Best Practice: Service Center Operations Procedure Manual

Based on federal compliance requirements (see 'Key Federal Compliance Requirements' table below), Fiscal Policy FI0145 and this procedures manual have been developed for establishing and monitoring the fiscal operations of service centers (including recharge centers). All service centers that charge federal awards are subject to the cost principles and cost accounting standards outlined in OMB Super Circular-2 CFR Part 200, *Uniform Guidance*. In general, rates must be based on **actual costs, applied consistently**, and **based on the actual use** of the service (i.e. per test, hour, item, class, etc.).

Key Federal Compliance Requirements
• Internal rates should recover no more than the cost of the good or service. • Rates must break-even over time, not necessarily each year. • Rates can't discriminate between users, especially federal users. • Surplus from a service center shouldn't be used to fund unrelated activities. • Must maintain published price list. • Equipment use (depreciation) may be included in the rate, so long as the equipment is purchased with non-federal funds. • Equipment costs must be spread over the useful life (instead of one year) if cost is greater than $5,000.

All billing rates must be reviewed and approved by the Office of Finance and Administration at least every **two years**.

The rates charged to internal federal award users may not exceed the cost-based rate (no profit/markup). Generally, the rate charged to internal and federal users are the same. Charges to external users can include markups. In some cases, work for external users may be subject to Unrelated Business Income Tax (UBIT). Contact the Office of Budget & Finance for more information on UBIT.

A. General Information

The term "Service Center" is an all-inclusive term to describe an operating unit within the university that provides:

- A service or group of services or
- a product or group of products
- on a recurring basis
- to users (mainly within the university)
- for a fee (charges primarily made to other campus departments, i.e. 'recharge')
- and operates at break-even (nonprofit business).

The university operates two basic types of service centers – (1) recharge centers and (2) service centers. These centers recover their costs through charges from users via interdepartmental chargeback rates. They may also sell to external customers. Per university fiscal policy, annual operating expenditures of recharge centers are less than $500,000 per year; service centers have annual operating expenses exceeding $500,000 per year. Recharge centers may not be expected to be self-supporting and may be subsidized by their parent/home departments. Service centers are expected to operate on a self-supporting basis. They may be centrally managed or a school/departmentally managed unit. Some examples include copiers, specialized scientific equipment usage and testing services, departmental shops and storerooms, motor pool, printing, and telephone services.

The distinctions between recharge centers and service centers are summarized in the following chart:

Features	Recharge Center	Service Center
Annual Operating Expenditures	<$500,000	$500,000+
Requires Expense (E) and Income (I) accounts	YES	YES
Rate calculation includes:		
Direct costs	YES	YES
Equipment depreciation (purchased with non-federal funds)	Optional	Optional
Building depreciation (purchased with non-federal funds)	NO	Special approval by CBO required
Equipment maintenance contracts	YES	YES
Facilities operations & maintenance costs	NO	YES when direct charged to cost center

Recharge and service center (hereinafter "service center") activity can result in charges, directly or indirectly, to federal grants and contracts. As a recipient of federal grants and contracts, the university must comply with cost principles and cost accounting standards promulgated by federal agencies to ensure consistent costing procedures are used throughout the campus. There are specific federal requirements related to how rates/fees are established and assessed to users. In the event of an audit, documentation must exist to support the rates charged. Unsupported charges may result in the university's repayment of those amounts (plus the associated F&A recovery). Additionally, even when not costs on sponsored projects, recharges represent the distribution of costs across academic and administrative units, which effects financial reporting and analysis – most importantly, annual financial statements and the periodic F&A rate calculation (and, of course, F&A rate is claimed against sponsored projects). Therefore, it is critical that service and recharge centers adhere to the guidelines noted below.

This procedural manual is based on guidance on the operations of service centers from the following documents:

University Fiscal Policy Statements
FI0145 Service and Recharge Centers
FI0205 Sponsored Grants
FI0220 Sponsored Projects - Cost Transfers

Office of Management and Budget
Uniform Guidance (2 CFR 200)

Cost Accounting Standards Board
CAS 501 - Consistency in Estimating, Accumulating, and Reporting Costs for Educational Institutions
CAS 502 - Consistency in Allocating Costs for the Same Purpose for Educational Institutions
CAS 505 - Accounting for Unallowable Costs - Educational Institutions
CAS 506 - Cost Accounting Period - Educational Institutions

When policy noncompliance or irregularities occur, state and/or federal auditors may recommend the disallowance of charges to grants and contracts. Amounts disallowed by virtue of failure to comply with policy and procedures are the responsibility of the responsible department and/or the dean.

