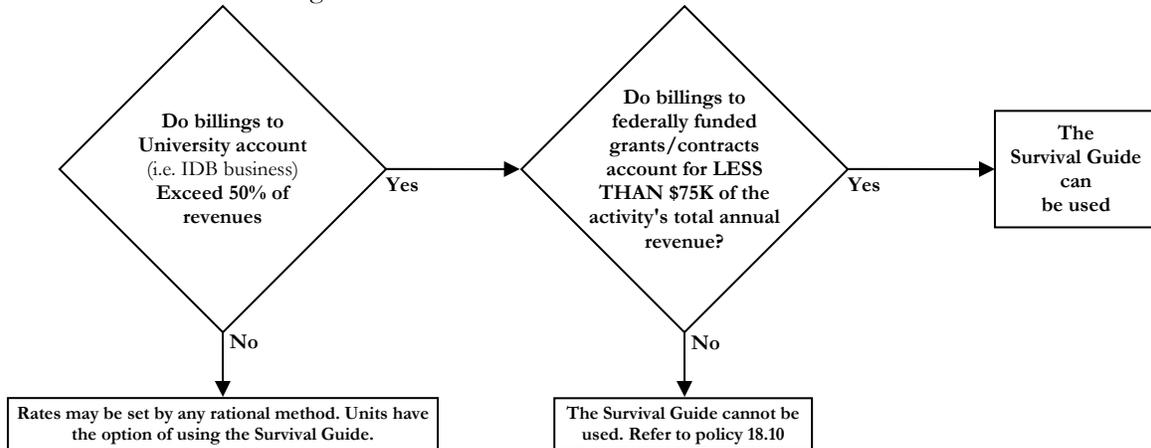


**For service centers
with LESS THAN \$75,000 of annual
charges to federal grants/contracts.**

Purpose: In response to numerous requests from the campus community, we have developed some suggestions that should help smaller service centers set rates and manage their operations in a manner which will reduce their risk of audit disallowance. This guide applies to those units or activities that charge others for goods/services and meet all of the following conditions:



1: Developing a budget:

Revenue: Revenue is based upon the estimated units of service provided (e.g., machine hours, labor hours) multiplied by their billings rates. When any federal grant/contract accounts are charged, all University accounts must be charged at the same rates.

Pricing based on “what the market will bear” is only allowable for external customers. Rates for external customers must exceed those charged to University customers and cannot result in a subsidy by the University. Sales to external customers will require the creation of a separate auxiliary account, exempt from Service Center Policy, when external sales exceed 10% of revenue.

Personal Services: Employees who have their salaries and ERE paid from the auxiliary account must perform functions, which directly relate to the provision of services. If an employee “wears multiple hats”

for example

1. performs maintenance on pieces of equipment that are billed out at an hourly rate, AND
2. performs direct research

then the employee should be split-funded between auxiliary and state/indirect cost recovery/grant funds based on the percent of effort related to the two types of activities.

Operations: Expenses such as operating supplies and maintenance contracts, which directly relate to the provision of services, should be budgeted to the auxiliary account. Expenses that may jointly benefit the auxiliary account and other activities should be split-funded on an objective (i.e. supportable) basis.

Travel: Travel expenditures must be directly attributable to the services being provided in order to be charged to the auxiliary account. Because of previous abuses, federal auditors are very

sensitive about travel charges. Auditors have taken the position that travel costs incurred to present papers at seminars, or conference and convention fees are not allowable. The auditors say there is also a benefit to non-service center activities (e.g., teaching, research) or individuals (e.g., students or faculty). Since travel expenditures tend to cause a “red flag” alert, service centers should use non-auxiliary accounts to pay for such travel.

