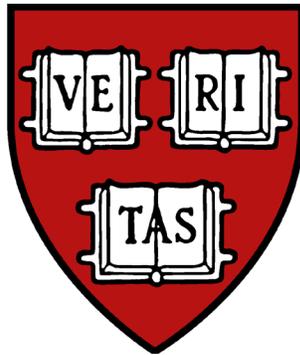


# HARVARD UNIVERSITY



## Academic Service Center Procedures Manual

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Updated 06/26/2019

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## **Introduction**

Welcome to the Academic Service Center Procedures Manual. The purpose of this manual is to provide guidance, financial and administrative support for school/tub, department managers and other staff working in or overseeing service centers. This procedures manual is meant to accompany the revised Academic Service Center Policy (effective July 1, 2012). The major changes to the policy include the following:

- Definitions and categories of academic service centers
- Clarification of roles and responsibilities at the Department and School/tub levels
- The separation of academic and central service units (i.e. UIS, UOS)
- Annual submission of the Harvard University Service Center Rate Documentation form
- The threshold for allowable gain/loss for carry-forward increased from 10% to **15%**

## **Definition of an Academic Service Center**

A Harvard University academic service center is an operation that charges for goods or services in direct support of the research or academic mission of the University. Academic service centers recover their costs through fees charged to users, including federally sponsored projects, based on established billing rates and actual usage of service.

There are two types of service centers covered by this policy: academic service centers and specialized service facilities. There is a glossary of terms at the end of the manual.

## **Compliance - why we care**

As a recipient of federal funding, the University must comply with [OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards \(2 C.F.R. §200\)](#) (“Uniform Guidance”). The Uniform Guidance requires that service units charge according to actual usage at non-discriminatory rates calculated to recover no more than the actual costs of the service provided (§200.468). Non-compliance could harm the University's reputation and reflect negatively on future award proposals, and could also lead to repayments or fines to the government. In addition, academic service centers, as prescribed by the Uniform Guidance Audit Requirements (§200.500), are reviewed and tested as part of the annual single audit.

## **Purpose and Audience**

The aim of this manual is to provide guidance on establishing, maintaining, and accounting for academic service centers in accordance with Harvard University policy and federal regulations. The intended audience is faculty, students and staff in a Harvard University school/tub or unit involved in the operation of an academic service center. The policy applies to Academic Service Centers that meet at least one of the following criteria:

- (1) Total operating expenses of \$100,000 or more per year, or
- (2) Charges to federally funded awards of \$75,000 or more per year.

Academic Service Centers that do not meet the threshold must be able to demonstrate their exemption with financial detail from the most recent fiscal year and are subject to school-level review at any time. This review may include, but is not limited to, evidence of strong financial oversight and continuous compliance monitoring. Specialized service facilities, defined by §200.468 of the Uniform Guidance, must recover all costs, including the allocable portion of F&A costs (utilities, operations and maintenance, building depreciation, and interest) through charges or subsidies. Harvard defines specialized service facilities as specialized service centers “SSCs” that have \$1,000,000 or more in annual direct operating expenses or involve the use of highly complex or specialized facilities.

### **School/tub Level Officials**

If you have any questions related to academic service centers, please contact the following subject matter experts:

**FAS / SEAS**    [Nuala McGowan](mailto:nmcgowan@fas.harvard.edu) (nmcgowan@fas.harvard.edu)

**HMS**            [Grace Shin](mailto:grace_shin@hms.harvard.edu) (grace\_shin@hms.harvard.edu)

**SPH**            [Kristie Froman](mailto:kfroman@hsph.harvard.edu) (kfroman@hsph.harvard.edu)

For information on other schools/tubs, please contact the Office for Sponsored Programs – Judith Ryan ([judith\\_ryan@harvard.edu](mailto:judith_ryan@harvard.edu))

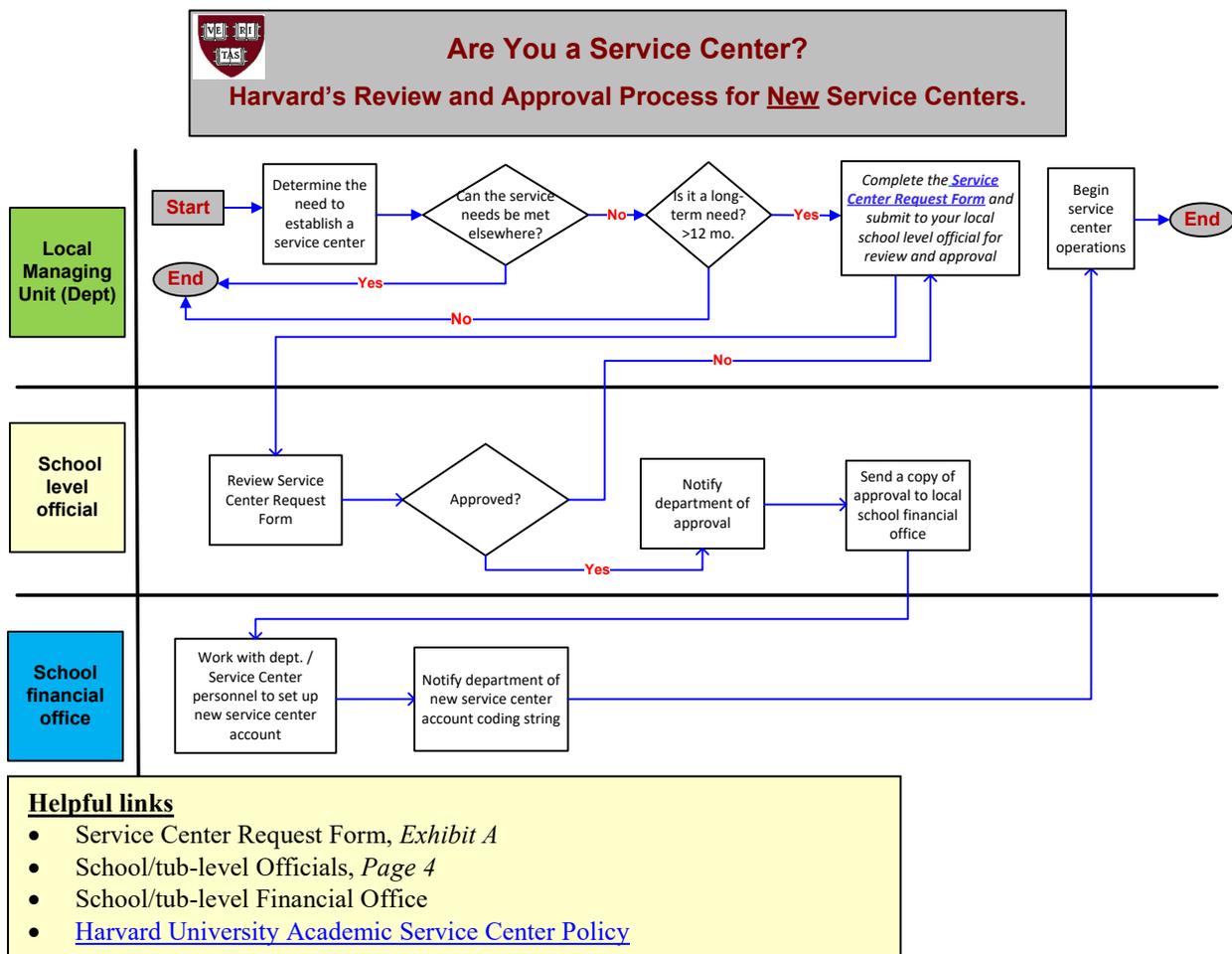
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## Chapter 1: Creation of Academic Service Centers

