Service Centers Procedures

Service centers are units within CWRU departments that directly support the research or academic mission of the University and recover costs through charges to internal and external users. All service centers are expected to recover no more than the aggregate costs of their operations through charges to users. All service centers must be able to demonstrate compliance with federal requirements and cannot use fee structures that discriminate against federal and other funding sources.

Any school operating a service center (see definitions) with total operating revenue of $50,000 or more per year must comply with these procedures. Service centers that do not meet the threshold are subject to school-level review at any time. This review may include, but is not limited to, evidence of strong financial oversight and continuous compliance monitoring. Central service units and other fee-for-service units are not covered here but must comply with the Uniform Guidance, other federal requirements, and all other relevant University policies. Approval is required from your school's finance office before establishing and operating a service center.

In addition to these procedures, numerous appendices were created to provide additional information for operating a service center. Appendix A-D were created by the School of Medicine and are standard operating procedures for the School of Medicine Core Facilities. These documents are listed below and cover best practices, setting user fees, iLab operations, and much more.

- Appendix A - CWRU Service Center Best Practices Handbook
- Appendix B - School of Medicine Core Facilities Best Practices Guidelines
- Appendix C - Core Facility Scenarios to Assist in Setting User Fees
- Appendix D - Billing Process for Cores in iLab

GOVERNMENT COMPLIANCE

CWRU shall comply with the U.S. Office of Management and Budget Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 C.F.R. §200) ("Uniform Guidance"). Below is the CFR definition and general guidelines for the treatment of service centers.

§200.468 Specialized Service Facilities

a. The costs of services provided by highly complex or specialized facilities operated by the non-Federal entity, such as computing facilities, wind tunnels, and reactors are allowable, provided the charges for the services meet the conditions of either paragraphs (b) or (c) of this section, and, in addition, take into account any items of income or Federal financing that qualify as applicable credits under subsection §200.406 Applicable credits.

b. The costs of such services, when material, must be charged directly to applicable awards based on actual usage of the services based on a schedule of rates or established methodology that:

(1) Does not discriminate between activities under Federal awards and other activities of the non-Federal entity, including usage by the non-Federal entity for internal purposes,

(2) Is designed to recover only the aggregate costs of the services. The costs of each service must consist normally of both its direct costs and its allocable share of all indirect (F&A) costs. Rates shall be adjusted at least biennially and must take into consideration over/under applied costs of the previous period(s).

c. Where the costs incurred for a service are not material, they may be allocated as indirect (F&A) costs.

d. Under some extraordinary circumstances, where it is in the best interest of the Federal Government and the non-Federal entity to establish alternative costing arrangements, such arrangements may be worked out with the Federal cognizant agency for indirect cost.

§200.413 Direct Cost

(b) *Application to Federal awards.* Identification with the Federal award rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect (F&A) costs of Federal awards. Typical costs charged directly to a Federal award are the compensation of employees who work on that award, their related fringe benefit costs, the costs of materials and other items of expense incurred for the Federal award. If directly related to a specific award, certain costs that otherwise would be treated as indirect costs may also include extraordinary utility consumption, the cost of materials supplied from stock or services rendered by specialized facilities or other institutional service operations.

RESPONSIBILITIES

Core Director/Department Administrator responsibilities include:

- Initiate establishment of new service centers with the school's financial officer
- Report any rate changes to the school finance office and Controller's Office
- Review financial information annually to ensure breakeven or necessity to change rates
- Calculate rates every two years based on actual expense, budget data and projected usage
- Complete the "Service Center Rate Approval Form" and submit biennially to the Controller's Office
- Ensure that rates comply with the guidance in this document and are reported and reviewed by school financial officers

School responsibilities include:

- Review and approve rates, account for subsidies, and record F&A charges
- Assist with internal and external audits
- Approve the creation and/or dissolution of service centers and request new general ledger accounts as needed
- Responsible for any local changes to the procedures manual
- Move service centers into iLab when appropriate
- Maintain a current service center list

Central Responsibilities include:

