
SUBJECT: SERVICE CENTERS AND RECHARGE OPERATIONS

PURPOSE

As a recipient of federal grants and contracts, LSU must comply with cost principles and cost accounting standards promulgated by the U.S. Government. This policy provides a framework for the fiscal operations of University service centers and recharge operations that will assist such units in complying with sound accounting principles and government regulations.

DEFINITIONS

Major Service Centers - operating units which provide goods and/or services, primarily to University departments, for a fee based upon actual incurred costs and which have total annual direct costs of providing those goods and services exceeding \$500,000.

Minor Service Centers - operating units which provide goods and/or services, primarily to University departments, for a fee based upon actual incurred costs and which have total annual direct costs of providing those goods and services between \$50,000 and \$500,000.

Recharge Operations - departmental units which provide goods and/or services, primarily to University departments, for a fee, and which have total annual direct costs of providing those goods and services of less than \$50,000.

GENERAL POLICY

Since service centers and recharge operations at LSU may result in charges to Federal grants and contracts, only service centers and recharge operations approved under this policy will be eligible to charge sponsored projects for services rendered. Requests for new service centers or recharge operations must be forwarded to the Office of the Vice Chancellor for Finance and Administrative Services for approval of billing rates and assessment of the impact on the University budget.

Service Center Standing Committee

The Service Center Standing Committee shall maintain an ongoing study of the operations of service

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centers and recharge centers, and shall make recommendations as needed regarding this service center policy and the efficiency of these operations. The Standing Committee shall consist of seven members serving staggered, three year terms, and this committee may appoint and assign charges to special ad hoc committees as deemed necessary.

Service Centers

Each service center must have a separate account(s) for budgeting and accounting for its operations. All direct costs of operations must be charged to the service center account, and any permitted indirect costs must also be charged to the service center account, if included in the billing rates charged for services rendered.

Service centers that include depreciation, building use allowances, or operations and maintenance costs in their billing rates will have special restricted accounts used solely for purchasing of capital equipment and paying for alterations and renovations to service center facilities.

Recharge Operations

Each recharge operation must also have a separate account(s) for budgeting and accounting for its operations. Billing rates used by recharge centers must recover no more than the **direct cost** of the goods or services being provided. Recharges to a particular sponsored project or any other account may be applied only when there is a direct relationship to the account being charged.

It is the responsibility of the department head to ensure that rates do not exceed the direct cost of providing the service, and that total annual direct costs do not exceed \$50,000. If the direct costs of a recharge center are projected to exceed \$50,000, a minor service center must be established during the budget process for the next fiscal year.

Billing Rates

Federal grants and contracts cannot be charged higher rates for goods and/or services than any other internal user. However, external users may be charged rates higher than internal users. Service center billing rates must be calculated, reviewed, and approved annually. Billing rates should be based upon budgeted operating costs, prior year carry forward amounts, and expected units of

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activity in the current year.

Any surplus of recharges (i.e., user fees charged to internal users) of 10% or less in a fiscal year and any unsubsidized deficits of 10% or less in a fiscal year must be transferred to a restricted carry over account and used to calculate future billing rates. Disposition of recharge surpluses in excess of 10% will be determined on a case-by-case basis. A surplus of an unrestricted service center generated by higher billing rates to external users must be transferred from the service center account and used for any unrestricted purpose prior to the end of the fiscal year.

Direct costs to be included in billing rate calculations include personnel services, fringe benefits, supplies and materials, cost of inventory items used to provide services, rental and service contracts, related special conferences, professional services, and external interest.

The purchase price of **capital equipment** must not be charged to the service center operating account. Federal guidelines do not allow the purchase cost of capital assets to be recovered through service center rates. However, it is appropriate to recover **depreciation** on capital equipment as an indirect cost. Thus, all service centers may include equipment depreciation costs when computing their billing rates. Depreciation is not allowable on fully depreciated assets, and under no circumstances shall depreciation exceed the total acquisition cost of an asset.

