



# Policy and Procedure

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## SERVICE CENTERS

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Origination Date: March 31, 2007

Effective Date: March 31, 2007

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### Policy Statement

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In its capacity as the fiscal and administrative agent for Old Dominion University's sponsored program activities, it is the policy of Old Dominion University Research Foundation to provide guidance and procedures covering the financial operation of service centers in order to insure their compliance with generally accepted accounting practices, applicable laws and regulations, and requirements of sponsored agreements. This policy applies to all Old Dominion University Research Foundation (ODURF) service centers.

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### Reason for Policy/Purpose

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Regulations issued by the Department of Health and Human Services (DHHS), and the Office of Management and Budget (OMB) Circular A-21, establish cost accounting standards that must be followed if a department wishes to charge another department for their goods and services.

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### Who Needs to Know This Policy

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Principal Investigators (PI's), Co-Investigators (Co-PI's), Faculty and Staff Responsible for Sponsored Research

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## Definitions

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### Service Center

An organizational unit or activity that performs specific technical or administrative services primarily for internal ODU/ODURF operations and charges users for these services. There are three basic types of service centers: (a) Recharge Units, (b) Specialized Service Facilities, and (c) Service Facilities.

(a) Recharge Unit: A service center providing goods or services that do not represent the major purpose of the generating department. Annual direct operating costs are under \$50,000 and the services are intended as a convenience to faculty, staff, and students. Rates are based on direct costs only. An example of a recharge unit would be charges for the use of a departmental copier.

(b) Specialized Service Facility: A service center providing highly complex services, not usually available from outside vendors, to a select group of users rather than overall ODU/ODURF operations. Annual costs exceed \$1,000,000 and include internal service center support costs and possibly institutional indirect costs.

(c) Service Facility: All service centers that do not fall into the above two categories. Examples of service facilities are the Research Vessel SLOVER, Isotope Trace Elements Center, and Telecommunications.

### Applicable Credits

Transactions that offset or reduce costs, such as purchase discounts, rebates, allowances, refunds, etc. For purposes of charging service center costs to federally-sponsored programs, applicable credits also include any direct federal financing of service center assets or operations (e.g. the direct funding of service center equipment by a federal program). An example of a billing rate computation that involves direct federal financing of service center operations is in Appendix A.

### Auxiliary Enterprise

A unit which furnishes goods or services to students, faculty, staff, and others for their own personal use, rather than as a service to internal ODU/ODURF operations. Examples include dining facilities, residence halls, and bookstores. **Auxiliary enterprises are not subject to this policy.**

### Billing Rate

Also known as a user fee, the rate charged to customers for a unit of goods and services. The rate calculation generally follows the equation "total cost divided by some unit of measure, e.g., hours of service, animal care days, tests performed, etc."

### Break-even Period

## **SERVICE CENTERS**

A reasonable, established period of time in which revenues and/or credits are expected to match expenses, usually a fiscal year. For break-even purposes, OMB Circular A-21, Section J.47.b requires that billing rates for specialized service facilities be adjusted at least biennially and take into consideration over/under applied costs of the previous period(s).

### **Carry-Forward**

The amount of surplus or deficit carried into the succeeding year. Carry-forward amounts are included as adjustments to billing rates.

### **Cost Center**

An account established to record expenses and revenues for goods and services.

### **Deficit**

An account balance where total expenses exceed total revenues. Account balances should be monitored so that rates may be adjusted in order to avoid year-end deficits.

### **Depreciation**

A method of allocating the capitalized cost of an asset over its useful life. Depreciation of donated equipment is calculated based on its fair market value.

### **Direct Operating Costs**

Costs that can be specifically identified with a good or service. These include salaries, wages and fringe benefits of personnel who are involved in providing the good or service as well as purchased materials and supplies, equipment depreciation or rental, travel, etc.

### **Equipment**

An item of tangible property having a useful life exceeding one year and an acquisition cost of \$2,000 or more. Purchases under this amount are considered consumable supplies.

