Service Center Training
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Guest Panel:
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Tom Nawabi, Controller, SEAS
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Moderator:
Patrick Fitzgerald

Agenda for Today's Session

- Definition of a Harvard Academic Service Center
- OMB A-21 and other federal regulations
- Harvard revised policy and procedures manual
- Establishing a Service Center
- Guidance for calculating Service Center rates
- Operating a Service Center
- Identify key compliance issues
- Panel discussion – Q & A
Service Center Definition:

Academic Service Centers at Harvard

Academic Service Centers are 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.

Federal Service Center Regulations

- Limited federal guidance
- OMB Circular A-21 (Specialized Service Centers - Section J.47)
- Other relevant OMB Circular - A-133
  - Tested annually at Harvard by PwC as part of the A-133 Audit
- HHS Review Guide for Long-Form University Indirect Cost Proposals
- Cost Accounting Standards (CAS) Disclosure Statement (DS-2)
- Audit Guide: Adequacy and Compliance Audits of Disclosure Statements Submitted by Educational Institutions (HHS OIG)
- Federal Audits of Recharge Centers (HHS OIG)
Harvard Regulations

- Modeled on the limited federal documentation, federal audits, and practices at other Universities
- New Policy issued effective July 1, 2012
  - Drafted by a University-wide Service Center subcommittee formed for this purpose
- New Procedure Manual issued in conjunction with our new policy
- FAQs to be issued this spring

Significant Changes to our old Policy

- Limited policy to Academic Service Centers
  - Central units are excluded from the policy but must follow all federal rules as charges do end up on federal awards
- Eliminated a University-wide Service Center Review Committee
- School are responsible for
  - Review, approval and set up of new Service Centers
  - Annual review and approval of billing rates
  - Review of the annual financial results
- Threshold for allowable gain/loss for carryforward increased to 15% (from 10%)
Important Considerations before establishing a Service Center

Is this activity a Service Center?

Determine the need to establish a new service center:

1. Is it routine allocation of costs?
2. Is it Program Income?
3. Is this service available elsewhere on campus?
   - Is our need short-term or long-term?
   - Is this service provided for or subsidized by a federal award?
     - Will we charge for this service?
   - What portion of our users will be internal vs. external?
     - High external user volume may result in tax implications - UBIT (unrelated business income tax)

If yes, request to set-up a service center

- Refer to page 7 of the procedures manual for SC set-up and approvals
What to include in your billing rate?

- Salaries and Wages (of staff in direct support)
- Fringe Benefits
- Depreciation expense (non-fed equipment)
- Materials and Supplies
- Outside services
- Repairs and Maintenance
- Indirect costs (only if a Specialized Service Facility)
- Cumulative carry-forward surplus/deficit

Unallowable Costs

Unallowable costs must be excluded from the budget and may not be charged to the service center operating account:

- Advertising
- Alcoholic beverages
- Airfare in excess of coach
- Bad debt or uncollected billings
- Capital Equipment Purchase (only depreciation expense on non-fed is allowable)
- Donations, gifts and contributions
- Entertainment
- Fines or penalties
- Internal Interest
- Memberships
- Salaries over the NIH cap
- Sales Tax
- Selling and marketing any products or services of HU
- Unrelated food and beverage expenses
Service Center Accounting

• Revenues should equal costs, over time
• Accurate accounting for service center costs and revenues is critical
  – Service Center operating account must “match” revenues with expenses
  – All revenues, expenses and subsidies should be accounted for in the service center account
    (*unique exceptions may apply based on funding sources*)
Guidance for Calculating Service Center Rates

- **Step 1** - Identify all services provided
- **Step 2** - Determine direct costs associated with each service, regardless of how it is funded
- **Step 3** - Identify other costs associated with service center operations
  - Salary of service center administrator / billing personnel
  - General supplies

Guidance for Calculating Service Center Rates

- **Step 4** - For specialized service facility, identify indirect costs to be included in billing rates (information available from school cost accounting, research office or finance staff)
- **Step 5** - Identify and segregate unallowable costs in accordance with the cost principles
- **Step 6** - Add cumulative gain/loss (+/- 15%)
Guidance for Calculating Service Center Rates

- **Step 7** – Assign service center operating costs and carryforward balance to each service
- **Step 8** – Estimate billable units for each service
  - Labor hours
  - Machine hours
  - Unit cost
  - Number of samples
  - Tests performed
  - Any other unit of measurement appropriate to the type of activity

