FA02 BAO Service Center Fiscal Operating Policy

Effective 5 July 1995 **Last Revised** 1 May 2001

Who Should Read This Policy

Unit Administrators, Business/Office Managers and Financial Managers who are responsible for service center operations. Service centers existing for cost accounting convenience within a department are not subject to all provisions of this policy unless (1) other departments or federal contracts and grants received services and (2) annual service center financial activity exceeds $25,000. However, all service centers are expected to operate on a self-sustaining basis. The BAO Accounting Department must approve any exceptions to this policy.

Background & Purpose

The primary function of a service center is to provide financially self-sustaining services to other departments of the institution. Service Centers that provide support to federally sponsored contracts and grants must adhere to the Office of Management and Budget Circular A-21. Circular A-21 states that charges for the use of service centers should be designed to recover not more than the aggregate cost of the services over a long-term period agreed to by the institution. The Business Affairs Office has developed the Service Center Fiscal Operating Policy to assist service centers in complying wit Circular A-21. Service centers – FIS fund series 090100 to 094900 – are subject to audit review by the Federal Government. Audit reasons are (1) service centers provide support to federally sponsored contracts and grants; (2) charges to other users can distort the University's indirect cost rate; and (3) direct and indirect costs may contain unallowable costs. This policy serves as an operating guide and management tool for service center and contract and grant administrators.

Policy

Allowable Costs

All allowable service center costs necessary to provide services to the university will be used in determining the service center's fee structure. All costs necessary to provide the service are expected to be paid by the service centers. If fees cannot be set at a rate sufficient to recover operating costs, the responsible department must transfer enough support dollars to fund the shortfall. The department may not directly pay service center costs from other sources. All support is accumulated and carried from year to year as contributed capital or until repaid.

Unallowable Costs

Unallowable costs, if any, paid by a service center are to be reimbursed by the responsible department, i.e. College, School, Division, or Home Department. These costs include:

- Advertising and public relations costs, except if related to recruitment of personnel for service centers, procurement of goods

- and services, and disposal of scrap or surplus material owned by the service center when such costs are charged or relate to
- the performance of federally sponsored agreements.
- Alcoholic beverages.
- Alumni activities.
- Bad debts.
- Commencement and convocation costs.
- Provision for contingencies, unless the event can be foretold with certainty as to time, intensity, and assurance of happening.
- Value of donated services.
- Entertainment costs.
- Lobbying costs.
- Fines and penalties, i.e. failure to comply with Federal, State, or foreign laws or regulations.
- Goods or services for personal use.
- Interest:
  - a.Any paid on borrowed capital
  - b.Interest paid to other OUS units (internal interest).
  - c.On equipment purchases under $10,000; over $10,000 allowable with Federal government
  - approval.
  - d.Exceptions? Contact the BAO Accounting Department.
- Costs of meetings and conferences unless the primary purpose is the dissemination of technical information.
- Membership in any civic or community organization.
- Membership in any country club, social club, or dining club.
- Scholarships and student aid costs.

Fund Balance Compliance
The fund balance recorded on the official books of record at June 30th (period 14) of each fiscal year will be the amount used to measure compliance. All accounts receivable and accounts payable as determined in accordance with Generally Accepted Accounting Principles are to be recorded at the fiscal year end to determine working capital.

Fund balance less any contributed capital cannot exceed 60 days of working capital. Working capital is calculated based on average expenses over the past three fiscal years. Fund balance in excess of the 60-day limit must be carried forward to the new year, either as a rate decrease or by returning contributed capital to its original source. Some exceptions, with approvals by the BAO Accounting Department, may be reasonable, i.e., long term maintenance contracts.

If fund balance less any contributed capital results in a working capital loss (deficit) equal to 5% or less of total annual expenses, the service center can recover the loss through a rate increase or *return/use up* contributed capital (acct code D0110) to its customers, or a combination of both.

If the loss is in excess of 5%, the responsible department can transfer funding to the service center in lieu of a rate adjustment or return/use up contributed capital (acct code D0110) to its customers. Loss carry-forward exceptions for longer than one year may be presented for approval consideration to the BAO Accounting Department.

Contributed Capital
Service Centers should periodically review transactions using transfer account codes (i.e., 91001, 92001, etc.) and classify these monies as contributed capital when appropriate. Contributed capital must be fully documented including identification of source, amount, date, reason, and authorization for the contribution by transferring funding from fund balance to the contributed capital account.

Department Costs
All revenues received by service centers should be for reimbursement of service center actual cost of operations. If the University or the department elects to recover or allocate administrative or other costs to support service centers, the expenditures are paid directly from the service center. For the service center to pay department support costs, adequate documentation must exist. For example, time and effort reports, time records, or other cost allocation workpapers, formulas, or recorded justifications are necessary to document personnel and other fiscal support provided by the administrative department.