### **Institutional Indirect Costs**

The costs of administrative and support functions of ODU/ODURF. Institutional indirect costs consist of general administration and general expenses, such as executive management, payroll, accounting, and personnel administration; operations and maintenance expenses, such as utilities, building maintenance and custodial services; building depreciation and interest associated with the financing of buildings; administrative and supporting services provided by academic departments; libraries; and special administrative services provided to sponsored projects.

### **Internal Service Center Support Costs**

Costs that can be directly identified with a service center, but not with a particular good or service provided by the center, such as the salary and fringe benefits of the center's director.

### **Surplus**

An account balance where total revenues exceed total expenses. Account balances should be monitored so that rates may be adjusted in order to avoid year-end surpluses.

## SERVICE CENTERS

### Unallowable Costs

Cost that can not be charged directly or indirectly to federally sponsored programs. These costs are specified in OMB Circular A-21. Common examples of unallowable costs include institutional advertising, bad debts, charitable contributions, entertainment, fines and penalties, goods and services for personal use, interest (except interest related to the purchase or construction of buildings and equipment). A more complete listing of unallowable costs is in ODURF policy "Identification and Treatment of Unallowable Costs".

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## Policy/Procedures

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Using the definitions provided above, classify the service center as a recharge unit, service facility, or specialized service facility, and follow the policies applicable to that type of service center.

### A. SERVICE CENTER ESTABLISHMENT

To establish a new service center, the following information must be provided to the appropriate approving authorities using the Service Center Form (Attachment A):

1. A description of the services to be provided and their users;
2. A rationale for providing the services internally as opposed to utilizing an external provider;
3. A projection of costs and revenues;
4. Billing rate calculations and their comparison with the rates of external providers (where possible).

Service centers must be approved by the official responsible for the organization where the center is located. All service centers require the approval of the Dean or cognizant Administrative Vice-President. ODU Service facilities and specialized service facilities require the additional approval of the responsible Vice President of Administration and Finance. After approval, the Service Center Forms for service facilities and specialized service facilities will be forwarded to the ODURF.

### B. RECHARGE UNITS

#### 1. Responsible Organization

The Dean or Department Chair is responsible for the operation of all service centers within the organization structure. Responsibilities include approval of the establishment of the center; overseeing day-to-day operations, billings, record retention, etc.; and justifying deficits in excess of 10%.

#### 2. Rate Calculation

Billing rates should be calculated annually at the start of each ODURF fiscal year and be submitted to ODURF accounting for review using the Service Center Form. Billing rates should be based on a reasonable estimate of direct operating costs and projected billing units for the year. Rates should be designed to recover all direct operating costs, should exclude unallowable costs and be net of applicable credits. The billing rate calculation must be documented. Surpluses or deficits from previous years are used as adjustments to the billing rate calculation.

Rates are determined by dividing the estimated direct operating costs by the estimated billing units. Billing units should represent the type of service provided.

## SERVICE CENTERS

Actual costs and revenues and/or credits should be reviewed at least every six months and rates adjusted where necessary. Deficits or surpluses at the end of each fiscal year should be carried forward as an adjustment to the billing rates of the following year or next succeeding year. Where feasible, the adjustments may be made increasing or decreasing the actual charges to users, rather than through the "carry-forward" adjustment process.

If a service center provides multiple services, separate billing rates should be established for each significant service whose costs and revenues can be segregated. Surpluses and deficits for each service should be carried forward as an adjustment to the billing rate for that service in the following year or the next succeeding year. Surpluses 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.

### 3. Billings

Billings should be based on the services rendered and all ODU/ODURF users must be charged at the same rates. Billings should be prepared in a timely manner. ODURF will provide service centers with their own account classification code for use in billing.

## C. SERVICE FACILITIES

### 1. Responsible Organization

Same as Recharge Units.

### 2. Rate Calculation

Same as Recharge Units with the following exceptions:

Billing rates should be designed to recover all direct operating costs and internal service center support costs. The calculation of the rate will exclude unallowable costs and be net of applicable credits.

Rates are determined by dividing the sum of the estimated direct operating costs and internal service center support costs by the estimated billing units.

### 3. Billings

Same as Recharge Units.

## D. SPECIALIZED SERVICE FACILITIES

### 1. Responsible Organization

Same as Recharge Units and Service Facilities.