Space occupied by all service centers must be identified and designated as such in the University's annual space inventory, and a **building use allowance** will be allocated to each service center based on square footage determinations. **Operations and maintenance rates** are assigned either on a net assignable square footage basis, or as a direct charge based on actual costs (auxiliaries). Major service centers may include both a use charge on buildings and operations and maintenance costs when calculating billing rates. Minor service centers are not allowed to include such indirect cost components in their billing rates.

OPERATING PROCEDURES

The attached "Operating Procedures for Service Centers and Recharge Operations" are hereby incorporated into this policy statement.

**LOUISIANA STATE UNIVERSITY OPERATING PROCEDURES
FOR
SERVICE CENTERS AND RECHARGE OPERATIONS**

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**LOUISIANA STATE UNIVERSITY OPERATING PROCEDURES
FOR
SERVICE CENTERS AND RECHARGE OPERATIONS**

1.0 INTRODUCTION AND SUMMARY

This procedure, effective July 1, 1999, provides a framework for the fiscal operations of University service centers and recharge operations that will assist University units in complying with sound accounting principles and government regulations. In addressing the fiscal administration of these activities, this procedure provides examples of billing rate structures and the steps involved in building such rates.

2.0 REGULATIONS

Service centers and recharge operations can result in charges to Federal grants and contracts at Louisiana State University. As a recipient of Federal grants and contracts, LSU must comply with cost principles and cost accounting standards promulgated by the U. S. Government. Only service centers and recharge operations approved under this procedure will be eligible to charge sponsored projects for services rendered.

2.1 OMB Circular A-21

The cost principles for Universities are set forth in Office of Management and Budget (OMB) Circular A-21. Section J.44 of OMB Circular A-21 deals specifically with service centers and is explicit in two concepts:

- recipients of federal funds are not to recover more than cost; and
- recipients are not to discriminate in the price of services charged to federally and non-federally supported institutional activities.

The principles provide for recognition of the full allocated costs of Federal grants and contracts with no provision for profit or other increment above actual incurred, documented costs.

2.2 Cost Accounting Standards

Cost accounting standards are designed to achieve uniformity and consistency in the cost accounting practices governing measurement, assignment, and allocation of costs to Federal grants and contracts.

The Cost Accounting Standards Board (CASB) requires universities to comply with the four standards below:

- CAS 501 - Consistency in Estimating, Accumulating, and Reporting Costs for Educational Institutions
- CAS 502 - Consistency in Allocating Costs for the Same Purpose for Educational Institutions
- CAS 505 - Accounting for Unallowable Costs - Educational Institutions
- CAS 506 - Cost Accounting Period - Educational Institutions

2.3 Oversight

The U. S. Government monitors LSU's compliance with these regulations through oversight and audits by the State of Louisiana Office of the Legislative Auditor, U. S. Department of Health and Human Services (DHHS) and the U. S. Office of the Inspector General (OIG).

3.0 DEFINITIONS

3.1 Service centers

Service centers are operating units which provide goods and/or services, primarily to University departments, for a fee based upon **actual incurred costs** and which have total annual **direct costs** exceeding \$50,000. Two categories of service centers are recognized at LSU.

1. **Major service centers** have total annual **direct costs** exceeding \$500,000. Cost components in the **billing rate** for a major service center are the total **direct costs** of operations, and may include **indirect costs** for **building use charge**, equipment **depreciation**, and **operations and maintenance**.
2. **Minor service centers** have total annual **direct costs** between \$50,000 and \$500,000. Cost components in the **billing rate** for a minor service center are the total **direct costs** of operations, and may include **indirect costs** for equipment **depreciation**.

3.2 Recharge Operations

Recharge operations are departmental units which provide goods and/or services, primarily to University departments, for a fee, and which have total annual **direct costs** of providing those goods and/or services of less than \$50,000. **Billing rates** shall include **direct costs** only.

Service Center/Recharge Operations Comparison Table:

Differences associated with the various classes of service center/recharge operations are as follows:

Annual Direct Costs	Major <u>Service Center</u> Over \$500,000	Minor <u>Service Center</u> \$50,000 to \$500,000	<u>Recharge Operation</u> Under \$50,000
Requires distinct account	yes	yes	yes
Rate calculations must include Direct Costs	yes	yes	yes

Rate calculations may include, as appropriate, the following indirect costs only:

Equipment depreciation	yes	yes	no
Building use charge	yes	no	no
Operations and Maintenance costs	yes	no	no

Should the total **direct costs** change from one threshold to another, the service center or recharge operation designation will change accordingly. Policies and procedures for service centers and recharge operations are discussed in sections 4 and 5, respectively.

