

Service Centers – Recharge Centers and Specialized Service Facilities

Overview

Service centers are established for the purpose of providing goods and services primarily to University customers. The centers are expected to offer goods or services that are unique, convenient, or not readily available from external sources. The sale of goods and/or services must be consistent with the University's mission and the normal activities of the college/department associated with the organization.

The costs of service centers can be identified and billed to customers based on approved rates. The rates charged for goods and services are computed by the service centers and reviewed by the appropriate entity on an annual basis. The billing rates are set so that the service centers operate on a break even basis.

All service centers are subject to the basic cost principles set forth in OMB Circular A-21. Section J47 of OMB Circular A-21 deals specifically with service centers. The specific provisions are somewhat vague; only the principles for specialized service facilities are discussed there.

Reason for Policy

Application of the policy is needed in order to ensure that goods and services:

- Comply with government requirements (A-21, A-133). The government monitors, by routine audits, the University's compliance with Federal regulations.
- Are sold at rates that recover the costs of providing the goods and services.
- Are being sold at reasonable rates when compared to external providers.

Definitions

Service Center – Departments or functional units which perform specific technical or administrative services for the benefit of other units within the University. Service centers include university-wide recharge centers, departmental recharge centers, and specialized service facilities.

- **University wide recharge centers** – are operated by the University (centrally supported) to provide services to both the University and possibly the non university community. Some examples include printing services, fleet services, etc.
- **Departmental recharge centers** – normally operate within an academic division or department and provide support to that division or department. They usually do not have a high dollar volume. Some examples would include small copy centers or stores used only by that department.
- **Specialized service facilities (SSF)** – is defined in circular A-21 section J47 as “highly complex or specialized facilities”. These are often organizations that are focused on research or academic activities, have sales to Federally sponsored accounts, and do not necessarily market to the entire University. There may be cases where a center is not highly complex in nature but would be considered an SSF based on a consistent level of annual Federal revenue greater than \$25,000. Some examples of SSFs would include animal facilities, specialized equipment centers, specialized computing services, core facilities, etc.

Accounting Guidelines

Fund

Historically, the majority of service centers were found in fund 260. Since it is crucial for the Division of Financial Analysis to monitor whether Specialized Service Facilities follow Federal guidelines, existing SSFs will be migrated to the 261 fund and new SSFs will be setup initially in fund 261.

Department / Subdepartment

Service center operations should be identified no lower than the department / subdepartment in the account structure. If needed, centers may have multiple subdepartments to track activity. All of the center's capital assets should be found in PeopleSoft Asset Management under the same department / subdepartment as the center's operational account.

Revenue

Revenue from Federally sponsored activities must be recorded to IACCT 4403. This will primarily impact service centers that are considered SSFs.

Subsidies

Subsidies occur when funds from another account are transferred into the center's operating account or if center expenses are paid directly from an account outside the center's operating account.

- Transfer – Funds are transferred into the center's operational account via a 3570 / 7570 transaction. A transfer subsidy may be needed if:
 - The center chooses not to charge a full rate for services provided.
 - The center chooses to provide services to internal customers at a discount (for example: pilot activity, student use, etc). The center must keep a record of use supporting how many free or reduced units were allowed during a year. At year end, the normal charge rate should be applied to the units that were not fully charged (imputing revenue). A subsidy should be transferred into the center's account to cover the amount unless an existing subsidy is already larger than the imputed revenue.
- Non capital expenditures paid outside of the center's operating account. The following steps should be taken:
 - Setup an account in the fund where the expenses will occur (or have occurred) using the same department / subdepartment as the center.
 - If the expense has already occurred, transfer the expense to the account with the matching department / subdepartment combination of the center.
 - Using this method, the expense remains in the original fund but can be identified as part of the service center.
 - Example – An employee works 50% of her time in a center; however, 100% of her \$50,000 salary is paid from the General Fund.

