. Appropriate accounting entries should be recorded timely, accurately, and in accordance with University accounting policies.
2. Service center accounts must be reconciled by the responsible person.

Billing Internal Users

Use a sub-object code in the 4XXX series for both the charge to the user’s account and the credit to the service center account. A unique sub-object code in the 4XXX range series may be established for each major service provided to the University community. This sub-object code is used for both the charge (debit) to the department receiving the service and the expense credit recorded.
in the operating account of the service center providing the service. For service centers that are assigned a unique sub-object code, the service center’s unique sub-object code may be used. Otherwise, sub-object code 4234 (Interdepartmental Services-Other) may be used.

Use of these sub-object code(s) for other than interdepartmental services is prohibited. Establishing service center sub-object codes is the responsibility of the Controller’s Office.

**Billing External Users**

1. Create a written agreement between the University and the customer to clarify the terms and conditions of providing the service. Contact Financial Operations for further guidance.
2. Revenues from services provided to external users must be recorded using a revenue sub-object code in order to properly classify the transaction in the accounting system (e.g., 0809-Misc. Sales & Services).
3. Billing to external users should incorporate good internal controls including segregation of duties such that the person who creates an invoice is not the same individual as the person who would receive payments. The individual responsible for reconciling the service center’s accounts should not be responsible for billing or receipt of payment.
4. Cash receipts should follow the University’s Cash Handling Policy (see Related Policies section for link to policy).

**Caution:** Sales tax may be applicable if a tangible product is sold to a non-tax-exempt customer. Activities that are not substantially related to the University’s tax-exempt mission (education, research, and patient care) may need to comply with Unrelated Business Income Tax disclosure. *Contact the Controller’s Office for further guidance.*

**Billing Rates**

- Service center billing rates should be evaluated on an annual basis.
- Service centers with annual billings greater than $75,000, or annual federal billings greater than $50,000, must submit proposed billing rates to the Office of Research Administration for review and approval no later than March 30th for the following fiscal year activity. Service centers not requiring Office of Research Administration review and approval of rates should be familiar with and follow this policy in setting their rates.
- The billing rates must be reviewed and approved by the department’s budget/fiscal administrator prior to submission to the Office of Research Administration.
• Rates may be established at less than full cost when circumstances require it, typically when the rate is subsidized by the University due to the high cost of the service.

• Service centers must maintain documentation on rate calculations in compliance with the University record retention policy for Sponsored Programs audit files (see Related Policies section for link to retention policy).

• Billing rates should generally be applied uniformly to all internal users so as not to discriminate against federally funded users. Rates charged to federal sponsored accounts cannot be higher than rates charged to other University accounts or to external users.

• Under no circumstances can external users be charged lower rates than internal users. External rates may include University’s F&A indirect cost rate for research to recover the associated indirect costs. External rates to non-federal users may include additional premiums and/or fees, in addition to the University's F&A indirect cost rate for research.

Rate Development

Billing rates are based on actual or reasonable estimates of all allowable costs directly identifiable to providing the service(s) and should be designed to cover the aggregate fiscal year costs of the service center on a breakeven basis. The Billing Rate Worksheet Template, as modified by the Office of Research Administration, should be used to facilitate the development and review of rates for goods and services charged by individual service centers (please follow this link for Service Center Rate Development Template and Instructions).

Service Center Cost Components

Direct Personnel:

An appropriate portion of the salaries and benefits of all personnel directly related to the service center activities, including departmental administrators such as directors, professional/technical and clerical employees, must be directly charged to the service center’s account. Effort already charged to another University function cannot be duplicated by the service center, i.e., total effort cannot exceed 100%.

Fringe Benefits

Fringe benefits must be included in the rate calculation based on university fringe benefit rates agreed to by the federal government.

Supplies and Expenses
The costs of materials and supplies (including minor equipment), subcontracts, outside services, and equipment maintenance needed to operate the center can be included in the rate calculation.

Certain service centers will base their operations on inventory, or will maintain an inventory of parts and supplies used in providing the services or goods. Such service centers must account for these parts and supplies as assets of the university and charge the cost of the inventory to expense based on usage or consumption. Other costs associated with the operation of service centers may include external rental and service contracts, travel to conferences related specifically to the service center, professional services, and interest on debt used to acquire capital assets.

**Capital Equipment**

Purchases of equipment with a unit cost of $2,500 or higher should not be made from the service center operating account. Capital equipment should be purchased from either the service center plant account or a departmental operating account.

**Equipment Depreciation**

Federal regulations do not normally allow for the recovery of the purchase price or acquisition of a capital item through service center rates in the year acquired. It is appropriate, however, to recover such cost through depreciation over the equipment’s useful life.