B. Common Definitions

Billing Rate — Fee charged for specific goods or services. The **billing rate** may vary by types of customers and/or goods/services. However, rates charged to federal funds, either

	directly or indirectly, may not subsidize non-federal users or rates in any way. The rate shall be determined by dividing the costs of a particular good/service by the billable unit (e.g., machine hours, labor hours, quantity, etc.).
Break-even	Occurs when **revenues** equal expenses. The goal is to **break-even** annually. However, it is permissible that rates **break-even** over time.
Capital Equipment	Equipment with a purchase cost of $5,000 or more. Capital equipment may not be purchased from a service center expense account. Purchases may be made from the related **renewal and replacement** account or with other non-federal funds.
Carry Forward	**Surplus** or **deficit** of not more than 10% of **operating costs** brought forward to the next fiscal year.
Core Facility	Core facilities are centralized shared research resources that provide access to instruments, technologies, services, as well as expert consultation and other services to scientific and clinical investigators. At UTK, a core facility must follow the recharge center process if sponsored projects will be billed.
Deficit	The amount by which a service center's **operating costs** exceeds **recharges** and external **revenues**. A deficit of 10% or less of total annual **operating costs** may be carried forward to the next fiscal year to be included in the calculation of future **billing rates**. The amount of a deficit that exceeds the 10% carry forward limit must be handled as an **under-recovery**. Markup can be excluded from this calculation.
Depreciation	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). If the federal government has provided any funding for a particular piece of equipment or building, the federally-funded portion cannot be depreciated.
Direct Costs	Costs specifically assignable to the operations of a service center or recharge operation. All direct costs should be budgeted and charged directly to service center operating accounts and will include: Personnel (salaries and benefits) Travel Printing and duplicating Telephone Supplies and materials Equipment lease or rental Non-capitalized equipment Repairs and maintenance of equipment Subcontracts and outside services Other current operating expenses
External User	Customers outside the organizational/administrative structure of the university. This category includes students and members of faculty or staff acting in a personal capacity. These users typically pay with non-university funds (i.e. company or personal check).
Indirect Costs	Facilities costs such as: Building **depreciation** Equipment **depreciation** **Operations and maintenance**
Internal User	Customers who are part of the organizational/administrative structure of the university, including academic, research, and administrative departments, and auxiliary units. Internal users usually have a university account number.
Inventory	The value of goods and supplies on hand at the end of a fiscal year.
On-campus	

Commercial User	Private industry partners residing on the Cherokee Farms Innovation Campus, UTRF Business Incubator Project, and/or other UT affiliated public/private research spaces.
Operating Cost	The total **direct** and **indirect costs** charged to the service center account.
Operations & Maintenance	Utilities, minor building repairs and janitorial services typically allocated to the service center based on square feet of space occupied.
Over-Recovery	The amount of **surplus** that exceeds 10% of total annual **operating costs.** An over-recovery must be refunded to all users in proportion to their use of the service center.
Personnel Costs	Salaries, wages, and related fringe benefits associated with the service center. This includes the service center manager, professionals, secretarial and clerical, technicians, operators and other staff. Compensation allocated to the service center must be based on each employee's percent of effort.
Recharge	**User fees** recovered from **internal users** – credited to the expense account using a recovery g/l user code.
Renewal & Replacement Fund	A renewal and replacement account is used to accumulate credits for equipment **depreciation** charged to a service center. The funds may be used for the purchase of **capital equipment** or major repair and maintenance costs.
Revenue	User fees recovered from **external users** - credited to the income account.
Subsidy	Non-federal funding from any department or unit outside of the service/recharge center account to offset general or specifically identified expenses or to reduce the **billing rate** charged for a product or service according to certain guidelines. Activities unable to operate at **break-even** must identify sources of subsidized funding during each review cycle.
Surplus	The amount by which a service center's **recharges** and external **revenues** exceed **operating costs**. A surplus of 10% or less of total annual **operating costs** must be carried forward to the next fiscal year to be included in the calculation of future **billing rates.** The amount of surplus that exceeds the 10% limit for carry forward must be handled as an **over-recovery**. Markup can be excluded from this calculation.
Unallowable Costs	Costs defined in Uniform Guidance, Subpart E that are not eligible for reimbursement from the federal government and must not be recorded in service center accounts. These include but are not limited to: Advertising Alcoholic beverages Bad debts Commencement or convocation costs Contingency provisions Contributions, donations, remembrances Entertainment Fines and penalties Goods or services for personal use of employees Personal use of an institution-furnished vehicle Public relations Student activity costs Travel - first-class
Under-Recovery	The amount of **deficit** at year-end that exceeds 10% of total annual **operating costs.** An under-recovery must be funded from non-federal sources as a **subsidy**, and may not be carried forward to the next fiscal year.