### Do I Need to Create a New Service Center?

Prior to establishing a new service center, please see below for helpful questions in determining whether an Academic Service Center should be established:

1. Is this service available elsewhere on campus?
2. Is the need for this service short-term or long-term?
3. Is this service provided for, or subsidized by, a federal award?
4. What portion of users will be internal vs. external?



## **Considerations**

If a new service center is deemed necessary, the following items should be considered:

- Service Center Name
- Initiating department or unit and who is responsible for the service center
- Description of goods or services to be offered
- Funding resources needed at the initial stage of creation, especially if the services require acquiring major pieces of equipment
- Number of employees needed and their job descriptions/qualifications and percent of time devoted to the service center
- Long-term viability plan
- Budget for the first fiscal year (and breakeven period if longer than one year)
- Estimated usage/utilization or demand (e.g. billable hours, number of units)
- Rate calculations
- Plan for tracking usage and billing

## **Key Points:**

- The Service Center Request Form should be completed and sent to approvers at the school/tub level for review and approval.
- Service center approval will be determined at school/tub-level.
- When new service centers are approved, new Harvard general ledger account codes are set up by local school/tub level financial office.

## Chapter 2: Budgeting for Service Centers

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Service centers must create annual budgets that include anticipated revenues and expenses.  
(See Chapter 3: Rate Development)

### **Revenue Budget**

The revenue budget should be based on the estimated volume of goods or services sold times the applicable rates. Considerations should include prior year performance, prior year subsidy levels, and future needs of internal and external users when estimating revenue and usage levels.

Service centers derive revenue from the following sources:

- Internal customers – Expense object codes (expense offsets)
- External customers – Income object codes
- Subsidies – Subvention object codes (expense offsets)

### **Allowable Direct Costs**

The expense budget should include all costs for operating the academic service center including administrative expenses **directly associated with operations of the facility**. Expense categories include:

- Salaries and fringe benefits
- Materials and supplies
- Maintenance and repair, including equipment maintenance agreements
- Equipment depreciation
- Rentals and leases, including equipment leases
- Travel & conferences
- Purchased services/professional fees

### **Unallowable Costs**

Unallowable costs ***must be excluded*** from the budget (as well as the internal user rate calculation) and may not be charged to the service center operating account(s). Examples of unallowable costs are listed below. *For a complete list refer to Subpart E of the OMB Uniform Guidance and the University's policy on expenses ineligible for federal reimbursement.*

- |  |  |
|--|--|
| <ul style="list-style-type: none"><li>• Alcoholic beverages</li><li>• Airfare in excess of “coach”*<br/>Donations*</li><li>• Bad debt or uncollected billings</li><li>• Capital Equipment Purchase (only depreciation expense is allowable)</li><li>• Donations and contributions</li><li>• Entertainment</li><li>• Fines or penalties</li><li>• Gifts</li></ul> | <ul style="list-style-type: none"><li>• Internal Interest</li><li>• Memberships</li><li>• Object code 8450 (unallowable costs)</li><li>• Salaries over the NIH cap</li><li>• Sales tax</li></ul> |
|--|--|

\*For details see the Harvard University Travel Policy

### **Carryforward of Prior Year Gain/Loss**

The cumulative gain or loss from prior years (up to the allowable annual 15% threshold) will be included in the budget and rate calculations.

### **Subsidies and Subsidized Rates**

Subsidies occur when service center expenses are paid from an account outside of the service center's operating account. The total service center budgeted expenses should reflect the full unsubsidized cost of providing the services.

Subsidies can be applied in the following ways:

- Lump sum subsidies should be included in the budget. Rates can be set so all users are charged based on the reduced cost of the services. The aggregate subsidy will be recorded as an expense offset in a subvention object code (8921) if the funding is from an unrestricted source. Service centers can subsidize specific groups of internal customers (e.g. junior faculty, students, or members of a lab) or specific services by offering discounted rates. The subsidy/discount for these users will be recorded as expense offsets in the subvention object code either individually or in aggregate. This will ensure that the costs associated with subsidized users does not get passed on to other users. All rate calculations are done at a gross level with the discount/subsidy applied after the rates are calculated.
- Year end deficits over the 15% threshold must be subsidized/written-off from appropriate funds outside the service center (e.g. service center support funds, school/tub unrestricted funds, or applicable restricted funding sources). The subsidy/write-off is recorded as an expense offset in a subvention object code if the funding is from an unrestricted source.

### **Support from Grants or Restricted Funds**

Grants and restricted funds (e.g. endowment or restricted gift funds) cannot provide lump sum subsidies to service centers. The applicable expenses must be charged directly on the award or fund in the general ledger. The amounts should be included in the budget and will be reflected in the applicable rate calculations if the support is not a lump sum subsidy.

### **Key Points:**

- Budget should be based on anticipated volume of services and the related expenses
- Subsidies from unrestricted funding sources must be recorded in object code 8921.
- Unallowable expenses can **ONLY** be recorded in an unrestricted account. *For more information on support funds, see page 11*

## Chapter 3: Rate Development

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A service center rate is the cost per unit of goods or services sold set to recover the expenses of the service center and achieve a breakeven financial position. The use of an appropriate billable unit is essential to ensuring that users are charged only their fair share of the actual costs of operating the service center.