**Caution:** Depreciation of service center equipment purchased or paid for by the federal government, whether or not the equipment title has reverted to the university, cannot be included in the rate calculation.

When applicable, depreciation expense will be recorded in the service center account at fiscal year-end by the Controller’s Office. A journal entry will be processed to charge the operating account and credit the plant reserve account. This allows depreciation to be included as an operating expense and establishes a mechanism to provide funding to the plant account for the acquisition of replacement equipment.

**Indirect costs:**

Specialized service facilities can include the allocable share of indirect (F&A) costs in the rate calculation, including:

- Operations and maintenance of space occupied by service center
- Depreciation on space occupied by service center
External interest in connection with construction or renovation of space occupied by the service center
-General and Administrative allocation of expenses applicable to service center

**Caution**: Except for specialized service facilities, it is not appropriate to include the above indirect costs in rate calculations.

**Unallowable Costs**

Unallowable costs are defined in the Uniform Guidance and are expressly prohibited for inclusion in billings to university sponsored research and administrative operations by service centers. Unallowable costs include, but are not limited to:

- Costs that bear no direct relationship to the activities of the service center.
- Entertainment
- Bad debts
- Advertising
- Public relations
- Alcoholic beverages
- Contributions and donations
- Goods or services for personal use
- Equipment acquisition costs (only depreciation of equipment is allowed)
- Depreciation on federally funded equipment.
- Principal payments on debt used to acquire equipment or construction of service center space
- Internal interest/rent
- Transfers

**Service Centers That Provide Multiple Services**

Where a service center provides different types of services to users, separate billing rates should be established for each service that represents a significant activity of the service center. The costs related to each service must be separately identified through a cost allocation process. Cost allocations also will be needed where a cost partially relates to the operations of a service center and partially to other activities of a department or other organizational unit. Cost allocations are to be made on an equitable basis that reflects the relative benefits each activity receives from the cost. The revenues, surpluses and deficits should also be separately identified for each service.

**Operating Surplus**

A surplus is allowable in any given year, but must be included in the calculation of future billing rates. Service centers cannot accumulate a net surplus over a
five-year operating cycle. In the event a service center generates a net surplus over a five-year operating cycle, it must pay the surplus back to its users through either a rate reduction or via a credit to the users’ accounts. The surplus from one service may be used to offset the deficit from another service only if the mix of users and level of services provided to each group of users is approximately the same. Any amounts charged to external users in excess of the regular internal University billing rates should be excluded from the computation of a service center’s surplus for purposes of making carry-forward adjustments to future billing rates, with the following exception: service centers with operating deficits should use any external surplus to offset the deficit.

**Operating Deficit and Subsidies**

Any prior year deficits can be carried forward as an adjustment to the billing rate. In some instances, the University or department may elect to subsidize the operations of a service center, either by charging billing rates that are intended to be lower than total costs, or by not making adjustments to future rates for a service center’s deficits. The portion of service center deficits funded by institutional subsidies cannot be carried forward as adjustments to future billing rates.

There are also sponsored awards where the purpose of those awards is to fund internal core facilities. Terms and conditions of the award will dictate which internal users receive benefit from this subsidy. Each service center receiving subsidies must develop rate schedules appropriate for each set of users. Users may not benefit from a subsidized rate if they are not in a group that qualifies for a rate subsidy.

**Use of Funds for Other Purposes**

Surplus funds from service centers cannot generally be used to fund other departmental activities unrelated to the operation of the service center. Resource transfers out of the service center should only occur to transfer revenue associated with premium included in the rates to external users (i.e. revenue charged to external users in excess of the regular internal University billing rates).

**Closing a Service Center**

Service centers may be closed due to a variety of circumstances such as insufficient business volume, obsolete technology, lack of institutional support, programmatic, or other reasons. Whether the closing is requested by the service center director or by other institutional officer, the Office of Research Administration can assist with the orderly closing of the service center.
A financial status report of the center should be prepared to determine if there is a deficit or surplus. If there is a surplus, there should be an analysis performed and a plan prepared of how the surplus will be distributed. This distribution plan will depend upon materiality and if university subsidies are part of the surplus.

**Government Oversight**

The government monitors University of Miami’s compliance with these regulations through the Department of Health and Human Services. To minimize exposure from noncompliance, service centers must comply with these policies and procedures. The university’s exposure from noncompliance could involve repayment to the government and could affect future award applications.

**Review of Service Centers**

The Office of Research Administration will conduct periodic reviews of the financial operations of service centers. These reviews will focus on the development and charging of billing rates, the handling of surpluses and deficits, and the adequacy of the service center’s record keeping procedures.

**Policy Owner**

The University’s Office of Research Administration is the primary source of information, education, and assistance to faculty and staff on this policy.