	Fund	Dept	SubDept	Original Expense	Final Expense
Center account	261	1000	10000		
Salary expense	050	2000	00000	\$50,000	\$25,000
New account needed*	050	1000	10000		\$25,000

*The new account can be identified as part of the center by the department / subdepartment 1000 10000.

- Capital expenditures paid outside of the center’s plant fund are a subsidy if depreciation is not being recovered via the service center rate(s). If depreciation is not recovered, the subsidy is equal to the annual depreciation, not equal to the capital purchase in a particular year. Centers are not required to track depreciation subsidies.

For SSFs, the Dean or Collegiate Budget Officer of each college will be provided a list of non capital subsidies after the fiscal year end. Each Dean or Collegiate Budget Officer will be required to sign off on the listing for his or her college. The purpose of this procedure is to make leadership aware of subsidy activity and to help the Division of Financial Analysis identify subsidies for the Facilities & Administrative rate calculation.

Fund Balance (Break-even)

Service center rates should be set so the center breaks even. However, this requires very precise calculations of expected units, costs, and subsidies at the beginning of the fiscal year when rates are set. Because estimates may be inaccurate, it is probable that the center will have a surplus or deficit at the end of the year. Ideally, prior year surpluses or deficits should be included in the rate computation for the next year. However, up to a 10% (positive or negative) fund balance, as a percent of current year expenditures, will be considered acceptable by University standards. Any balances outside of the 10% threshold will require corrective measures. The Division of Financial Analysis will specifically review fund balances annually for SSFs and will work with those in excess of the threshold.

Plant Fund Reserve

The acquisition cost of capital assets cannot be directly expensed in the center. A separate capital asset “reserve account” should be established in fund 676 to account for capital transactions. The reserve account should contain the same department / subdepartment as the center. Setting up a reserve account is necessary if the center intends to recover depreciation expense in its billing rates. It is the preferred method for the center to build up a balance in order to purchase future capital assets. Please note the following:

- Transfers to the reserve account should be based on depreciation costs included in billing rates. Depreciation expense by department / subdepartment is available in PeopleSoft Asset Management.
- For SSFs, the Division of Financial Analysis will either record the transfers or review the transfers if they are recorded by SSF personnel.
- Assets purchased using Federal funds cannot be depreciated and included in billing rates.
- The reserve account is restricted to capital asset expenditures unless an exception is granted by the University Controller.
- The reserve account should not have a negative fund balance unless an exception is granted by the University Controller.

When a center is initially established, assets are often purchased using other funds (grants, gifts, departmental funds, etc.) or donated, since the center has not had the ability to build up a reserve account. Another option is the Equipment Purchase Plan established by the Business Office to assist departments when funds are not available. For questions regarding plan guidelines please contact Cathy Hagen at 335-0130.

Accounts Receivable Reconciliation

If a system outside of the University accounting system is used to invoice customers, it may be necessary to perform a reconciliation of the billing system to University records and true up any variances. This should be done on a monthly basis. Billings per the external billing system should match revenue in the General Ledger. Revenue in the General Ledger should not be cash basis.

Establishing Billing Rates

Calculation

The charge-out rates for centers should be computed annually. In a simple situation, the rate computation is a two-step process. First, develop an annual expense budget which could include salaries, materials, supplies, depreciation and other expenses necessary to operate the center for the next year. Second, divide the expenses by the amount of usage (units) expected for each center. Rates for internal and Federal customers should be set so that the revenue does not exceed the cost of providing the good or service. The University is subject to periodic audit by the Federal government to assure they receive the lowest price offered by the center.

Special Considerations

Unallowable Costs

Unallowable costs cannot be included in rates. Expenses such as bad debts, entertainment costs, fines, and contributions are considered unallowable. A more complete list of unallowable expenses can be found in OMB Circular A-21, section J. Also, as mentioned in the "Plant Fund Reserve" section above, the acquisition cost of capital equipment is considered unallowable. Instead, only the applicable depreciation expense should be included in the rate calculation.

