University of Wyoming

Specialized Service Center Procedures Manual

Issued By:
UW Controller’s Office & UW Research Office
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1. INTRODUCTION

1.1 PURPOSE AND USE OF THIS MANUAL

The University of Wyoming specialized service centers (service centers) share a common mission of providing needed services to the community while recovering the costs of operations. The purpose of the Specialized Service Center Procedures Manual is to set forth a framework of information to assist academic departments in successfully managing service center financial operations. The procedural statement which follows is based upon sound business practices, federal regulations, and University policy.

Use of this manual and adherence to the procedures contained herein is recommended for all departments having a current activity under its control which meets the definition of a University of Wyoming service center. (For the purpose of this document, the term “department” may be defined as the UW administrative unit, college, division, or department which is responsible for the service center.) It is expected that such service center operations will meet the standards of consistency and allowability in rate development, as set forth in this manual.

A University of Wyoming service center is defined as an operation or activity that has been created for the purpose of providing a service or group of services to a benefiting user community at UW, with the objective to recover the costs of those services through an internal billing to the users. While benefiting users are primarily the Research community, it is not uncommon for service centers to provide service for Instructional purposes and entities outside the University as well. For the purpose of this document, auxiliary operations, such as Dining Services, Copy Centers, and similar operations, are not included.

1.2 PROCEDURAL STATEMENT

The University of Wyoming procedures relating to the operation of service centers incorporate the following assumptions:

- All service centers should calculate rates annually on a July 1st to June 30th fiscal year basis with a common goal of achieving a breakeven financial position (recovering no more than the cost to operate the service center) over a period of time not to exceed 5 years.

- All service centers may be subject to rate reviews at least annually as determined by The Division of Administration.

- Over-recoveries or under-recoveries should be incorporated into the subsequent year’s rate.

- To the extent practicable, all service centers should operate in separate accounts, created solely for the purpose of recording revenues and expenditures related to the service(s) provided.

- Equipment purchase costs should be recorded in the service center account or in a separate capital equipment account and only the actual amount of depreciation will be acknowledged as an expense for determining the service center’s financial results and rate(s) for any given year. If the equipment is purchased with federal funds any relevant depreciation must be excluded from the service center rate (see section 4.3). Purchases of equipment normally will not be funded through any surpluses generated from operations.

- Pricing of services performed for internal users should be consistent among users and billings to external users should include facilities and administrative costs (F&A Costs, formerly indirect costs) using the current applicable state or federal rate.
2. CREATION OF SERVICE CENTERS

2.1 PLANNING FOR SERVICE CENTERS

The goal of the University’s service centers should be consistent – providing service and recovering costs while achieving breakeven. Realizing these goals requires careful planning and preparation on the part of academic administrators and faculty. One way to accomplish this is to address issues such as those listed below:

- Determine whether there is a current and continuing need for the type of service center being contemplated.
- Determine if the service is available elsewhere at or outside of UW.
- Determine whether the service center will be in competition with local outside vendors.

If, after having dealt with these and other relevant issues, the department plans to initiate a new service center, the information explained in the following section should be provided to the Division of Administration prior to the commencement of any operation.

2.2 REVIEW AND APPROVAL OF NEW SERVICE CENTERS

Initiation of a new service center requires the prior review by and approval of the Controller’s Office. The reasons that this process is required include:

1. To provide assistance, as required by the initiating department;
2. To become familiar with the type of operation being proposed, and;
3. To ensure that all new service centers have established adequately documented rate structures, controls, and operating methodologies.

A New Service Center Request Form (exhibit 1-1) must be completed and submitted to the Controller’s Office in the Division of Administration 60 days prior to the requested commencement of operations so as to allow sufficient time for review, feedback, account creation, and approval. It is highly recommended that the timing of a new service center operation coincide with the start of the next fiscal year for the purpose of monitoring activity, allowing for rate adjustments and provide a complete picture of operations at the end of the first year.

When a completed New Service Center Request Form is received, the Controller’s Office will schedule a review of the request to determine that the proposed operation is appropriate and sufficiently documented. Any questions or concerns arising out of the review process will be addressed either in a memo or email from the Controller’s Office to the originator of the request or, if necessary, via a meeting.
UNIVERSITY OF WYOMING

NEW SERVICE CENTER REQUEST FORM

(Please complete all information and return this form to the Controller’s Office, Old Main 318, at least 60 days prior to the anticipated commencement of the proposed operation.)