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 calculation of a **billing rate**.
Unrelated Business Income	Income produced by the sale of goods or services to **external users** that is regularly carried on and is not substantially related to the University's tax exempt purpose. Unrelated business income revenue is subject to taxation by the IRS. Activity carried on for the convenience of the University community, including students, is not subject to taxation. Contact the Office of Budget & Finance for specific information.
Useful Life	The estimated time period over which **capital equipment** and buildings will provide useful service. Depreciation of capital assets over a useful life different from the standard (financial statement presentation) will require documentation to support the shorter (or longer) life and approval by Finance & Administration.
User Fee	See **billing rate.**

C. Questions to consider (BEFORE establishing a service center)

Departments have the initial responsibility in determining whether a recharge operation is justified. In making this determination, the department should consider the following questions and review the Recharge/Sales Activity Decision Tree.

A. Is the activity consistent with the university's mission?
B. Can separate or discrete costs be identified?
C. Will the good/service be provided on a recurring basis primarily to UT users? The primary customers of a service center should be UTK users. If the good/service is principally for external users, the activity may not be a recharge center. In such cases, there may be unrelated business income issues as well as sales tax implications.
D. Is the demand for the proposed services sustainable and ongoing? If the services are only needed on an intermittent basis, a new center might not be justified.
E. How will the proposed center cover costs until the proposed level of activity is reached? It is important the new center has a clear financial plan.
F. Is it cost effective to perform the activity in-house?
G. Are there others providing the same or similar service, especially internal to UTK?
H. Do you want to recover the costs of providing the good/service through charges to users?
I. Is there value added by departmental personnel in providing the good/service?
J. Will the recharge center bill all users for the good/service provided?
K. Is the activity an external sale or sponsored project rather than a recharge? (see Gift vs Sponsored Project vs External Sale Decision Tree)

D. Requirements

1. In general, billing rates must be based on actual costs, applied consistently, and based on the actual use of the service (i.e. per test, per hour, per item, etc.).

2. Internal billing rates should be designed to recover no more than the cost of the goods or services being provided. Billing rates must be reviewed and submitted for approval to the Office of Finance and Administration on a biennial basis (every two years at a minimum). The goal is for rates to break-even annually. However, it is permissible that rates break-even over time.

3. Billing rates should be designed to recover the direct costs of providing the goods or services. All direct costs should be charged to the center's expense cost center. For recharge centers, the only allowable indirect cost that can be recovered is equipment depreciation. Only with Vice-Chancellor approval can service centers also recover O&M costs such as utilities as well as building depreciation.

Equipment or buildings purchased with federal funds cannot be included in the depreciation calculation or recovered in the center's billing rates.

4. When the billing rate includes equipment depreciation recovery, the equipment's IRIS responsible account must be the service center expense cost center. The equipment must be used exclusively by the operation. Additionally, equipment assigned to an active award and used in a service center will have program income implications. Contract Sponsored Programs Accounting for more information on program income.

5. Federally unallowable costs must be excluded from the operation's billing rate calculation. It is preferred that such costs are charged to an account other than the center's expense cost center.