Rates are based on budgeted projections of operating expenses, including a carryforward surplus/deficit, divided by projected levels of activity or revenue.

$$\frac{\text{Budgeted Expenses +/- Cumulative Carryforward Surplus/Deficit}}{\text{Budgeted/Projected Level of Sales of Goods/Services (Billable Units)}}$$

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  $\$100,000/1500 \text{ hours} = \$66.67$  per hour. A researcher using the microscope for 4 hours would then be charged \$266.68, or  $4 \times \$66.67$ .

Pricing that is contingent upon types or levels of usage should be developed for each discrete type of service (see Alternative Rates below).

### **Breakeven Expectation**

The break-even period is a reasonable period of time over which cumulative revenue for a service or product equals cumulative expenses. Service center billing rates should be calculated to recover the aggregate cost of a service/product over a defined period (normally one year). Some service centers require a long breakeven period due to startup costs or volume fluctuations.

### **Budgeted/Projected Level of Activity (Billable Units)**

A billable unit is the measurement used to identify the specific goods and/or services provided by a service center.

Examples of billable units include:

- Labor hours
- Machine hours
- Unit cost
- Number of samples
- Tests performed
- Any other unit of measurement appropriate to the type of activity

### **Surpluses or Deficits**

It is not possible to predict what rate(s) will achieve an annual breakeven financial position. The cumulative allowable threshold of +/- 15% allows for reasonable variances in volume or expenses. It will sometimes be necessary to adjust rates mid-year or at other times during the annual cycle.

Monthly and mid-year reviews of service center accounts should be performed as well as a year-end review to determine compliance with the annual surplus/deficit requirement.

- If there is an operating surplus in excess of 15% at midyear, the budget should be reviewed to determine whether a rate reduction is necessary. If there is an operating deficit in excess of 15% at midyear and the service center is not subsidized, the budget should be reviewed to determine whether a rate increase is necessary
- If a cumulative operating deficit in excess of 15% exists at year-end the deficit must be subsidized/written off with funds from outside the service center (support funds, unrestricted funds or applicable restricted funds) via a transfer into the service center account using the subvention object codes.
- If a cumulative operating surplus in excess of 15% exists at year-end, the surplus must be included in future rate calculations.

All rate changes must be documented and dated for audit purposes. *For more information on surplus and deficit consideration, see Chapter 2: Budgeting for Service Centers.*

### **Pricing of Multiple Services**

Service centers offering multiple services should calculate appropriate rates for each service. The goal is to create a billing rate that does not cross-subsidize between services or user groups. Blending the costs and revenues of various services is not allowed if the component costs of each service is different because blending the costs would result in the lower cost service users subsidizing the higher cost service users. For example:

	Service A – Tech assisted Sorting	Service B – Self- Service Sorting
costs	Service unit = 1 hour \$cost /hour	
Senior Tech compensation	\$60	0
Supplies	\$10	\$10
Service Contract	\$15	\$15
Total costs per service unit	\$85	\$25

In this example, the fees for Service A and B could not be blended to arrive at a fee of \$55/hour for both services because the costs associated with Service A are different from those associated with Service B; one requires the skill of a senior tech and the other does not. The users of

Service B cannot be charged more than \$25/hour in order to decrease costs for the users of Service A; i.e., the fees for Service B may not cross subsidize the fees for Service A.

### **Alternative/Discount Rates**

A service center may develop alternative discount rates for special use circumstances (e.g. volume discounts or off hours use). Discounted rates should reflect the lower cost for providing the services. These alternative rates must be available to all internal users.

### **Key Points:**

- Service center unit rates are formulated to recover operating costs (such as salaries, fringe benefits, material and depreciation) and achieve breakeven
- A service center rate is the cost per unit of services or goods sold set to recover the expenses
- A service center must break even or recover costs based on actual usage within the approved breakeven period
- One type of service within a service center cannot cross-subsidize another service

## Chapter 4: Account Set-Up

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Each service center should have unique general ledger account information to ensure that both periodic and annual accounting is easy to record, track and monitor.

### New Service Centers

In order to obtain a unique Harvard general ledger account, new service centers must first be approved by the school/tub-level financial office. After approval, the finance office coordinates the establishment of new Harvard general ledger accounts.

Unique activities or subactivities can be established for each category of service. The service center must maintain sufficient general ledger accounts or alternative documentation to substantiate that there are no cross-subsidies between services.

### Service Center Support Accounts

Service center support accounts, also called support funds, can be established and used to record the following:

- Capital purchases (equipment over \$5,000)
- Offset entries for depreciation charged to service centers (entries are sent from school/tub financial offices to the OFAA – Office of Fixed Asset Accounting)
- Cost unallowable for federal reimbursement (*For examples of unallowable costs, please see page 8*)
- Bad debt
- Add on charges to external customers
- Funds borrowed by the service center for startup that must be returned once the service center is beyond the initial break-even phase

If a service center support account does not exist, the alternative is to charge these expenses to unrestricted accounts.

Funds in a service center support fund **can only be used in support of the associated service center.** Transfers are allowed to reimburse school/tubs for F&A charges or to repay borrowed funds.

### Key Points:

- New service centers cannot operate without prior approval and account-set up by the school/tub finance office.
- New Harvard general ledger accounts should be sufficient to provide for operational management of the facility and tracking the required financial information.
- Service center support funds are accounts that are used to record transactions associated with the service center but are not part of the annual financial calculations.

## **Chapter 5: Billing**

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Billing must be based upon measured and documented utilization. Service centers must maintain a published price list of all services or products available. All billing must be processed on a timely basis (recommended monthly) at established service center rates. Please see the University Internal Billing Policy for additional information. Information necessary to bill customers should be obtained when orders are placed.

The costs of a service/product should be charged to customers based on:

1. Actual consumption or use of the service/product multiplied by the billing unit
2. A schedule of consistent billing rates

### **Rate Consistency**

Rates can be set based on hours, units, clock time, or any other metric that is the closest approximation for utilization of resources to produce the good or service. Rates established by service centers must be non-discriminatory, and all users of the facility must be billed for services. Non-discriminatory means **all internal** users must be charged at same rate(s) for the same level of services or products purchased. (Note that subsidies are applied to the full rates, see chapter 2). **External users** may be charged a higher billing rate than internal users to recover F&A costs, other related expenses or to subsidize internal users.