Service Center Name: __________________________________________________

Initiating Department: __________________________________________________

Responsible Person  Title  Department  Phone #

____________________  _______  ________________  _____________

Description of Activity, including products and/or services and anticipated users (attach a separate sheet, if necessary):

Describe the usage base to be used in the rate calculation (i.e., labor hours, number of units processed, etc):

Describe how records of usage will be accumulated and maintained:

Before submitting this completed form to the Controller’s Office, please also attach an estimated budget (example on following page) for the first full operating fiscal year of the service center and an illustration of how proposed rates have been calculated. (If it is proposed that the service center begin operations on a date other than July 1, please also provide a proposal and budget for the part of the year in which the service center will be operating.) Any questions regarding the completion of information on this form or on the required attachments may be addressed to the Controller’s Office.

Departmental Approval Signatures:

Responsible Person: ________________________________  Date:  ________________

Department Chair: _________________________________  Date:  ________________
Exhibit 2-1

University of Wyoming
<Service Center Name>
Estimated Budget
<Fiscal Year>

<table>
<thead>
<tr>
<th>Income:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>External Billings</td>
<td>$</td>
</tr>
<tr>
<td>Internal Billings</td>
<td></td>
</tr>
<tr>
<td>Total Income</td>
<td>$</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>$</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td></td>
</tr>
<tr>
<td>Materials &amp; Services</td>
<td></td>
</tr>
<tr>
<td>Travel</td>
<td></td>
</tr>
<tr>
<td>Equipment (Depreciation Only)</td>
<td></td>
</tr>
<tr>
<td>University Services</td>
<td></td>
</tr>
<tr>
<td>Subcontracts</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
</tr>
<tr>
<td>Total Expenses</td>
<td>$</td>
</tr>
</tbody>
</table>

Net Operating Surplus/Deficit
Subsidy (if appropriate)

Contact Person: _____________ Email: ___________ Telephone: ___________
3. ACCOUNTING, BUDGETING, AND BILLING CONSIDERATIONS

3.1 FISCAL YEAR ACCOUNTING

The University of Wyoming’s business cycle operates on a fiscal year that starts July 1st and ends on June 30th. The reason for using this timeframe for service center operations relate to the need to capture each fiscal year’s operating results and to incorporate these results into annual financial statements. In order to maintain consistency with The University of Wyoming’s financial cycle, it is required that all University service centers account for operations during the same time period.

Questions about the University’s fiscal year accounting cycle may be addressed to the Controller’s Office.

3.2 BUDGETING FOR SERVICE CENTERS

Departments responsible for service centers must prepare budgets for all service center accounts. This will facilitate greater ease in measuring actual operating performance and developing charge rates. If a department wishes to modify a service center budget during the fiscal year, simply contact the Controller’s Office as soon as the need becomes known. If the modification is significant a mid-year rate review may also be done by the Controller’s Office.

3.3 THE “BREAKEVEN” EXPECTATION

Office of Management and Budget (OMB) Circular A-21, “Cost Principles for Educational Institutions”, is the federal regulation which provides guidance to all universities on issues concerning cost allowability for direct and indirect costs.

OMB Circular A-21 specifies in Section J.44, Specialized Service Facilities, that, “Charges for the use of specialized facilities should be designed to recover not more than the aggregate cost of the services over a long-term period agreed to by the institution and the cognizant Federal agency”. Further, the section states, “Accordingly, it is not necessary that the rates charged for services equal the cost of providing those services during any one fiscal year as long as rates are reviewed periodically for consistency with the long-term plan and adjusted if necessary.”

Service centers should strive to operate at breakeven (i.e., revenues=expense) over a long period of time. The federal government allows for over-recoveries and under-recoveries, provided that, upon determining that breakeven was not achieved, rates are adjusted accordingly by incorporating such over-recoveries and under-recoveries into subsequent years’ rates.
3.4 MONTHLY BILLINGS

Periodic “billings” via manually prepared Interdepartmental Request (IDR) or P-Card payment are the means by which service centers at UW receive payment from internal (UW) users for goods and services. Payments from external users (non-UW entities or individuals) are made via check or wire transfer.