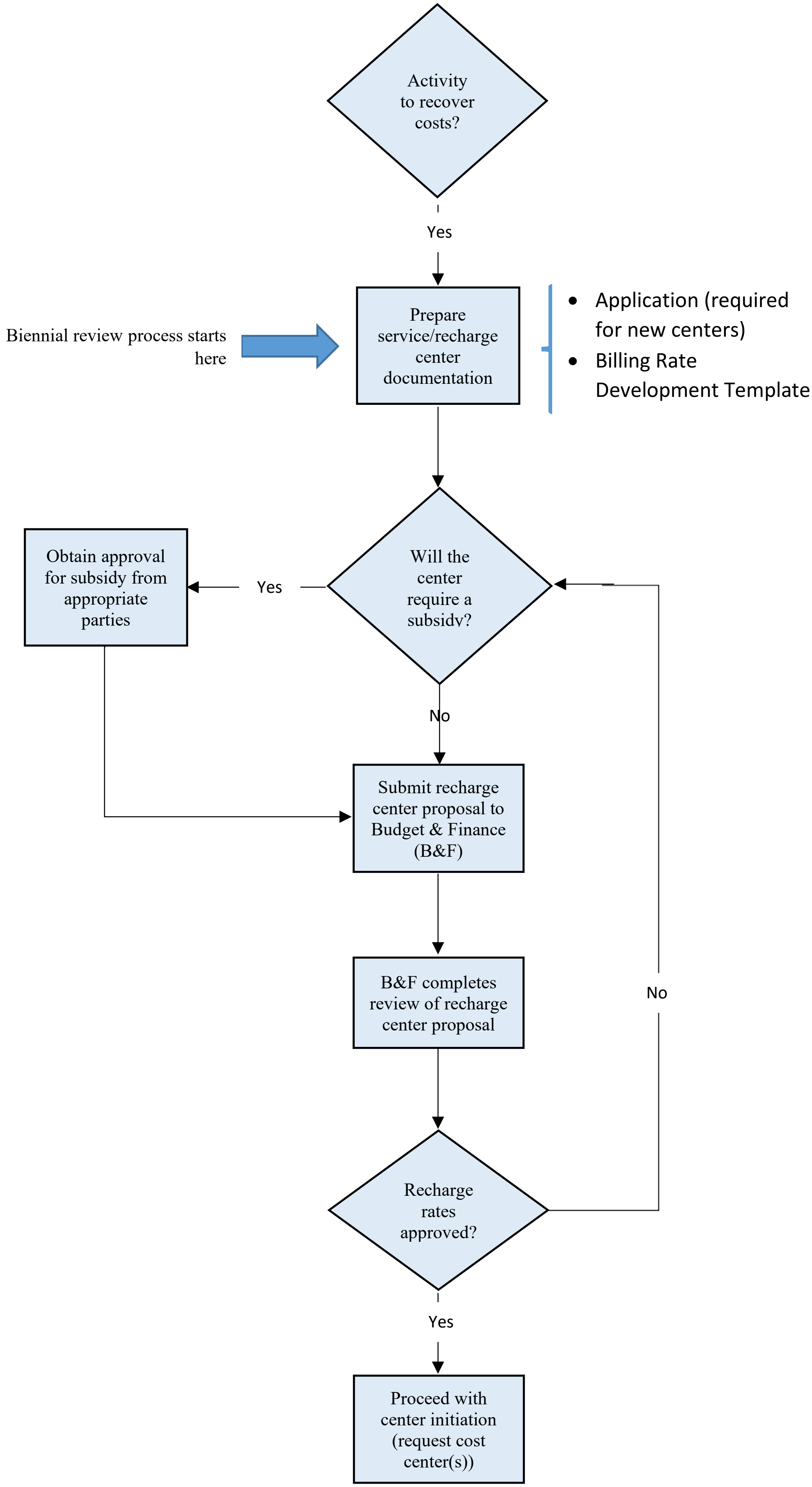
6. Rates cannot discriminate between federal and nonfederal internal users. All university users must be charged the same rate(s) for the same level of service or goods under the same circumstances. Special rates, such as volume discounts, must be equally available to all users who meet the criteria.