### **Internal Users**

Internal users pay for services/products using Harvard's general ledger coding. Internal users include consolidating school/tub.

**Note:** Having a Harvard appointment **does not** identify an individual as an internal customer. Grants and programs not on the Harvard campus and not administered through Harvard University are considered external users.

### **Recording Internal Revenue**

Revenue from internal users should be recorded using an intra or inter-school/tub expense credit object code within the same super object code range as the debit. For example, an internal billing journal for lab services recharge will be prepared using 8100 for the object code debit and 8109 or 8110 for the object code credit. *For a list of other object codes, see Appendix III.*

Service centers should maintain annual documentation that segregates total revenue charged to sponsored accounts (federal and non-federal), instruction, and other uses. If a service center does not have a material amount of non-sponsored customers or revenues then this documentation is not required.

## **External Users**

External users are those from outside Harvard University, including non-consolidating school/tubs, users from affiliated hospitals and other collaborating institutions, the public, for profit corporations and any member of the faculty or staff acting in a personal capacity. An allocable share of the University's F&A costs for the service center operation may be charged to external users as well as add-on fees to cover incremental expenses or to subsidize internal users (e.g. bad debt or billing and collection expenses relating to external users). Service centers can also charge commercial customers an incremental support charge above the rate charged to customers from other academic institutions.

*See the full list of consolidated and non-consolidated school/tubs in Appendix V.*

*See Exhibits D and E for F&A add-on calculations.*

## **Recording External Revenue**

External revenues are charges paid by any user outside Harvard University. External revenues are recorded in revenue object codes, i.e. 5400. If add-on amounts are charged, these fees should be recorded either in unique revenue object codes or as revenue in the associated support fund.

External user income should be recorded as follows:

- The base fees for goods and services should be recorded as income in the service center using object code 5400 (or other applicable revenue code)
- F&A charges should be recorded or transferred to the school/tub level org in the 8924 object code series
- Add-on revenues can be recorded in the service center or in the service center support fund using object codes 5770 (or other appropriate revenue code)

It is not necessary to itemize the add-on fees for external users on the invoice, however, the service center must maintain supporting documentation that identifies the components of the rates charged.

## **Unrelated Business Income Tax**

If external users are charged a rate that is higher than the aggregate cost of the goods and services provided, the Service Center may have a liability for unrelated business income tax (UBIT).

For more information about UBIT, please contact the University Tax Reporting Office.

**Sales Tax**

Sales of goods to external users are generally subject to sales tax. Services are not subject to sales tax. Sales tax, equivalent to the sales tax rate times the sale price, should be collected from the customer. Rates are based on the state in which the goods are picked up or delivered. Harvard University currently collects and remits sales tax on items picked up in or delivered to addresses in Massachusetts (6.25%), California (7.25% and up), and Illinois (6.25%). Harvard University is not responsible for collecting sales tax on items delivered to states other than Massachusetts, California, and Illinois.

Below is a chart of the sales tax exemptions that are most likely to apply to Service Centers. This is not a complete list of exemptions.

	<b>Massachusetts</b>	<b>California</b>	<b>Illinois</b>
Sales to tax-exempt organizations	Exempt with proper documentation (Forms ST-2 and ST-5)	No general exemption	Exempt with proper documentation (Illinois “E” number)
Personal and professional services	Exempt	Exempt	Exempt
Items purchased for resale	Exempt with certification	Exempt with certification	Exempt with certification
Casual and isolated sales (infrequent and nonrecurring)	Exempt	Exempt	Exempt
Sales shipped to another state	Exempt	Exempt	Exempt
Shipping and warranties (if separately stated)	Exempt	Exempt	Exempt
Clothing	Exempt	Taxable	Taxable
Food (except prepared meals)	Exempt	Exempt	Reduced rate
Periodicals such as newspapers and magazines	Exempt	Exempt unless contains commercial advertising.	Exempt
Other University publications	Exempt	Taxable	Taxable

Proceeds from taxable sales should be deposited into the University’s Taxable Sales bank account. Deposit forms can be obtained from the Cash Management Office by contacting extension 6-0853.

For more information about sales tax, please contact the University Tax Reporting Office.

**Key Points:**

- Rates must be established and published for internal and external (if applicable) users. All internal users must be billed the same rate (unless subsidized).
- If a service center offers any discounted rates (eg. volume discount) that rate must be available to all internal users.
- External users can be charged a higher rate.
- Advance billing is **not** allowed.
- Billing cannot occur until goods or services have been rendered

## **Chapter 6: Monitoring Performance**

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It is recommended that ongoing service center operation cycles align with the Harvard fiscal year: **July 1<sup>st</sup> -June 30<sup>th</sup>** although the starting dates of a new service center may vary. New service centers must have their budget proposed rate(s) approved in advance of operation. All service centers must have their rates approved **annually by the school/tub level financial officer**.

*Please refer to school/tub- level contact information on page 4.*

### **Initial Budget Approval Process**

Initial budgets and rate proposals should be submitted as early as possible. School/tub level financial officers will review budgets and proposals and once approved request the new accounts. (*Contact your school/tub financial office for request deadlines and turnaround times*). The service center should not commence operations until the rates are approved.

### **Annual Rate Approval Process**

Annual rate proposal information should be submitted by the school/tub specific deadlines and include the following:

- Annual financial operating report for the previous year. (*See the Annual Financial Operating Reports section below*)
- Revenue and expense budget incorporating the cumulative surplus/deficit from the year just ended, if applicable.
- Proposed rate structure for the current year. If rates are based upon calculations previously approved by the school/tub or school/tub financial officers and there have been no changes in methodology, only a listing of proposed rates is required.
- Description of any changes in methods from those previously approved by the school/tub or school/tub financial officers. If there have been any changes in methods used in calculating rates, a new rate proposal may be requested by the school/tub or school/tub financial officer.

The school/tub financial officer will review and approve all rate proposals, including those that are based upon previously approved rate structures and will notify departments when completed. Rate proposals normally will be reviewed by the school/tub or school/tub financial officers in the order received.

### **Annual Financial Operating Reports**

An annual financial operating report is required as part of the annual rate approval process. The operating report is used to determine that service centers are operating at or near breakeven and that expenses are allowable and properly allocated to service center accounts.