- Provide guidance and assist with Government Compliance Issues
- Assist with coordination and clarification of these procedures
- Approve service center rates biennially
- Coordinate auditors request

DEFINITIONS

Service Center: An activity that performs specific technical or administrative services, primarily for the internal operations of the University and charges users for its services. These centers are also known as:

- **Core Facilities:** Defined by NIH as being centralized shared resources that provide access to instruments, technologies, services, as well as expert consultation and other services to scientific and clinical investigators.
- **Recharge Center:** A service center with annual direct operating costs of less than $100,000.
- **Cost Center:** A service center with annual direct operating costs between $100,000 & 1,000,000. Also, all service centers that don't fall within the definition of a specialized service facility.
- **Specialized Service Facility:** A large service center that (a) provides services to a select group of users rather than to overall University operations, and (b) has combined annual direct operating costs of $1,000,000 or more.

The staff at CWRU does not need to distinguish between the type of service center and can refer to them by any of terms listed above. For the purpose of this document and future communication from the Controller's Office, they will be referred to as "Service Centers".

Billing Rate: The amount charged to a user for a unit of service. Billing rates are normally computed by dividing the total annual costs of a service by the total number of billing units for the period. Internal billing rates must be equal to or less than external rates.

Billing Unit: The unit of service provided by a service center. Examples of billing units include hours of service, animal care days, tests performed, machine time used, etc.

Surplus: The amount of revenue generated by a service which exceeds the costs providing the service in a fiscal year.

Deficit: The amount that the costs of providing a service exceeds the revenue generated by the service in a fiscal year.

Direct Operating Costs: All allowable costs that can be directly identified with a service provided by a service center. These costs may include salaries, wages and fringe benefits of University faculty, staff and students directly involved in providing the service; materials and supplies; purchased services; travel expenses; and equipment rental.

Internal Service Center Overhead: All costs that can be specifically identified to a service center, but not with a particular service provided by the center, such as the salary and fringe benefits of the center director.

Institutional Indirect Costs: The costs of administrative and supporting functions of the University such as operations and maintenance of buildings; building and equipment depreciation; and interest associated with financing of buildings.

Unallowable Costs for Service Center Rate Calculation: Costs that cannot be charged directly or indirectly to federally sponsored programs can be considered unallowable. These costs are specified in 2 CFR PART 200. This would include all 599xx0 PeopleSoft account codes along with indirect costs that are already included in the University's F&A Rate Proposal. Some examples of indirect costs that ARE NOT allowable would be:

- Building and equipment depreciation, capital equipment, building interest expense, and operations & maintenance costs associated with the space (i.e. utilities, custodial, security) since CWRU included all these costs in its F&A rate.
- The non-Federal portion of the University's fringe benefits rate.
- Expenses such as entertainment, unallowable travel, and alcohol.
- Administration staff salaries not charged to a known service center's operating account during the most recent F&A Rate Proposal. A newly created position may qualify as allowable for staff that support a service center. This portion of the effort must be charged to the center(s) operating account.

<u>GENERAL PROCEDURES</u>

1. **Rates**: Billing rates should be designed to recover the total allowable direct operating costs of providing the services on an annual basis. <u>No costs other than the costs incurred in providing the services should be included in the billing rates when charging a federal grant.</u> The costs charged to federal grants should exclude unallowable costs and be net of applicable credits. The computation of the billing rates charged to federal grants for service centers should NOT include the facility's allocable share of institutional indirect costs.

2. **Rate Approval:** Billing rates should be computed annually for the start of each fiscal year. Each rate needs to be approved annually by the service center's director and the management center, and biennially by the Controller's Office. The rates should be based on a reasonable estimate of the direct operating costs, and where applicable, indirect and other costs of providing the services for the year. These estimates can be determined through use of historical costs and billing units or projected costs and billing units. In some cases, the service center may charge market prices, so long as it recovers no more than cost when a federal grant is charged. External users can be charged "market" rates.

3. **Timely Billing:** All users should be charged for services during the fiscal year the service is rendered. Monthly or quarterly bills should be processed and charged to user DeptID's or ProjectID's. Any adjustments can be made in the subsequent billing period(s).