In order that the revenues recorded in the accounting system are closely aligned with the timing of the expenditures incurred that generated the revenues, it is recommended that billings for goods and services be accomplished on a monthly basis. At year end, billings for the month of June should be prioritized so that they are recorded on the accounting system before year end. Should a department not be able to meet this timeframe, a listing of unposted internal billings and unpaid external billings should be provided to the Accounting Office to allow for the accrual of revenues in the same fiscal year in which they were earned. Only by posting all entries for each year’s fiscal activity can a reasonable determination be made of the operating results for the service center.

3.5 DOCUMENTATION OF COSTS

It is the responsibility of departments that oversee service center operations to maintain and provide, as requested, all copies of documentation pertinent to the activities of service centers. Examples of situations where such documentation would be requested include:

- In the event of questions arising from billed users, the department should provide copies of all records showing the time period for services rendered, calculation of relevant amounts, etc.
- Under audit, copies of source documents (e.g. vendor invoices, PO’s etc), internal and/or external billings, supporting calculations, etc. must be provided.
- During rate reviews and subsequent fiscal year activities, copies of documentation that support current rates and operating results must be provided.
4. ALLOWABLE AND UNALLOWABLE COSTS

Costs incurred by service centers should be in accordance with University policy and Office of Management and Budget (OMB) Circular A-21, “Cost Principles for Education Institutions”. The following information should be considered by departments having service center responsibility prior to the incurrence of actual costs:

4.1 SALARIES, WAGES, AND FRINGE BENEFITS

The costs of salaries, wages, and fringe benefits of personnel directly involved with (i.e. devoting effort to) service center activities are allowable. These costs should be included in the preparation of each rate proposal so that each individual’s function, relationship to (i.e., working under the umbrella of a different department) the service center, and estimated level of effort to be devoted are stated clearly. Significant variances will require adjustment of estimates in subsequent rate proposals. Fringe benefits should be charged in the same relative percentage as the level of effort and at University approved rates.

4.2 MATERIALS, SERVICES, AND SUPPLIES

Materials, services, and supplies necessary to carry on the business of service centers are allowable.

4.3 EQUIPMENT DEPRECIATION

• Non- depreciable Equipment

Equipment included in the University’s indirect cost rate (F&A) and equipment purchased with federal funds cannot be included in service center rate proposals. If matching funds were required for purchase of equipment with federal funds, the required matching funds cannot be included in depreciation calculations. Any non-federal funds in excess of required match may be included in depreciation calculations.

• Depreciable Equipment

If equipment is to be depreciated, it should be shown in rate proposals. The amount of depreciation charged must be calculated using the appropriate estimated useful life of the asset and the straight-line method (i.e., equipment cost, including freight, set-up charges, etc., divided by the estimated useful life in years or part of a year). Useful lives for equipment purchased at UW are, as follows:

Scientific Equipment  7 years
Computer Equipment  3 years

All depreciation calculations are done by the UW Accounting office. Contact the Assistant Manager of Accounting (6-6618) for current year amounts.

4.4 TRAVEL
The costs of travel related directly to and necessary for the operation of service centers (i.e., conferences, meetings, local travel) are allowable.

4.5 OTHER DIRECT COSTS

Other direct costs not identified above are allowable to the extent that they relate directly to and are necessary for the operation of service centers and are not specifically unallowable under University policy or OMB Circular A-21

4.6 INDIRECT COSTS

Recovery of facilities and administrative costs (F&A costs; formerly indirect costs) at the current state or federally negotiated rate from external users of service centers is allowable. This amount should be added to the standard billing rate when performing services for external users.

4.7 UNALLOWABLE COSTS

Unallowable costs are those expenses specifically unallowable under University policy or OMB Circular A-21. Examples of unallowable costs include, but are not limited to, the following:

- Alcoholic beverages
- Bad debts
- Donations and contributions to organizations/individuals
- Entertainment or anything remotely connected
- Fines and penalties
- Goods or services for personal use
- Housing and personal expenses
- Interest expense
- Memberships in professional or other organizations
- Profits and losses on disposition of plant equipment or other capital assets
- Scholarships and student aid

Any questions regarding allowability of expenses to service centers may be addressed to the Office of Research and Economic Development.
5. RATE DEVELOPMENT

5.1 THE BASIC EQUATION

A service center rate may be defined as the cost per unit of output to recover the expenses of the service center and achieve a breakeven financial position. In its most basic form, a service center rate may be expressed, as follows:

\[
\text{Budgeted Expenses} \pm \text{Prior Year Over/Under-recovery} \over \text{Budgeted Level of Activity (Usage Base)}
\]

The budgeted usage base can be further defined as the volume of “activity” estimated to be performed or produced, expressed in terms of units. Examples are labor hours, machine hours, or any other unit of measurement appropriate to the type of activity. The resulting rate is then charged to users of the service center based upon actual services performed and/or products delivered.