7. A markup on cost is allowed on sales to external users. In these instances, a non-university account is billed. Goods or services provided to External Academic users should be priced to recover at least the on-campus research F&A rate. External Industry users may be charged market-based rates. The markup received on external sales is not included in the break-even calculation. When providing services to an external entity, the university requires a contract if the cumulative receivable amount is $10,000 or more. Contact the Contracts Office for more information.

8. Surpluses or deficits within break-even should be used to adjust future rates. Surpluses should not be used to fund unrelated activities or transferred to a reserve account (K account).

9. The center must maintain an approved, official published price list (preferably published on the web).

E. Steps to create a Service Center



The diagram of the process includes an application and billing rate template that have been created for ease of preparation. Per fiscal policy, these documents request the following information:
a. Justification for establishing the service center including an explanation as to why other internal or external providers of these services are not being used instead.
b. Description of the goods or services being offered.
c. Name and phone number of the affiliated department (contact info)
d. Description of anticipated users of the goods or services, both internal and external. Specifically state if sponsored projects are expected to be charged.
e. Identify space where service will be provided, including building(s) and rooms.
f. Name, title, and phone number of Center Director (Manager).
g. Proposed rate schedule.
h. List of equipment with university tag numbers used by the center and whether or not equipment depreciation will be included in the rate(s).
i. Annualized budget.

Once review of the proposal is complete, Budget & Finance will prepare the documents and route for signatures in the following order:
a. Signature of Center Director (Manager)
b. Signatures of Department Head and Dean/Division Director indicating approval of the center
c. Signature of Vice Chancellor for Research & Engagement (if recharge center) or Associate Vice Chancellor of Finance & Administration (if service center)
d. Signature of Sr. Vice Chancellor for Finance & Administration

F. Compliance Responsibilities

Center Director

Day-to-day responsibility for the center is provided by the service center manager who monitors the operation and takes corrective actions as needed. The manager has an obligation to assure that:
a. A schedule of rates with supporting calculations is submitted to the Office of Budget & Finance at least biennially.
b. The financial position with respect to "break-even" is reviewed periodically so the rate(s) may be adjusted if necessary.
c. The approved rate schedule is applied uniformly to all users.
d. Billings are timely, regular, and adequately documented. Receivables are controlled and reconciled, and collection efforts are pursued.
e. Records of the details contained in the billing rates are maintained for audit as long as the grants or contracts they charge remain subject to audit. Each service center activity must be documented and records maintained to support expenditures, billing, and cost transfers including:

- i. Salary and wage documentation
- ii. Rate calculation work papers
- iii. Justification of the selected activity base for billing rate development
- iv. Documentation of actual costs of operations
- v. Approval of the rate schedule by Finance & Administration
- vi. Records documenting the computation of subsidized rates
- vii. Records documenting and measuring the sale of goods or services provided
- viii. Maintenance of inventory system

Department Head

The department head is responsible for serving as liaison between the center manager and the dean, as well as providing oversight of the manager's activities. The department head should notify the Office of Budget and Finance of any potential tax issues relating to outside sales.

Dean/Director
Ultimate responsibility for review of desirability and feasibility of service centers rests with the dean/ director or designee.
Responsibilities include:
a. Fully review and approve the establishment of each new center before operations commence. Factors such as consistency with the university's mission, availability of similar service, and the ability to identify separate costs should be considered.
b. Review and approve the rate calculation and supporting documentation for the rate prior to submission to Finance & Administration.
c. Review and approve the periodic rate calculation and budget.
d. Ensure centers will operate in accordance with federal cost principles and university policies.
e. Respond to all audit findings related to the center.
f. Monitor financial position with respect to the break-even financial analysis.

Chief Business Officer
Office of Finance and Administration is responsible for:
a. Overseeing the formation of service centers and ensuring that appropriate cost centers/WBS elements are established in IRIS.
b. Ensuring that the campus research office is notified of and approve new recharge centers.
c. Performing a review and approval of billing rates, at least biennially.
d. Reviewing the performance of selected service centers at least biennially, with respect to break-even analysis.
e. Periodic review of financial status of service centers with respect to budget vs. actual expenditures.
f. Approving center requests for interim rate changes.
g. Approving subsidization of rates by internal users.
h. Closing out the annual activity and reviewing the deficit or surplus balances.