### 2. Rate Calculation

Same as Recharge Units and Service Facilities with the following exceptions:

Billing rates should be designed to recover all direct operating costs, internal service center support costs and, where feasible, institutional indirect costs. The calculation of the rate will exclude unallowable costs and be net of applicable credits.

Rates are determined by dividing the sum of the estimated direct operating costs, internal service center support costs, and institutional indirect cost by the estimated billing units.

## SERVICE CENTERS

### 4. Billings

Same as Recharge Units and Service Facilities.

## E. COST AND REVENUE SEGREGATION AND ALLOCATION

Costs and revenues should be segregated into cost centers for each service that is provided. Depending on the type of service center, there may be as many as three categories of cost that need to be allocated: (1) costs that are directly related to providing the services (direct operating costs), such as staff providing multiple services, (2) internal service center support costs, and (3) institutional indirect costs. In all three cases, the costs should be distributed to services on an equitable basis that reflects the relative benefit each service receives from the cost.

If individuals provide multiple services, their salaries and fringe benefits could be equitably distributed on the basis of the amount of time they devote to each service. Service center support costs and institutional indirect costs could be equitably distributed on the basis of total direct operating costs associated with each service. ODURF is responsible for determining the amount of institutional indirect cost that is allocable to each specialized service facility.

## F. EQUIPMENT

Expenditures for capitalized equipment purchases should not be included in the costs used to establish service center billing rates. The depreciation costs of capitalized equipment should be included in the costs to determine billing rates in order to generate funds to enable service centers to purchase equipment needed in the future. This is accomplished by setting aside the funds represented by the depreciation component of the billing rate in an equipment replacement reserve account. When equipment is needed, an amount equal to its cost will be charged to the replacement reserve account.

Per OMB Circular A-21, Section J.26.a., interest expense on equipment purchases is not allowable unless the equipment is valued at over \$10,000 and the funds are borrowed from a source external to the ODURF. Any loan arrangements involving equipment are subject to the approval by the ODURF's cognizant federal agency and must be approved by the ODURF Executive Director.

Equipment purchased with federal funds may not be depreciated. Contact ODURF accounting for the most recent depreciation schedules and proper depreciation method.

A list of equipment whose depreciation is included in the service center billing rate must be provided to ODURF. This will insure that such equipment is not included in the depreciation portion of the ODURF's indirect cost rates charged to federally sponsored programs.

## G. SERVICES PROVIDED EXTERNAL TO ODU/ODURF

Service centers which provide services to external users may charge billing rates higher than those charged to internal users. Amounts charged to external users in excess of rates for internal users should be excluded from the computation of surpluses or deficits carried forward in the calculation of future rates.

Sales tax must also be charged to external users when applicable. Since revenue from external users may have unrelated business income tax implications, such arrangements should be approved in advance by ODURF.

## H. TRANSFER OF FUNDS OUT OF SERVICE CENTERS

Surpluses cannot be transferred out of service center accounts to subsidize other ODU/ODURF operations.

## **SERVICE CENTERS**

### **I. INVENTORY OF GOODS HELD FOR SALE**

If a service center sells products and has a significant amount of stock on hand, inventory records must be maintained. A formal inventory account is necessary if the value of the inventory exceeds \$50,000 at any given point in time. A physical inventory should be taken annually and reconciled to the inventory account. Inventory valuations may be based on any generally recognized inventory valuation method, e.g., first-in-first-out, last-in-first-out, average cost, etc.

### **J. SUBSIDIZED SERVICE CENTERS**

In some instances, the ODU/ODURF, or a school or department, may elect to subsidize a service center either by charging billing rates lower than actual costs or by not making adjustments to future billing rates at year-end for deficits. Service center deficits caused by intentional subsidies cannot be carried forward as adjustments to future billing rates. Since subsidies can result in a loss of funds to ODU/ODURF, they should be provided only when there is sound programmatic rationale and with the approval of the Dean, Department Chair and Vice-President of Research. Any subsidies will be identified as a separate item in the billing rate schedule provided to ODURF.