Capital: You are permitted to acquire capital equipment from your auxiliary fund sources. However, additional administrative procedures are required. First, depreciation schedules must be maintained. Second, a separate auxiliary account entitled “equipment reserve” needs to be established. Third, annual cash transfers from the primary auxiliary accounts into the equipment reserve account must be processed through the Financial Services Office in order to provide funds for equipment acquisitions. [Note: All pertinent equipment acquisitions must be incurred in the reserve account.] You are not permitted to purchase capital unless the procedures are in place. Maintaining the schedules has proved to be a real administrative burden for most units. We therefore recommend that service centers use non-auxiliary account to acquire capital.

Break-even: Annual revenue less expenses normally should equal zero. Service centers may maintain a fund balance sufficient to cover 60 days of business. If the operation is facing unusual circumstances, such as a projected loss in one year with a recoup of that loss in the following year, it is important to develop a “break even plan” and to receive approval from the University Budget Office and Financial Management – Operating Funds.

2: Developing billing rates:

The official University policy on developing rates can be found in the Manual – Policy 18.10. The policy requires that when charging university accounts, billing rates must be based on the actual cost of providing the service. Further, auditors require documentation, which proves that each rate or price you use is based on cost. This can be difficult. Following is an example of an approach that would satisfy the documentation requirements:

Example

Lab X is equipped with some highly specialized equipment. For a fee, the lab provides two services – rental of time on the equipment (for which an hourly equipment rate will be developed) and technical services (for which an hourly labor rate will be developed). Lab X employs a lab technician who is responsible for a variety of functions. The annual expenses for the facility are as follows:

Personal Services (incl. ERE)		\$35,000	
Operations:			
Maint. Contract	\$12,000		
Operating Supplies	8,000		
Office Supplies	2,000		
Phone	<u>1,000</u>		<u>23,000</u>
Total			<u>\$58,000</u>

To calculate billing rates, we recommend the following methodology:

1. Identify expenses for each service. Create a schedule for all expenses by service. If an expense cannot be specifically identified to a service (for example, monthly phone charges), group the expense into an “overhead” type of category. These schedules should tie into the expense categories.

a. Personal Services. In the Lab X example, assume that the technician spends his/her time on the following three activities: provides technical “labor” services; performs routine equipment rental service; and prepares customer bills and pays invoices. The time spent preparing bills and invoices will be considered overhead, since these functions benefit both the labor and machine service but cannot be specifically identified to either service.

In order to distribute the personal services to the three separate activities, the technician would need to “log” the actual number of hours spent in these areas during a sample time period that is deemed to be representative of the average work year. In our example, let’s say we pick a two week time period that is judged to be typical of the average year. At the end of the sample period, assume that the percent of the time spent on the various activities was 60% labor services, 10% equipment support, and 30% overhead. Personal services and ERE would be distributed as follows:

Total Personal Services (incl ERE)		<u>\$35,000</u>
Labor Services		
(60% x \$35,000)	\$21,000	
Equipment Services		
(10% x \$35,000)	\$3,500	
Overhead		
(30% x \$35,000)	\$10,500	

b. Operations. In our example, assume the \$12,000 maintenance contract is related to the equipment rental, and that all other operations expenses benefited both the labor and equipment services, but could not be specifically identified to either service. Accordingly, operations expenses were identified to the separate areas as follows:

Total Operations		<u>\$23,000</u>
Equipment Services (maint. contract)	\$12,000	
Overhead	\$11,000	

2. Determine “billable units” for each service provided.

This requires that logs be maintained to capture the units of service actually provided. In this example, assume that Lab X had billed 1,000 labor hours and 200 machine hours in the previous fiscal year.

3. Determine a reasonable basis for allocating the “overhead” category. The recommended basis is dollar volume of direct expenses. [NOTE: Allocating overhead based on revenue is NOT recommended.]