Principal Investigator
When a sponsored project is to be billed or invoiced for goods/services by an internal activity, the PI (or departmental staff) **must** ensure:

- the activity is an approved recharge or service center **prior to authorizing the charge**,
- only authorized individuals are allowed to request that a project be billed, and
- charges are assessed to the appropriate project.

A list of approved centers can be found here. If the activity is not on this list, it may not be an approved recharge operation. In such cases, the only option is to recover actual costs – certification of effort, direct charging of supplies and other expenses. Contact Melissa Johnson (johnsonm@utk.edu) in the Office of Budget & Finance if you need assistance in determining whether an internal activity is approved to bill sponsored projects.

G. Accounts

Upon approval to become a service center, the following IRIS funds may be established to track the center's operating activity:
-E account (unrestricted expense cost center). Recoveries from internal users are posted to 446900 g/l series. It is strongly recommended that centers utilize the user recovery code series (446900) within IRIS to separately identify and track recoveries from each service. Cost center request form can be found here (add link to electronic form on our website).
-I account (unrestricted income cost center) – for revenues received from external users. It is strongly recommended that centers utilize the user revenue code series (800000) within IRIS to separately identify and track income, as well as markup, from each service. . Cost center request form can be found here (add link to electronic form on our website).

-Revolving account (A0170) – Operating balances in the E & I accounts are closed out annually to the revolving fund. The revolving account will be created by the Office of Budget & Finance – no request needed.
-K account (equipment renewal/replacement fund) – for depreciation recovered in the billing rate. The reserve account will be created by the Office of Budget & Finance – no request needed.
-J account (unexpended plant fund) – to make purchases of capital equipment. The plant fund account will be created by the Office of Budget & Finance – no request needed.

H. Equipment

Service and recharge centers can acquire the use of equipment through several means. Therefore, the treatment in the rate calculation for the center will depend upon the manner in which the asset was originally acquired.

Originally purchased by the service center

When a piece of equipment is originally purchased by a service center, the purchase must be made in the service center companion Plant Funds J account. **The equipment cannot be purchased in the service center expense "E" cost center.** Depreciation on equipment purchased in a J account can be recovered in the service center rates. If the service center does not have a J account, the purchase can be made in the service center's home department E account (see next section on non-sponsored sources).

Originally purchased from other non-sponsored sources

When a piece of equipment is originally purchased with non-sponsored funds for the purpose and use of service center operations, it may be possible to recover a portion of the original cost of the equipment through future service center rates. If the service center began utilizing the equipment in the same fiscal year in which the asset was acquired, an equipment change form (T64) must be completed changing the asset responsible cost center to the service center E account in order to recover depreciation in the billing rate. If a fiscal year has closed since the purchase of the asset but it is still within its useful life, depreciation can only be recovered in the service center billing rate if the asset was not included in the most recent F&A calculation (T64 will be required). Contact the Office of Budget and Finance to discuss.

Originally purchased on sponsored funds

If a piece of equipment was originally purchased by a research grant and the grant is no longer using the equipment, there is surplus time available for recharge center use or the award is no longer active, the recharge center may use that piece of equipment in its operations. Since the cost of the equipment has already been recovered from an external sponsor, no depreciation recovery in the recharge center rate is allowed unless there was voluntary uncommitted cost sharing (mandatory and voluntary committed cost sharing are **NOT** eligible for recovery). Voluntary uncommitted cost sharing could be recovered if the asset (1) is within its useful life, (2) was not included in the most recent F&A calculation and (3) is responsible to the recharge center E cost center, fully, or at least on the VUCS portion. **Use of sponsor funded equipment on an active award in a recharge center could have program income implications.**

Making equipment purchases

When several sources (accounts) are funding the purchase of equipment, direct charge each account/fund when processing the invoice. Doing so will document, in IRIS Asset Inventory, the multiple funding sources for the purchase via the use of sub-assets (contact the Controller's Office if you have questions on the use of sub-assets).
If a funding source cannot be directly charged, an internal transfer can be processed on g/l 461xxx to provide **funding/support** to purchase equipment. Alternatively, a budget transfer can be requested to move the support to the department purchasing the equipment (if funds are being moved from E to E). In either case, when processing the invoice, the department purchasing the equipment will directly charge its account for the funding given.