4. **Non-discriminatory Rates:** All billing rates must not discriminate between federally and non-federally supported users, inasmuch as the federal rate cannot be higher than any non-federal rates.

5. **Surplus and Deficits:** If Service Centers are utilizing SERV speedtypes the actual costs and revenues should be compared at the end of each University fiscal year. Deficits or surpluses will close as part of the school's fiscal year end. The balance at the end of the fiscal year will be added to the life to date totals in the next fiscal year for monitoring purposes and to aid in complying with Federal requirements to breakeven over time. A service center that constantly under-recovers year after year may be required to submit a sound business plan on recovering prior year's shortfall to its management center.

6. **Centers Providing 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 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.

7. **Equipment Purchase:** Expenditures for capital equipment purchases should NOT be included in the costs used to establish service center billing rates. Some Universities, however, include depreciation of their non-Federal equipment. The inclusion of equipment depreciation in the billing rates can help generate funds that will enable service centers to purchase equipment needed in the future. <u>Here at CWRU, all equipment depreciation is included in the University's F&A Rate Proposal and cannot be double counted by also charging the government for service center usage</u>.

   When a service center needs to purchase new equipment, the purchase must be coordinated with the department and management center in which the service center is based to ensure sufficient resources are available. The purchase of major equipment will have a negative (deficit) effect on the school's bottom line in the year in which it is purchased. For this reason, capital expenditure planning and budgeting is necessary for all service centers with capital equipment requirements. Examples of equipment funding sources include charging a premium for external users.

   Standard Billing Rates: All users within the University should be charged the approved rates for services. Pricing structures based on time of day, volume discounts, turnaround time, etc. are acceptable if they are treated the same for all customers and have a sound management basis.

8. **Transfer of Funds:** It is normally not appropriate to transfer funds out of a service center speedtype to the University's general funds or other DeptID's. The Controller's Office must approve all transfers out of service center DeptID's. This journal entry must include sufficient detail and/or billing logs to reconcile between total internal federal, internal non-federal, and external income.

9. **Subsidized Service Center:** In some instances, the University, a school, or a department, may elect to subsidize the operations of a service center, either by charging billing rates that are intended to be lower than costs or by not making adjustments to future rates for a service center's deficit. Service center deficits from intentional subsidies up to 15% of the center's annual operating budget may be carried forward as adjustments to future billing rates. The service center or parent department must transfer funds to cover the deficit that is above 15% at the close of each fiscal year. Since subsidies can result in a loss of funds to the University, they should be provided only when there is a sound programmatic reason and approved by the School in which the service center resides.
10. **Establishment of New Service Centers:** The establishment of new service centers must be reviewed and approved by the service center's management center. The process for approving new service centers is determined by the management center. Approval of a new service center by a management center must be provided to the Controller's Office who will review the service center's initial pricing structure. This should be completed prior to any service center activity.
11. **Review of Service Center:** The Controller's Office will conduct periodic reviews of the financial operations of service centers in collaboration with each management center. These reviews will focus on the development of billing rates, the handling of surpluses and deficits, and the adequacy of the service center's record keeping procedures. Any major problems or compliance issues which may arise because of these reviews will be referred to the Management Center or Finance Director of the school where the center resides for resolution.
12. **External Users:** If a service center provides services to individuals or organizations outside of the University, the billing rates may include institutional indirect costs even though these costs are not included in the rates for internal University users. Additionally, outside users may be charged an initial higher rate than that charged to internal users. The additional amounts charged in excess of the approved internal rate can be excluded from the computation of a service center's surpluses and deficits for purposes of making carry-forward adjustments to future billing rates.

Contacts

Nick DeGeorge - Controller's Office

- Government compliance
- Rate Approval Form
- Internal billing

General Accounting – Controller's Office

- Setting up a new SERV speedtype
- External Billing, Receivables, Aging

Director of Core Services - School of Medicine

- iLab questions
- SOM business process
- Setting user fees