For example, a microscope costs approximately $100,000 per year to operate and has an estimated usage (activity level) of 1,500 hours during the year. The resulting hourly rate would be calculated as $100,000/1,500 hours = $66.67 per hour. A researcher using the microscope for 4 hours would then be charged $266.68, or 4 X $66.67.

While many service centers have rates that are more complicated by virtue of offering multiple services, by having pricing that is contingent upon types and/or levels of usage, most rates can be reduced to a simple equation such as the one illustrated above.

5.2 TYPES OF USAGE BASES

The usage base, or activity level, is used to arrive at a billing rate which, when applied to actual usage, reasonably allocates service center costs in proportion to those service center customers receiving its benefits. Selection of an appropriate usage base is essential to ensuring that users are charged only their fair share of the actual costs of operating the service center.

Two approaches to rate development are available to determine an appropriate usage base: consumption and output. Both distribute costs based on a unit of measurement, such as hours.

The consumption approach is used when expenses are directly proportional to how much of a unit of measurement is consumed. The output approach is used when expenses are related to the number of units produced in a year. Examples of both approaches are explained and illustrated on Exhibit 4-1.

5.3 TREATMENT OF OVER/UNDER-RECOVERIES

It normally is not possible to predict exactly what rate(s) will result in having achieved a breakeven financial position at the end of the fiscal year. For this reason, it is necessary to account for over-recoveries (surpluses) and under-recoveries (deficits) annually so that they may be factored into any new rates.
Any over-recovery or under recovery for a given fiscal year should be considered as a separate line item in subsequent year budgets submitted as a part of the annual rate proposal process.

5.4 PRICING OF MULTIPLE SERVICES

Departments with service centers offering multiple services should calculate rates appropriate for each service. Where the calculation of separate rates for multiple services is not feasible, an average rate may be calculated, provided that the user base of the different services is approximately the same and the basis for rate setting is equitable. In other words, one user may not be charged more than another user for the same service.

5.5 RATE APPROVAL

After approval of rates by the Division of Administration, rates will be included in the UW Fee Book for approval by the Board of Trustees.

Exhibit 5-1

The University of Wyoming
SAMPLE RATE CALCULATIONS

The following examples provide a general overview of two common approaches to calculating service center rates. The “consumption” approach should be used in more labor intensive situations, while the “output” approach is used to equitable distribute costs of a common measurable product. It is important that the selected activity base relate directly with the elements of the operation that drive costs (i.e. labor or output) to keep rate calculations as simple as possible while yielding reasonable and consistent results.

EXAMPLE 1: ESTIMATING LABOR HOURS (CONSUMPTION APPROACH)

A machine shop estimates that total expenses for the next year will be $225,000. Given that there are 2 full time and 1 half time employees working in this service center and that the operations runs Monday through Friday during normal University business hours, the following method could be used to develop a reasonable rate to be charged, based upon the “consumption” of the machinists’ time:

1. Calculate estimated production hours per person @ 100% time:

   - 37.5 hours/week * 38 weeks = 1,425 hours
   - 35.0 hours/week * 14 weeks = 490 hours

   Subtotal = 1,915 hours

   Less: Vacation (22 days * 7.37 hours/days = 162 hours)
   Holidays (11 days * 7.37 hours/days = 81 hours)
   Estimated contingency for sick and
   Down time (10 days * 7.37 hours/day = 74 hours

   Total = 1,915 - 162 - 81 - 74 = 1,608 hours
Total estimated production hours per person  1,598 hours/year

1. Multiply times the number of employees:

   Number of employees = 2.5 * 1,598 hours/year  3,995 billable hours

3. Divide total estimated annual costs of operation by the number of billable hours to arrive at an hourly rate:

   Consumption Rate = $225,000 Total Costs  = $56.32 per hour
                     3,995 Billable Hours

EXAMPLE 2: ESTIMATING UNIT COST (OUTPUT APPROACH)

A department with several copiers determines that the total cost of operating the machines for a year is $75,000 and that 1.2 million copies are made by various users. The method below may be used to determine a unit cost per copy to charge users:

   Unit Cost = $75,000 Total Costs = .0625 or $0.06 per copy
             1,200,000 Copies
6. MONITORING PERFORMANCE

6.1 ANNUAL RATE PROPOSAL AND REVIEW PROCESS

The steps for accomplishing the rate proposal and review process for all service centers when requested by the Controller’s Office are as follows:

1. All service center operation cycles should begin on July 1st and end on June 30th with the closing of the University’s books.