Please note: Direct charge federal sources when equipment is federally-funded to properly document in IRIS Asset Inventory the funding source on the asset.

I. Instructions to prepare billing rate proposal

1. Identify *all services* provided. A separate rate should be calculated for each category of service.
2. Identify *all user groups*. Do the users who will pay for products or services include internal, external, and/or federal grant user groups?
3. Determine *direct costs* of center operations. These costs are normally charged to the expense cost center (E account). Certain costs, like entertainment costs, are unallowable and cannot be recovered in the billing rate.
4. Identify c*enter indirect costs* incurred for multiple goods or services. Such as equipment depreciation and possibly building depreciation (with VC approval).
5. Quantify or *estimate usage* (number of units) for each service. This can be number of tests expected, time expected (if billing is to be by the hour), number of samples expected, etc. or whatever the unit of measure for billing purposes will be.
6. **Identify *prior years' surpluses or deficits* (cumulative carry forwards) and/or *current year subsidies*.** Surplus or deficit is defined as +/- 10% actual operating expenses and will adjust future billing rates.
7. Calculate cost-based rate for each service.

Formula:

$$\frac{\text{Annual Estimated Costs +/- Prior Year Cumulative Carry Forward - Subsidy}}{\text{Expected Billing Units of Activity}}$$

8. Determine the rate that will actually be charged based on the analysis above keeping in mind the following restrictions:

i. **Federal users MUST be charged no more than the cost-recovery rate.** There cannot be markup or profit and revenues from federally funded activities cannot be used to fund other activities.
ii. **The Federal rate must be the lowest rate offered.** Discounts cannot be provided to campus or other users that would cause others to pay less than the federal rate. The federal rate can be equal to the campus rate, but cannot be more.
iii. For **external industry users, the prevailing market rate can be used** so long as it doesn't undercut competitors and doesn't fall below the federal rate. **Rates for external users may include markups to be used for other activities or reserves.**
iv. **Rates for on-campus users generally cannot include markups** and fall under cost-recovery principles similar to federal users. EXCEPTION: On-campus commercial users can be charged a markup which is generally equal to the external academic rate. On-campus commercial users generally have an on-campus address and are housed in on-campus facilities such as incubators or research parks associated with the university.

9. Templates. New activities must complete the Recharge/Service Center Request Form to apply for approval to become a recharge or service center. The workbooks below are provided to assist centers with rate development, based on the number of products/services. Centers are free to design their own templates, so long as the rates are developed in accord with federal costing rules and fiscal policy.

a. Recharge/Service Center Request Form
b. 5 services workbook
c. 10 services workbook

J. Closing a Recharge/Service Center

To close a recharge or service center, the department head should address a written request (on departmental letterhead) to the Sr. Vice Chancellor for Finance & Administration detailing
1. Rationale for closing the center,

2. That cost center (E/I accounts) actual balances are zero (budget and encumbrances cleared),
3. How revolving and reserve account balances should be disbursed (fund charged to clear any deficit).
4. Attach a completed Cost Center Request Change form to close E/I accounts.
5. Any capital equipment responsible to the center should be transferred on Form T-64.
6. Send documents to Melissa Johnson, 423 Andy Holt Tower or johnsonm@utk.edu for processing.
The department will be notified when request has been approved and accounts closed.

K. Resources and Contacts

1. Monitoring Tools – Annually, the Office of Budget and Finance monitors recharge and service center activity for compliance with federal rules and fiscal policies. This report discusses these tools and the corrective actions necessary for compliance.
2. Annual Recharge Cycle Process – for recharge centers and service centers to ensure that rates are approved before the start of the fiscal year to go into effect July 1.
3. Recharge/Sales Activity Decision Tree
4. Gift vs Sponsored Project vs External Sale Decision Tree
5. Steps to Establishing Service or Recharge Center Flowchart
6. Approved Recharge and Service Centers Contact List
7. Feel free to contact Melissa Johnson @johnsonm@utk.edu with any questions you may have regarding these procedures.