Exhibit 6-1 shows a 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 your school/tub financial officers for rate review purposes:

- All financial operating reports should state the name of the service center, responsible department, account coding, support fund account number (if any), and contact person's name, email, and telephone number.
- 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).
- Breakdown of revenues by source. At a minimum, the breakdown should include revenues from external and internal billings.
- Breakdown of expenditures by cost categories. This section of the report should include at least the type of expenses shown on Exhibit 6-1.
- Total revenues expenses and net surplus/deficit from operations.
- The amount of any subsidies and grant support.
- Any questions regarding the preparation of annual financial operating reports may be addressed to school/tub financial officers.

### **Monthly Review and Analysis**

In addition to the annual rate approval, service center managers are expected to monitor and evaluate their service center's activity each month, in order to:

- Determine accuracy of billings and expenses charged (including ensuring that appropriate and approved rates were charged).
- Identify and remove any unallowable costs charged to the service center.
- Monitor receivables for bad debt and remove accounts when deemed uncollectable.

The school/tub financial officer may perform a cursory review of service center income and expense on an as needed basis for monitoring and compliance.

### **Mid-year Rate Review**

A mid-year review of service center operations should be conducted by the local-level managing unit based upon the first six months of fiscal year operations. If needed rates can be reviewed and adjusted on a more frequent basis. Service centers with an exceptional (+/- 15%) operating surplus/deficit at midyear review may need to adjust rates to be charged during the second half of the fiscal year. This midyear review will help to ensure that the service centers will meet the breakeven expectation.

*(See chapter 3: Rate Development)*

If required by the school/tub a request to change a service center rates should be made as soon

as it appears that the service center will not breakeven at year-end using the previously approved rate. Such requests should be routed to the school/tub or financial officer for review and approval before the new rate is used.

**Key Points**

- Service centers must have their rates approved prior to operations, on an annual basis, and when there are significant changes to rate calculation methodology.
- Mid-year rate reviews help the service center meet the breakeven requirements.
- Each school/tub may have specific deadlines for rate and other necessary approvals.

**Exhibit 6-1: Annual Financial Operating Report Example**

<Service Center Name>  
Operating Report  
<Fiscal Year>

**Income:**

External Billings	\$ _____
Internal Billings	\$ _____
<b>Total Income</b>	<b>\$ _____</b>

**Expenses:**

Salaries	\$ _____
Fringe Benefits	\$ _____
Materials & Supplies	\$ _____
Maintenance and Repair	\$ _____
Equipment Depreciation	\$ _____
Rentals and Leases	\$ _____
Travel & Conferences	\$ _____
Purchased services/professional fees	\$ _____
Other	\$ _____
<b>Total Expenses</b>	<b>\$ _____</b>

Net Operating Surplus/Deficit \$ \_\_\_\_\_

Subsidy (if applicable) \$ \_\_\_\_\_

Operating Account Number: \_\_\_\_\_

Support Fund Account Number (if any): \_\_\_\_\_

Contact Person: \_\_\_\_\_ Position / Title: \_\_\_\_\_

Email: \_\_\_\_\_ Address/Telephone: \_\_\_\_\_

Date submitted: \_\_\_\_\_

## **Chapter 7: Documentation, Audit Compliance and Post-Operation Requirements**

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### **Record Keeping and Retention**

Documentation for revenues and expenses must be retained in accordance with the University General Records Schedule, generally four years after the fiscal year end close.

The service center managing unit is also responsible for maintaining complete documentation related to operations including:

- Rate calculation and rate approval forms
- Annual budgets
- Annual financial statements
- Financial backup information including evidence of mid-year review, lists of employees, equipment used by the service center with allocation of associated depreciation data and volume/utilization data.
- Documentation of rate changes with dates for audit purposes
- Copies of bills/invoices with supporting documentation (e.g. order forms, correspondences, calculations)

### **Audits**

The annual Single Audit performed by an external audit firm includes a review of service center activity. Also, Risk Management & Audit Services may periodically perform audits of service center activities.

Audits may require department participation. 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 school/tub or school/tub financial officer. An appropriate school/tub financial staff member will assist service center personnel in identifying any documents selected for audit that cannot be located.

### **Dissolution of a Service Center**

A service center may be closed if it is deemed to be no longer necessary and/or viable. School/tub level approval may be necessary to close a service center. Other close-out procedures include:

- The service center must work with the school/tub finance office to close all accounts.
- The department responsible for the service center is also responsible for any charges that occur after the service center is closed. After closing the service center, the department should run a quarterly detail listing to ensure proper account close-out.
- The closed service center must be removed from the current service center list.

### **Key Points**

- Records must be maintained in accordance with the *University General Records Schedule*.
- Documentation of rate changes and other financial information must be maintained for audit purposes.

## Appendices

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### Appendix I: Details on Specific Types of Expenses

**Capital Equipment** is defined as an item with a purchase price of \$5,000 or more and a useful life of at least one year. The purchase cost of capital equipment cannot be charged as an operating expense. Federal guidelines do not allow the purchase cost of capital equipment to be recovered through service center rates or to be included in the calculation of the annual surplus or deficit. The purchase price of capital equipment should be charged to the service center support fund or to any other appropriate source of funding outside the service center. The associated depreciation is an allowable expense of service centers. Equipment costing less than \$5,000 is allowable and must be treated as an operating expense when calculating billing rates.

**Depreciation** of capital equipment, external interest, or capital lease costs can be included in annual expenses and recovered through the service center rates. Depreciation entries must be calculated by your school/tub's finance office and sent to the OFAA (Office of Fixed Asset Accounting) for upload.

**Calculating depreciation** – depreciation of capital assets charged to service centers is based on the straight-line method over the useful life of the asset. Such treatment ensures that users pay only for depreciation expenses associated with the usage in a given year.

- **Useful lives** -- Service center equipment is depreciated using the useful lives outlined in the accounting procedures for Capitalization and Depreciation of Property, Plant, and Equipment. In certain circumstances, service units with "specialized" equipment, or equipment that is unusual in the nature of its depletion or use, may need to estimate a more accurate useful life. Deviation from standard useful lives requires review and approval by the school/tub financial officer.
- **Federally-funded equipment** -- Depreciation of equipment purchased by the federal government, whether or not title has reverted to the University, cannot be included in the user rates. Where the University has specifically agreed to "cost share" equipment in a federal award, depreciation of the University-funded portion is also unallowable in the rates.
- **Debt-funded equipment** -- Federal regulations do not allow for principal payments on debt to be recovered through service center rates.