Guidance for Calculating Service Center Rates

- **Step 9** - Calculate cost-based rate for each service by dividing the costs by the billable units
- **Step 10** – Set billing rates based on the calculations
- **Step 11** – Document the process and submit for review
Comparison of Service Center Rate Calculations... (Regular vs. Specialized)

### Service Center
- Estimated expenses:
  - Technicians (2) 200,000
  - Supplies 50,000
  - Maintenance contracts 50,000
  - Equipment depreciation 150,000
- Total expense budget: 450,000
- Estimated units of service: 2,000
- Rate per unit of service = 225

### Specialized Service Facility
- Estimated expenses:
  - Technicians (10) 1,000,000
  - Supplies 250,000
  - Maintenance contracts 250,000
  - Equipment depreciation 750,000
- Add'l expenses in "fully loaded" rate:
  - Building depreciation 30,000
  - Building loan interest 400,000
  - Operations & Maintenance 200,000
- Total expense budget: 2,880,000
- Estimated units of service: 10,000
- Rate per unit of service = 288

**Note:** For Specialized Service Facilities, please contact your school / dept for approval if you do not plan to fully recover the costs of the services through loaded rates.

Other issues to Consider... **SUBSIDIES**

- All subsidies should be recorded in the Service Center operating account
  - Exceptions are restricted funds – sponsored, endowments, restricted gifts
- The cost of the services used by the subsidized user group must be recorded to ensure that they are not inappropriately charged to other users
- Types of subsidies
  - Lump sum
  - Specific users or groups of users
  - Year end write-offs

**Note:** The university may choose to subsidize the operations of a service center. When billing rates are lower than cost, the resulting deficit cannot be carried forward as an adjustment to future billing rates.
Other issues to Consider...

**SERVICE CENTER SUPPORT FUNDS**

- Companion accounts to Service Center operating accounts
- Used for:
  - Equipment purchases over $5,000
  - Offset entries for depreciation charged to Service Centers
  - Bad debt write-offs
  - Other unallowable expenses
  - Add-on charges to external customers (not F&A)
  - Funds borrowed for initial start-up that will be returned after breakeven
- Funds in the Support Fund can only be used to support the associated Service Center

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Other issues to Consider

**RECORDING REVENUES**

**Internal Users**
- Customers charging 33 digit Harvard general ledger codes
- Use intra tub (within the same school) or inter tub (between schools) expense credit object codes
- See appendix III of manual

**External Users**
- Customers outside of Harvard including non-consolidating tubs
- Include F&A charge
- Can include add-on fees
- Base charge for goods or services get charged to revenue object code
- F&A charge recorded in 8924 (amount will get transferred to school account)
- Add-on revenues can be posted to either the Service Center or Support Account using revenue object code (use different object code than used for base charge, eg. 5770)
Other issues to Consider...

• Tax issues
  – UBIT (unrelated business income tax)
  – Sales tax

(Refer to pages 16-17 of the procedures manual)

• Record keeping and retention
• Discounted rates
• Calculation of allowable +/-15% carryforward

Local-level Managing Units
(Departmental responsibilities)

• Oversight of ongoing operations and compliance with university policy
• Work with school / tub financial office when establishing a new Academic SC
• Report on Service Center revenues, expenses and balances annually
• Review financial information mid-year to ensure breakeven or necessity to change rates
Local-level Managing Units (cont...)
(Departmental responsibilities)

- Calculate rates, at least annually, based on estimated expense data and projected usage (using the “Annual Rate Documentation Form” or alternative documentation)
  http://osp.fad.harvard.edu/content/service-center-policy

- For Academic Service Centers that include depreciation as a component of expenses, create and maintain information on equipment purchases and applicable depreciation

- Ensure that space files and equipment inventories are up to date

- Ensure that rates comply with the guidance in this policy and are reported and reviewed by school financial officers

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Service Center Compliance Issues
Summary of Key Compliance Issues

1. Rates should recover no more than the cost of the good or service
2. Rates must breakeven over time, reviewed and adjusted at least mid-year / annually (Harvard)
3. Rates don’t discriminate between users, especially those paying with federal funds
4. Surplus from service center should not be used to fund unrelated activities
5. Must maintain published price list
   - (Schedule of rates or established methodology, A-21)

Summary of Key Compliance Issues

6. Rates may include depreciation expense only, not the full cost of equipment
7. Service center subsidies should NOT be included in the F&A rate
8. Use of “Flat User” fee (unrelated to cost or actual usage)
9. Departmental Surcharge in Rate
Questions...