### **K. LONG-TERM BREAK-EVEN AGREEMENTS**

Long-term break-even agreements may be established for service centers in unique situations where they require multiple years to recover or spread out their operating costs. This kind of situation might occur where initial capital outlays are large or when large volume fluctuations are expected. Such agreements are negotiated with ODU/ODURF's cognizant federal agency by ODURF.

### **L. RECORD RETENTION**

Service centers must keep records of rate calculations, billings, collections, units of service provided, costs and revenues, surpluses and deficits including all worksheets and detailed back-up, for a period of three years from the end of the fiscal year in which this information was used.

### **M. REVIEWS PERFORMED BY ODURF**

ODURF will oversee implementation of this policy and consider future changes to the policy in consultation with the appropriate academic and administrative units. Specifically, ODURF accounting will be responsible for the review and approval of any requested exceptions and changes to the policy. Also, ODURF will be notified of the establishment of any new service facilities and specialized service facilities as well as arrangements to provide services to outside parties.

ODURF accounting will make periodic reviews of the financial operations of service facilities and specialized service facilities. 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.

### **N. TECHNICAL ASSISTANCE**

ODURF accounting is available to provide technical assistance and advice on the financial management of service centers. This assistance may be requested in connection with the development of billing rates, cost allocation procedures, equipment depreciation, record keeping, etc.

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## Forms

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Appendix B – Service Center Form

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## Website Addresses for This Policy

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<http://www.researchfoundation@odu.edu>

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## Contacts

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For more information on this policy, please contact Julian F. Facenda, ODURF Director of Finance at 757-683-4293 Ext. 602.

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## Related Information

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[Circular A-21](#)

[Circular A-110](#)

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## Appendices

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Appendix A – Sample Rate Calculations  
Appendix B – Service Center Form

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## Who Approved This Policy

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Old Dominion University Research Foundation Board of Trustees

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## History/Revision Dates

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**Origination Date:** March 31, 2007

**Effective Date:** March 31, 2007

## SERVICE CENTERS

### Appendix A

#### Sample Rate Calculations

##### A. RATE CALCULATION FOR PROVIDING SERVICES

###### 1. Calculation of Direct Operating Costs

Salaries and Fringe Benefits (5 technicians)	\$270,002
Communications	2,800
Training and Development	300
Repairs and Maintenance	4,350
Supplies	5,500
Equipment Depreciation	6,345
Prior Year Operating Surplus	<u>(1,000)</u>
Total Direct Operating Cost	\$288,297

###### 2. Internal Service Center Support Costs

Center Director Salary and Fringe Benefits	<u>\$38,057</u>
Total Operating Costs & Service Center Support Costs	\$326,354

###### 3. Calculation of Units of Output

39 hours per week X 52 weeks	2,028.0
Less holiday hours (11 days X 7.8 hours)	(85.8)
Less average vacation hours (39 hrs/week X 3 weeks)	(117.0)
Less average sick leave (12 days X 7.8 hours/day)	(93.6)
Less breaks (1731.6/7.8 = 222 X .5 hours)	(111.0)
Less down time (average 1.75 hours/day = 222 X 1.75)	<u>(388.5)</u>
Total average available hours per technician.	1,232.1

1,232.1 X 5 technicians = 6,160 total productive hours (units of output)

###### 4. Calculation of Rate

$$\frac{\text{Total Cost}}{\text{Units of Output}} = \frac{\$326,354}{6,160} = \$52.98/\text{hour}$$

##### B. RATE CALCULATION FOR PROVIDING GOODS

###### 1. Calculation of Direct Operating Costs

Salaries and Fringe Benefits	\$25,000
Prior Year Operating Surplus	<u>(500)</u>
Total Direct Operating Cost	\$24,500

###### 2. Internal Service Center Support Costs

Support Staff Salaries and Fringe Benefits	\$10,250
Office Supplies	<u>1,000</u>
Total Service Center Support Costs	\$11,250

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Total Operating Costs and Service Center Support Costs \$35,750

### 3. Calculation of Cost of Goods Sold

Chemicals	\$100,000
Supplies	50,000
Glassware	<u>31,250</u>
Total Cost of Goods Sold	<u>\$181,250</u>