Discriminatory Pricing
All users of a service center generally pay the same fee for like services. A multiple rate structure (rate differential) may be used to reflect the exclusion of unallowable costs from charges to federally sponsored projects. Any amount charged to non-federal funds in excess of the federally allowable rate and which results in working capital becomes contributed capital.

The service center may add a service fee to non-institutional department users. This service fee must be separately identified in the university's official fee book, and accounted for apart from the service center's ordinary fee income. U of O's fee book is administered and maintained by the Office of Budget and Resource Planning.

Customers defined as "non-university users" are charged the current negotiated F & A cost rate, contact ORSA for specifics. This portion of income will be "Institutional Income" and recorded as designated by the Office of Budget and Resource Planning. If you do not have an Institutional Income/Expense fund, contact the BAO Accounting Dept to have a new fund setup. Federal, Oregon, and other tax supported entities are defined as university users.

The F & A rate should not be added to the specialized service fee because Building Use, Operation, General Administration costs will be duplicated.

A class of users may receive service at a reduced fee if the reduction is subsidized from another source. The subsidy is deposited in the service center as ordinary fee income unless the resources are working capital.

Termination of Service Department Status
If a service department customer base changes over a period of time and income from off campus non-government entities exceeds 40% of the service center's annual income for two consecutive years, the service department classification will change to a Current General Fund operating account. Excess earnings and balances will be subject to transfer to the University Current General Fund Balance.

Multiple Services
A cost center may provide more than one service, and make a surplus on some services, and a loss on others as long as general commonality exists between the services and/or customer base. Usually different rates based on actual costs should be developed for each service type.

Record Retention
Certain documentation is necessary if direct and indirect charges to sponsored projects are to be accepted in an audit. A service center must adequately document its activities, and maintain records to support revenue billings, expenditures, and transfers. At a minimum, the following records must be retained by the service center in accordance with the UO Archivist Record Disposition Schedule:

Workpapers showing how the rate(s) are calculated. Billing records that identify the services provided to each user. Job descriptions of employees charged to the service center. Comprehensive written business plans are encouraged, but not required. Any transfer of support dollars must be fully documented, including identification of source, amount, date, reason and authorization. This documentation will be permanently maintained by the BAO Accounting Department.

Authority

The Director of Business Affairs has authority for administering this policy and has delegated its implementation to the BAO Accounting Office.

References

Office of Management and Budget Circular A-21 Cost Principles for Educational Institutions

Office of Management and Budget Circular A-110 Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations

Related Procedures

Contributed Capital
Two account codes are used to tracking contributed capital (D0101 – Inventory Reserve and D0110 – Contributed Capital). Account code D0101 (Inventory Reserve) is for transfers of money or assets to the service center fund for the sole purpose of establishing or increasing inventory. While account code D0110 (Contributed Capital) is

for all other transfers of money to the service center that do not meet the criteria for account code D0101.

Funding Equipment Replacement Reserve
Equipment reserves are maintained in accordance with OUS FASOM Section 1.24. Contact BAO Accounting for copies of this section.

The BAO Accounting Department will transfer the equipment replacement or deficiency charges from the Service Center operations fund to the Service Center reserve fund on an annual basis. This charge is used in the service center's annual rate determination and should be considered an operating expense when measuring compliance.

Service Center owned equipment funded by a contract or grant is not eligible for depreciation allowance cost recovery. Gift acquisitions may be depreciated based on fair market value to establish replacement reserves, if in fact the equipment is to be replaced upon completion of useful life.

Inventory
If a service center normally accumulates inventory (stockroom) items such as parts or chemicals, an inventory account (Balance Sheet acct code A4002) is used to match revenue to cost of goods for the fiscal period. In addition to maintaining inventory the service center may be required to maintain an inventory reserve account (See FASOM 08.04D3, available on the web, for criteria for maintaining a reserve account). Storeroom reserves must come from external sources and therefore are considered a type of contributed capital.

Contact

BAO Accounting Department, 6-3524

Definitions

Contributed Capital
A permanent transfer of money or other asset from a source external to a service department. Contributed capital is tracked using account code D0110. Examples include:

a. A subsidy from non-federal other funds to cover a service department's operating deficit,
b. The transfer of beginning balances from non-federal other funds at inception of the service department,
c. The transfer or conversion of a non-federally funded storeroom inventory to a service department, or
d. The purchase or transfer of equipment form non-federal other funds to a service department.

Service Center
Provides financially self-sustaining services to other departments of the institution. This includes non-UO entities that are physically located on campus, other OUS entities, other State of Oregon agencies, and other tax supported entities.