**Lease, Rental and Service Contracts** and other professional services are allowable and should be included in the rate calculation for the fiscal year in which they were incurred. The only exception is that capital leases cannot be charged directly to service centers. (If you have a question regarding the classification of a lease contact your school/tub's finance office).

**Materials, services, and supplies** needed to operate the service center are allowable and should be included in the rate calculation. These expenses must be included in the financial analysis for the fiscal year in which they are used. If excess materials or supplies are purchased during the fiscal year, the service center must not include these costs in the current year's financial analysis. Amounts can be recorded as prepaid or if there are significant supplies or materials, a year-end inventory of assets should be completed and the amount booked as part of the year end closing process.

**Salaries, wages, and fringe benefits** for direct personnel and administrative staff whose efforts are directly related to the service center's activity or management should be included in the rate calculation. If an individual works on more than one activity, the costs associated with that individual must be allocated to the activities based on the proportional benefit. Likewise, administrative costs benefiting more than one service center activity must also be allocated. Effort reporting, a time study, or another equivalent method may be used to determine the appropriate allocation.

## Appendix II: Glossary

**Uniform Guidance (2 CFR 200.468)** – guidance set forth by the Office of Management and Budget (OMB) that identifies the administrative requirements, cost principles, and audit requirements related to specialized service facilities.

**Academic Service Centers** - Units within Harvard departments or centers that charge for goods or services that directly support the research or academic mission of the University and recover costs through charges to internal and external users.

**Billable Unit** – A measure of the goods or services provided by a service center that serves as the basis for the calculation of its rates. Examples include machine or labor hours, number of orders, number of samples, etc.

**Breakeven** – The point where revenues equal expenses; where there is no surplus or deficit.

**Carry Forward** – The balance of previous year-end surpluses or deficits that become the opening balance in the next fiscal year. The cumulative carry forward amount can be comprised of balances from multiple years. The carry forward balance is included in the current year calculation of rates and the breakeven analysis.

**Central Service Units** - Separate operating units that are generally not part of academic tubs and provide services to the entire University community. Examples of central service units include University Dining Services, Harvard University Information Technology, and Harvard Real Estate Services. Central service units are not covered under this policy.

**Deficit** – An amount by which a center’s expenses exceed its revenues.

**Direct Costs** - Costs that can be identified specifically with a particular activity; or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Examples include:

- Salaries and wages, and fringe benefits of employees performing the service
- Cost of materials consumed performing the service

**Depreciation** – A method of apportioning the cost of property and equipment over the estimated useful lives of the asset.

**Expenses** – Costs incurred to operate a service center, whether paid or accrued, that benefit only the fiscal period.

**Indirect costs** - Costs incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, and instruction activity, or any other intuitional activity (Uniform Guidance, Subpart E). Examples include:

- General administration
- Space related costs (operations and maintenance, utility costs, building depreciation)
- Information technology costs

Specialized service centers are required to recover indirect costs.

**Internal User** – A user that purchases goods or services for research and/or educational activities on behalf of Harvard charged directly to a Harvard 33 digit account.

**External User/Commercial Customer** – An entity or person that is legally separate from Harvard that typically purchases goods or services for reasons of convenience, quality, or uniqueness of goods or services offered. Examples include PIs at affiliated hospitals, commercial research labs, collaborators at other institutions, and non-consolidating tubs.

**Local School/tub Level Official** – Designated approver for your school/tub or unit (see policy for complete list of contacts by school/tub).

**Specialized Service Centers “SSC”** -Specialized Service Centers are a category of Academic Service Centers with annual operating expenses of more than \$1 million or that provide highly complex or specialized services to a select group of users. The billing rates for these centers are based on their direct operating costs and an allocated portion of F&A costs. If the F&A is not included in the service center rates these amounts must be covered by other school/tub funds and excluded from the federal F&A calculations. SSCs are called specialized service facilities “SSF” in 2 CFR 200.468.

**Subsidy** – Financial support for a service center that is not generated by the sales of goods or services.

**Subsidy (User)** – Funds provided to a service center to cover deficit when a certain group of users is charged a rate that is lower than the full rate charged to unsubsidized users. For example, subsidies may be provided by a specific department that wishes to subsidize only users from that department. The service center recovers the full cost of services provided to subsidized users by charging the difference between the full rate and the subsidized rate to the department providing the subsidy.

**Subsidy (Service Center)** – Funds provided to a service center to cover operating costs or deficits. Subsidized users are charged a rate that recovers less than the total cost of the center’s goods or services.

**Support Account** – An account established to record expense items that are unallowable as charges within the service center accounts (i.e. bad debt, capital purchases (equipment over \$5,000), any cost unallowable for federal reimbursement, etc.). Support accounts also include the offset for the depreciation entries, revenues collected from add-on charges for external customers and funds borrowed by the service center for startup that must be returned once the service center is beyond the initial break-even phase.

**Surplus** – An amount by which a center’s revenues exceed its expenses.

**Total Cost** - The costs of providing the service or product by the facility (direct cost) plus allocations of building use allowance, operations and maintenance expenses and general administration expense (indirect costs).

**Useful Life**– an estimate of the average number of years an asset is considered usable before its value is fully depreciated.

### Appendix III: Service Center Object Codes - Examples

Service Center credits from internal billing should be consistently recovered and recorded in the General Ledger using an intra or inter-school/tub/tub expense credit object code within the same super object code range as the debit.

Examples*	Debit Object Code to Use By Customer Departments	Credit Object Code to Use By Service Center	
		Inter School/tub *	Intra School/tub *
General Laboratory Services Glasswash, Histology, Flow Cytometer	8100	8109	8110
General Technical Services	8250	8251 Tech Services	8254 Tech Services
		8252 Client Contract Services	
		8253 Misc. Tech Svcs	8255 Other Tech Services
Animal Per Diem	8030	8031	8032
Radiation Services	8100	8101 Radiation Waste Control	8102 Radiation Waste Control
		8103 Radiation Survey	
		8105 Radiation Registration	
		8107 Other Radiation Lab Svcs	8107 Other Radiation Lab Svcs

\* Please consult your school/tub finance office for specific codes that may have been designated for your service centers.