### 4. Calculation of Administrative Charge

$$\frac{\text{Direct Operating Costs} + \text{Service Center Support Costs}}{\text{Cost of Goods Sold}} = \frac{\$35,750}{\$181,250} = .1972$$

### 5. Example of Total Charge for Good Sold

Cost of Goods Sold	\$10.00
Administrative Charge \$10.00 x .1972	<u>1.97</u>
Total	<u>\$11.97</u>

## C. RATE CALCULATIONS INVOLVING SUBSIDIES

Assumptions:

Total Operating Costs and Service Center Support Costs: \$200,000

Annual Rate of Usage: 20,000 Units

Cost per Unit Usage: \$10 (\$200,000/20,000)

The Cost per Unit to All Users, whether Internal or External: \$10

*Example 1: The grantee institution does not receive subsidized support for the facility from any source.*

The schedule of rates is:

Internal Users	\$10 cost per unit usage
External Users	\$10 cost per unit usage

Example 2: The grantee institution receives \$100,000 to support the facility from the National Cancer Institute (NCI) under a P30 Center Core Grant. The \$100,000 will be used to subsidize \$5.00 ( $\$100,000 / \$200,000 \times \$10$ ) of the \$10 per unit usage rate incurred by cancer center members for federally sponsored research projects.

The schedule of rates is:

Cancer Center Member – Federally sponsored	\$10 cost per unit usage \$5 subsidized by the NCI P30 \$5 charged to the user
Cancer Center Member – Non-federally sponsored	\$10 charged to the user
Other Internal Users	\$10 charged to the user
External Users	\$10 charged to the user

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*Example 3: The facility receives \$100,000 to support the facility from the NCI under the P30 and \$50,000 to support the facility from the National Institute of Environmental Health Sciences (NIEHS) under an Environmental Center Support Grant (P30). The \$100,000 from the NCI will be used to subsidize \$5 of the \$10 unit usage rate incurred by cancer center members for federally sponsored research projects. The \$50,000 from the NIEHS will be used to subsidize \$2.50 ( $\$50,000/\$200,000 \times \$10$ ) of the \$10 unit usage rate incurred by the environmental career members for federally sponsored research projects.*

The schedule of rates is:

Cancer Center Member – Federally sponsored	\$10 cost per unit usage \$5 subsidized by the NCI P30 \$5 charged to the user
Cancer Center Member – Non-federally sponsored	\$10 charged to the user
Environmental Center Member – Federally sponsored	\$10 cost per unit usage \$2.50 subsidized by the NIEHS \$7.50 charged to the user
Environ. Center Member – Non-federally sponsored	\$10 charged to the user
Other Internal Users	\$10 charged to the user
External Users	\$10 charged to the user

*Example 4: The facility receives \$100,000 to support the facility from the NCI under the P30 and \$50,000 to support the facility from the NIEHS P30 and \$50,000 to support the facility from institutional funds. The \$100,000 from the NCI will be used to subsidize \$5 of the \$10 unit usage rate incurred by cancer center members for federally sponsored research projects. The \$50,000 from the NIEHS will be used to subsidize \$2.50 of the \$10 unit usage rate incurred by the NIEHS center members for federally sponsored research projects. The \$50,000 from the institution will be used to subsidize \$2.50 ( $\$50,000/\$200,000 \times \$10$ ) of the \$10 unit usage rate incurred by all institutional users.*

The schedule of rates is:

Cancer Center Member – Federally sponsored	\$10 cost per unit usage \$5 subsidized by the NCI P30 \$2.50 subsidized by the institution \$2.50 charged to the user
Cancer Center Member – Non-federally sponsored	\$10 cost per unit usage \$2.50 subsidized by the institution \$7.50 charged to the user
Environmental Center Member – Federally sponsored	\$10 cost per unit usage \$2.50 subsidized by the NIEHS \$2.50 subsidized by the institution \$5.00 charged to the user
Environ. Center Member – Non-federally sponsored	\$10 cost per unit usage \$2.50 subsidized by the institution \$7.50 charged to the user

## SERVICE CENTERS

Other Internal Users

\$10 cost per unit usage  
\$2.50 subsidized by the institution  
\$7.50 charged to the user

External Users

\$10 charged to the user

Source: National Cancer Institute