2. Once the initial rate structure of a service center has received approval; rate proposal information for all subsequent fiscal years should be submitted by August 30th and includes the following:
   a. Annual financial operating report for the year just ended.
   b. Proposed rate structure for the current year. If rate are based upon calculations previously approved by the Division of Administration and there have been no changes in methods, only a listing of proposed rates is required.
   c. Revenue and expense budget incorporating the final surplus/deficit for the year just ended, if any.
   d. Description of any changes in methods from those previously approved by the Division of Administration. If there have been any changes in methods used in calculating rates, a new rate proposal may be requested by the Division of Administration.

3. The Controller’s Office will review and approve all rate proposals, including those that are based upon previously approved rate structures and will notify departments when completed. The reviewed and approved rate structures will take effect at the start of the next fiscal year.
   a. After review and approval by the Controller’s Office, rates will be included in the University Fee Book and receive final approval from the Board of Trustees.

4. A midyear review of service center operations may be conducted by the Controller’s Office based upon the first six months of fiscal year operations. Service centers that experience an exceptional operating surplus/deficit as of this date may be requested to adjust rates to be charged during the second half of the fiscal year.

For all proposed new service centers, rates should be submitted at least 60 days prior to the start of the fiscal year, as specified in Chapter 1: Creation of Service Centers. The above steps will become effective after the first complete year of operation.

6.2 ANNUAL FINANCIAL OPERATING REPORTS

It is essential in any operation that a periodic assessment of performance be conducted. To
facilitate this review and provide a format for summarizing revenues earned and expenditures incurred, a financial operating report should be prepared. As stated above, an annual financial operating report is required as part of the rate proposal and review process. The results of operation will be used to determine among other things, that service centers are operating at or near breakeven and that expenses are allowable and properly allocated to service center accounts.

Exhibit 5-1 shows the recommended format that may be used when preparing annual financial operating reports. While departments are free to select alternative formats, the following key elements should be contained in all reports submitted to the Controller’s Office for rate review purposes:

1. Statement of the time period for which the report is being prepared (normally, this period will coincide with the University’s fiscal year from July 1 to June 30).

2. Breakdown of revenues by source. At a minimum, the breakdown should include revenues from external and internal billings. It also is recommended that usage for instructional purposes be segregated from usage for research purposes.

3. Breakdown of expenditures by cost element. This section of the report should include at least the types of expenses shown on Exhibit 5-1.

4. Totals for revenue and expenses and a total showing the result of subtracting expenses from revenues to yield net surplus/deficit from operations.

5. The amount of any University or other subsidy.

6. All financial operating reports should state clearly the name of the service center, responsible department, org/department account number, reserve account number(if any), and contact person’s name and telephone number.

Any questions regarding the preparation of annual financial operating reports may be addressed to the Controller’s Office.
Exhibit 6-1

University of Wyoming
<Service Center Name>
Operating Report
<Fiscal Year>

Income:

External Billings $ 

Internal Billings 

Total Income $ 

Expenses:

Salaries $ 

Fringe Benefits 

Materials & Services 

Travel 

Equipment (Depreciation Only) 

University Services 

Subcontracts 

Other 

Total Expenses $ 

Net Operating Surplus/Deficit $ 

Subsidy (if appropriate) $ 

Operating Account Number: _______________________

Reserve Account Number (if any): _______________________

Contact Person: _________ Email: __________ Telephone: ________
7. POST-OPERATION REQUIREMENTS

7.1 RECORD RETENTION

Department copies of source documents for revenues and expenditures of service centers should be maintained by departments for a period of no less than 3 years following the end of each fiscal year. Other documentation, such as original time logs which are the basis for determining amounts to be billed, should be maintained for at least 7 years, in accordance with Internal Revenue Service requirements.

7.2 AUDITS

Audits of the University may require participation by departments responsible for service center operations when the scope of these audits warrants it. In such cases, the department employee designated as having responsibility for a service center will be contacted as far in advance as possible by the Controller’s Office. An appropriate Controller’s Office staff member will assist service center personnel in locating any documents selected for the audit.