## Appendix V: Consolidated and Non-consolidated School/tubs List

<b>Consolidated</b>		
<b>School/tub</b>	<b>School/tub Name</b>	<b>School/tub Rollup</b>
100	Arnold Arboretum	Other School/tubs
105	HU Art Museums	Other School/tubs
110	Dumbarton Oaks	FAS
135	Mem Church	Other School/tubs
140	Nieman Foundation	Other School/tubs
145	Villa I Tatti	Other School/tubs
150	Dining Services	Other School/tubs
155	Faculty Club	Other School/tubs
170	Univ Health Svcs	Other School/tubs
175	Univ Information Systems	Other School/tubs
180	Univ Ops Svcs	Other School/tubs
195	HU Library	Other School/tubs
205	Inst of Politics	HKS
215	Kennedy School of Government	HKS
225	Joint Ctr for Housing Studies	Other School/tubs
235	Grad School of Design	Other School/tubs
245	Divinity School	Other School/tubs
255	Grad School of Education	GSE
265	Harv Law School	Other School/tubs
275	School of Public Health	HSPH
285	Radcliffe	Other School/tubs
310	FAS College Life+Student Svcs	FAS
325	Schl of Engineering & Appl Sci	SEAS
340	FAS Athletics	FAS
355	FAS Continuing Education	FAS
370	FAS Core	FAS
385	FAS Museums	FAS
400	Grad School of Arts+Sciences	FAS
415	Harv Coll Library	FAS
420	FAS Interfaculty Initiatives Interfaculty Initiatives	FAS
430	Harv Business School	Other School/tubs
445	HBS - Executive Dev Ctr	Other School/tubs
460	HBS - Publishing	Other School/tubs
465	HBS - Student Clubs	Other School/tubs
475	HBS - Student Ed Loan Fund	Other School/tubs
490	Harv Med Center	HMS
505	Harv Med Intl	HMS
510	Hrvd Med Intl Gulf FZ LLC	HMS
515	Dubai Harv Fdn for Med Rsch	HMS
520	Harv Med School	HMS
535	HMS - Ion Inc	HMS

550	Harv School of Dental Med	HMS
565	Armenise	HMS
570	Harvard NeuroDiscovery Center	HMS
580	Harvard Real Estate Services	Other School/tubs
610	Central Administration	Other School/tubs
625	President's Initiatives	Other School/tubs
630	Univ Interfaculty Initiatives	Other School/tubs
635	Wyss Institute	HMS
640	Central Financial Core	Other School/tubs
645	Allston Projects	Other School/tubs
650	Benefits	Other School/tubs
655	Investments	Other School/tubs
700	Charitable Remainder Trust	Other School/tubs
705	Charitable Lead Trusts	Other School/tubs
715	Gift Annuities	Other School/tubs
730	Harv Balanced Fund (PIF)	Other School/tubs
745	Harv Growth Fund (PIF)	Other School/tubs
760	Harv High Yield Fund (PIF)	Other School/tubs
775	Harv Income Fund (PIF)	Other School/tubs
790	Intl Equity Income Fund	Other School/tubs
805	International Equity Fund	Other School/tubs
820	International Bond Fund	Other School/tubs
835	Life Return Fund (PIF)	Other School/tubs
850	Long Term Income Fund (PIF)	Other School/tubs

### Non-consolidated School/tubs

<u>School/tub</u>	<u>School/tub Name</u>
130	Harvard Magazine
185	Agencies
190	Yenching
295	American Repertory Theatre
455	HBS Research Centers
595	HPRE 3 <sup>rd</sup> Party
660	GIA Nonconsolidated Entities
670	Master Trust
685	Charitable Annuity Lead Trust

**Appendix VI: School/tub Specific Requirements**

**FAS**

The following documentation must be submitted to [Nuala McGowan \(nmcgowan@fas.harvard.edu\)](mailto:nmcgowan@fas.harvard.edu) prior to operating a service center:

<b>Documentation</b>	<b>Due Date</b>	<b>Fiscal Year</b>	<b>Approval Date</b>
<b>Annual Budget</b>	on or before <b>April 15</b> <i>Prior to the budget year.</i>	<b>20XX</b>	by <b>June 1</b> <i>Prior to the budget year.</i>
<b>Annual Rate Proposal</b> , including: <ul style="list-style-type: none"> <li>• Annual Financial Operating Report <i>(See Exhibit G)</i></li> <li>• Proposed rate structure and calculation method</li> </ul>	on or before <b>April 15</b> <i>Prior to the budget year</i>	<b>20XX</b>	by <b>June 1</b> <i>Prior to the budget year.</i>

*All service center operation cycles should align with the Harvard fiscal year: July 1<sup>st</sup> -June 30<sup>th</sup>.*

# Exhibits

## Exhibit A: New Service Center Request Form

### Harvard University - New Service Center Request Form

**\*\*Please complete and submit to your Local School/tub Level official \*\***

Service Center Name: \_\_\_\_\_ Fiscal Year: \_\_\_\_\_ Date Completed: \_\_\_\_\_  
 Tub and Managing Department: \_\_\_\_\_ Service Center Manager: \_\_\_\_\_

**Service Center Classification (check one)**

- Academic Service Center* - Annual operating expenses > \$100,000 or charges to federal grants > \$75,000
- Specialized Service Center* - Annual operating expenses >\$1,000,000 or involves the use of highly complex or specialized facilities

*Please provide details in response to the following questions about activities, usage, and long-term management of your service center.*

**1. Description of activities including products/services and anticipated users (attach addition sheet as necessary):**

**2. Describe the billable units to be used in your rate calculation (i.e. labor hours, units processed, etc.):**

**3. Describe how records of usage will be accumulated and maintained:**

**4. Describe the estimated/anticipated billing to federal awards:**

**5. Provide an estimated budget summary:**

	<b>FY13 Budget</b>	<b>Comments (if any)</b>
Salaries and fringe benefits		
Materials and supplies		
Maintenance and repair		
Equipment – depreciation only		
Rentals & Leases		
Travel & Conf/Prog Fees		
Purchased Services/Professional Fees		
Total Budgeted Expenses		
Subsidies (if any)		
Balances Available		

**6. Provide estimated rate projections:**

	<b>FY13 Budget</b>	<b>Comments (if any)</b>
Estimated volume of activity	1,500	Estimated volume (units) of activity during the upcoming year
Cost per unit	67	Total budgeted expenses/estimated volume of activity
Subsidies (if any)	5,000	Sources of income outside of operating revenue to subsidize internal user groups
Total costs- net of subsidies	95,000	Total budgeted expenses – subsidies
Cost per unit – net of subsidies	3	Subsidy/Estimated volume of activity
Price/rate per unit charged	63	Cost per unit – net of subsidies
Total Revenues	95,000	Estimated volume of activity x Price/rate per unit charged
Net budget surplus/(deficit)	0	