Distinctive Services

Separate billing rates must be developed for distinctive types of goods/services when the sales volume is significant and the cost of providing the good/service is substantially different from other goods/services. This assures that one group of users is not overcharged to offset lower prices of others.

Discounts

Billing rates should not discriminate between Federal and Non-Federal users including internal University activities. The schedule of rates will apply to all users of the center on the basis of actual utilization and cannot discriminate against any one segment of the population. Volume discounts and other special pricing mechanisms must be equally available to all potential users. The University is subject to periodic audit by the Federal government to assure that grants and contracts receive the lowest price offered by the center. If discounts are considered discriminatory to the Federal government, the center must receive a subsidy to cover that activity.

Subsidies

- Lump sum subsidies (transfers in) - When rates are calculated, estimated expenses should be decreased by the amount of the potential subsidy prior to dividing by the expected units.
- Expenses paid outside the center should not be included in the rate calculation because they are being paid by another source.

External Rates

External rates can be higher than internal or Federal rates. The profit (surplus) realized does not have to be used to reduce following years rates; however, the surplus does need to be identifiable on an ongoing basis. The recommended option is to transfer the profit portion to the plant fund reserve account. Another option is to use the surplus to reduce future year's rates. If the center wishes to propose other uses for the profit, it must contact the Division of

Financial Analysis for prior review. If external sales are significant, the center may need to be evaluated for potential Unrelated Business Income Tax (UBIT) issues.

Carryforward adjustments

Ideally, prior year surpluses or losses should be included in the rate computation for the next year. A surplus would reduce subsequent year pricing and a deficit would require an increase in subsequent year pricing. It is acceptable to include portions of surpluses or losses in the rate calculation to show progress toward the break even goal instead of including the entire amount in one year. As stated in the “Fund Balance” section above, a fund balance greater than 10% (positive or negative), as a percent of current year expenditures, will require corrective measures.

Review Procedures

Periodic

Center directors should monitor center activity monthly to make sure the Accounting Guidelines above are being followed.

The Division of Financial Analysis will monitor SSFs to verify that capital assets are not being purchased from the operations account. The Plant Fund Reserve will be examined periodically to make sure only capital assets are being purchased in this account and to verify fund balances are not negative.

Annual

- **University wide recharge centers** – will be reviewed annually by the organization under which the operations reside.
- **Departmental recharge centers** – will be reviewed annually by the department. The completion of a compliance questionnaire will be required for recharge centers with >\$20,000 annual revenue.
- **Specialized Service Facilities** - SSFs will be reviewed by the Division of Financial Analysis as follows:
 - **Tier I** – SSFs with substantial Federal revenue (approximately \$100,000) will be reviewed annually.
 - **Tier II** – SSFs with over \$10,000 Federal revenue will be reviewed every other year.
 - **Tier III** – SSFs with less than \$10,000 Federal revenue will not be reviewed by the Division of Financial Analysis; however, the completion of a compliance questionnaire by the SSF director will be required.

With the assistance of the SSF directors, the Division of Financial Analysis will verify SSFs are adhering to the Accounting Guidelines above for the fiscal year that was just completed. In addition, rate calculations for the upcoming year will be examined for compliance with guidelines. The Division of Financial Analysis will provide written notification of the results of the review to the department/unit.

Establishing a New Specialized Service Facility

A written request to establish an SSF must be submitted to the Division of Financial Analysis for review. The request must be approved by the departmental executive officer and by the Dean of the College or appropriate Vice President of the unit. The request should include the following information:

- Name of the person responsible for financial administration of the center.
- Description of the goods or services to be provided.
- Description of who else (in or outside the University) performs these services or sells these goods.
- Listing of the potential customers, for example, University departments, Federal grants and contracts, external users (VA Hospital, other universities, etc).
- Estimated annual budget of the proposed center.
- List of the proposed charge out rates and the rate calculation.
- Request for new master file key(s) for recording activity in the center
- Anticipated start up date for the center.

Contacts

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