In this example, overhead was allocated to the two services based on the subtotal of personal services and operations. The documentation should include a schedule showing how overhead expenses were allocated, as follows:

Overhead Allocation:

Amount Allocated to Labor Services =
 $\$21,000$ [Subtotal Labor Services] / $(\$21,000$ [Subtotal Labor Services] +
 $\$15,500$ [Subtotal Equipment Services]) = 58%;
 $58\% \times \$21,500$ [Overhead] = \$12,470

Amount Allocated to Equipment Services =
 $\$15,500$ [Subtotal Equipment Services] / $(\$21,000$ [Subtotal Labor Services] +
 $\$15,500$ [Subtotal Equipment Services]) = 42%;
 $42\% \times \$21,500$ [Overhead] = \$9,030

4. Calculate billing rates. Create a schedule showing the calculation of billing rates as shown below

	Overhead	Labor Services	Equipment Services	Total
Personal Services (incl. ERE)	\$10,500	\$21,000	\$3,500	\$35,000
Operations:	\$11,000	\$0	\$12,000	23,000
Subtotal	<u>\$21,500</u>	<u>\$21,000</u>	<u>\$15,500</u>	<u>\$58,000</u>
Allocate overhead	(21,500)	12,470	9,030	0
Total	<u><u>\$0</u></u>	<u><u>\$33,470</u></u>	<u><u>\$24,530</u></u>	<u><u>\$58,000</u></u>
Billable Units		1,000	200	
Calculated Rate		<u><u>\$33.47</u></u>	<u><u>\$122.65</u></u>	
		<small>(\$33,470/1,000)</small>	<small>(\$24,530/200)</small>	

5. Provide billing rates to Budget Office. A copy of the current billing rate schedule (i.e., price list) and billing rate computation schedule should be attached to your annual local fund budget submission. Billing rate computations should be updated as needed to maintain a reasonable fund balance.

6. Retain the documentation in a permanent file. Copies of the time/effort logs, billing rate computation and supporting worksheet must be retained in a permanent department file, which may be subject to review.

3: Operating Tips:

Maintain reasonable fund balance levels: Based on discussions with federal officials, a reasonable fund balance is one that approximates 60 days of a service center’s auxiliary account current operating expenditures (personal services, operations and travel). For example: If the current operating expenditures for Auxiliary XYZ is \$87,600, then a reasonable fund balance would approximate \$14,400, (i.e., \$87,600 x [60/365]).

Note: *During a federal audit in FY 1992-1993, the service centers selected for review were those that appeared to have an “excess fund balance”.*

Match revenues and expenses: All expenses that are included in billing rate computations must be charged to the auxiliary account. As a reminder, expenses charged to the auxiliary account must directly relate to the specific goods/services being provided. Unrelated expenses must be charged to other accounts. Also, all revenue related to the provision of services must be credited to the auxiliary account.

Free (or unbilled) services should not be provided: All goods/services provided should be billed, including goods/services provided to student, educational activities or research not funded by a grant/contract. **Avoid providing “freebies” or horse-trading** (i.e., a quid pro quo trade where you provide services in exchange for services or favors). For example, a lab that bills customers for use of specialized equipment may want to forgo charging a specific grant account because the maintenance contract was included in the grant budget. Although this may seem reasonable, federal regulations require that all users be billed on the same basis. In cases like these, we recommend that

the grant be re-budgeted so that instead of paying for the maintenance contract, the grant pays (i.e., be billed) for actual equipment usage. Or for another example, a grant runs out of funds. The lab providing services wants to keep providing services to the grant. In this case, the lab can continue providing services only if other fund source are charged for those services.

Keep it simple: We recommend that the number of different prices or billing rates to be charged to University accounts be kept to a minimum. Service centers often attempt to have separate charges for relatively small services like paper usage or rush jobs. If these services are really insignificant in terms of the total operation, try to avoid establishing separate charges for these items. The record-keeping that would be necessary to justify the charges generally far exceeds any benefit that would be gained from the separate charges.

Final Comment: We hope this guide is useful. Any questions/comments regarding this guide should be directed to [Financial Management – Operating Funds](#) at 621-9196. Any questions regarding your budget or budgeting issues should be directed to the Budget Office at 621-1634.