**7. Proposed Internal Rates**

**8. Proposed External Rates**

**Dept. Approval by:**

\_\_\_\_\_  
 Signature of Responsible Person (Service Center Manager)      Signature of Fiscal Officer

**Exhibit B: Annual Rate Documentation Form**

**\*\*Please complete one form for each service center \*\***

**If this form does not fit your specific SC, alternative supporting docs including these data specs are acceptable.**

Service Center Name:	Service Center Manager:	
Tub and Managing Dept.	Fiscal year:	Date Completed:

**Service Centers** - provide goods or services to other University groups for a fee. Service units must be able to demonstrate compliance with federal requirements, cannot use fee structures that discriminate between federal and non-federal sponsored activities, and can recover only their aggregate costs (based on actual usage).

**Prior year Classification (check one)**

<input type="checkbox"/> <b>Academic Service Center</b> - Annual operating expenses > \$100,000 or charges to federal grants > \$75,000	<input type="checkbox"/> <b>Specialized Service Center</b> - Annual operating expenses >\$1,000,000 or involves the use of highly complex or specialized facilities
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**Service Center Account Information (These fields required)**

tub	org	object	fund	activity	sub-activity	root

1. Description of Services/Goods Offered (list each service separately)			Comments (if any)		
Service	Internal Rates	External Rates			
Service #1					
Service #2					
Service #3					

2. Service Center Financial Summary		Prior FY Actual	Annual Budget	Comments (if any)		
Total Annual Operating Expenses						
Annual Charges to Federal Awards						
Annual Operating Revenues Internal users						
Annual Operating Revenues External users						
Total Operating revenue						
Annual Operating Transfers						
to Service Center						
from Service Center						
Subsidies (if any)						
<b>Balances Available</b>						

**3. Rate Development - Please complete a separate rate development sheet for each service offered within this service center.**

Cost description	Prior FY Actual	Annual Budget	Comments (if any)		
Salaries and fringe benefits					
Materials and Supplies					
Maintenance and repair					
Equipment - depreciation only					
Rentals & Leases					
Travel & Conference/Prog Fees					
Purchased Services/Professional Fees					
Prior year (surplus)/deficit					
Total budgeted expenses					
Estimated volume of activity					
Cost per unit					
Subsidies (if any)					
Total costs net of subsidies					
Cost per unit - net of subsidies					
Price/rate per unit charged					
Total Revenues					
Net budget Surplus/(deficit)					

<b>Review and Approval by:</b>	Signature of Responsible Person (SC Mgr.)	Signature of Fiscal Officer
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**Exhibit C: Annual Financial Operating Report Example**

<Service Center Name>  
Operating Report  
<Fiscal Year>

**Income:**

External Billings	\$ _____
Internal Billings	\$ _____
<b><i>Total Income</i></b>	<b>\$ _____</b>

**Expenses:**

Salaries	\$ _____
Fringe Benefits	\$ _____
Materials & Supplies	\$ _____
Maintenance and Repair	\$ _____
Equipment Depreciation	\$ _____
Rentals and Leases	\$ _____
Travel & Conferences	\$ _____
Purchased services/professional fees	\$ _____
Other	\$ _____
<b><i>Total Expenses</i></b>	<b>\$ _____</b>

Net Operating Surplus/Deficit	\$ _____
Subsidy (if applicable)	\$ _____

Operating Account Number: \_\_\_\_\_

Support Fund Account Number (if any): \_\_\_\_\_

Contact Person: \_\_\_\_\_ Position / Title: \_\_\_\_\_

Email: \_\_\_\_\_ Address/Telephone: \_\_\_\_\_

Date submitted: \_\_\_\_\_

**Exhibit D: External Rate Calculation Example**

**Rate Calculation Example #1**

<b>ALL CUSTOMERS</b>	
<b><u>FYxx Operating Expenses:</u></b>	
Salaries	\$70,000
Fringe	\$24,500
Supplies	\$37,000
Maintenance& Repairs	\$11,000
Travel	\$3,000
Office supplies	\$500
Telephone	\$800
Postage, Express Mail	\$200
<b>Total estimated operating budget</b>	<b>\$147,000</b>
<i>Estimated billable units (based on FYxx usage)<sup>1</sup></i>	<i>3000</i>
<b>Cost per run unit - (operating costs / # of units)</b>	<b>\$49.00</b>

<sup>1</sup> Facility may use most appropriate units of service such as hours, revenue, number of users, samples, work orders, etc. In this example, we are utilizing # of units.

<b>F&amp;A ADD ON FOR EXTERNAL ACADEMIC CUSTOMERS</b>	
<b><u>F&amp;A recovery rate calculation:</u></b>	
Room A	625
Room B	14
Room C	14
<b>Total Square Footage</b>	<b>653</b>
Current FY Cost per square foot:	\$110.00
<b>Total Cost of Space (Total Sq ft X current cost per sq ft)</b>	<b>\$71,830</b>
<i>Estimated billable units (based on FYxx usage)</i>	<i>3000</i>
<b>Cost per run unit - all customers (operating costs / # of units)</b>	<b>\$49.00</b>
<b>F&amp;A Add-on to external academic customers (space cost /#units)</b>	<b>\$23.94</b>
<b>Total cost per unit - external academic customers</b>	<b>\$72.94</b>

<b>ADD ON FOR COMMERCIAL CUSTOMERS</b>	
<b>Cost per run unit - all customers (operating costs / # of units)</b>	<b>\$49.00</b>
<b>F&amp; A Add-on to external academic customers (space cost / #of units)</b>	<b>\$23.94</b>
<b>Subtotal cost per unit - external academic customers</b>	<b>\$72.94</b>
<b>10% Add-on to commercial customers (rounded to the nearest \$)</b>	<b>\$7.00</b>
<b>Cost per unit - commercial customers</b>	<b>\$79.94</b>



Harvard University is committed to keeping up with the changing regulatory requirements and providing helpful service center guidance. To that end, readers are encouraged to forward suggestions for changes, updates, and corrections to:

Judith Ryan  
[judith\\_ryan@harvard.edu](mailto:judith_ryan@harvard.edu)