3.3 General Terminology

NOTE: The following terms are in **bold** when used throughout this document.

Actual Incurred Costs	See operating costs .
Billing Rate	The fee per unit of activity charged to customers to recover some or all of the costs associated with producing goods or providing services.
Break-Even	Actual recharges and external revenues equal to operating costs .
Building Use Allowance	An allocation of the costs of buildings and improvements that is computed at an annual rate not to exceed two percent of acquisition cost. Use charges are recorded periodically by a journal entry charging the service center account and crediting the service center's facility renovation fund account in the plant fund.

Capital Equipment

Equipment with a minimum purchase cost as defined in the State of Louisiana's movable property regulations (currently, \$250 or more and a life expectancy of more than one year; see Business Office Procedure No. 4-2 and 4-5.) Capital equipment may not be purchased from a service center account. All purchases must be made from the related **equipment replacement fund** account.

Cost Center

Separate labor or production activities within a service center for which costs may be identified and accumulated separately.

Deficit

The amount by which a service center's **operating costs** exceed **recharges** and external revenues. A deficit of 10% or less of total annual **operating costs** may be carried forward to the next fiscal year and, if carried forward, must be included in the calculation of future **billing rates**. The amount of a deficit that exceeds the 10% limit for carry forward must be treated as an **under recovery**.

Depreciation

An allocation of the cost of **capital equipment** over its **useful life**. Annual depreciation is calculated by dividing the cost by the number of years of useful life (straight-line depreciation.) Depreciation is recorded periodically (annually, at a minimum, for that fiscal year's charge) by a journal entry charging the service center account and crediting the service center's **equipment replacement fund** account.

If the federal government has provided funding for a particular piece of equipment, depreciation on the federal share cannot be budgeted or charged to the service center.

Direct Costs

Costs specifically assignable to the operations of a service center or recharge operation. All direct costs must be budgeted and charged directly to service center and recharge operating accounts and will include:

- Personnel services (salaries and benefits)
- Travel
- Printing and duplicating
- Telephone
- Supplies and materials
- Equipment lease or rental
- Repairs and maintenance of equipment
- Subcontracts and outside services
- Other current operating expenses

Equipment Replacement Fund

A plant fund account used to accumulate credits for equipment **depreciation** charged to a service center. The funds must be used for the purchase of **capital equipment**.

External Interest

Interest paid to lenders outside the University

External User

Customers outside the organizational/administrative structure of the University. This category includes students and members of faculty or staff acting in a personal capacity.

Facility Renovation Fund

A plant fund account used to accumulate credits for **building use allowance** and **operation and maintenance** costs charged to a service center. The funds must be used for alterations and renovations of the service center facility.

Indirect Costs

Facilities costs allocated to a service center for:
Building use allowance
Equipment depreciation
Operations and maintenance

Internal User

Customers who are part of the organizational/administrative structure of the University, including academic, research, and administrative departments, and auxiliary units. Internal users always have a University account number.

Inventory

The value of goods and supplies purchased for resale.

Net Carry Forward

A **surplus** of recharges or a **deficit** of not more than 10% of **operating costs** is brought forward in a separate **restricted carry forward account** to the next fiscal year. The **surplus** or **deficit** will be "netted" against the **surplus/deficit** carry forward from the previous year and the balance (net carry forward) included in the calculation of future billing rates.

Operating Costs

The total **direct** and **indirect costs** charged to the service center account.

Operations and Maintenance

Utilities, minor building repairs and janitorial services allocated to the service center based on square feet of space occupied.

Over Recovery

The amount of **surplus** that exceeds 10% of total annual **operating costs**. The Office of Budget and Planning in concert with the **Service Center Standing Committee** will provide instructions for disposition of an over recovery of recharges.

Unrestricted (general fund) Service Center: An over recovery of **revenue** (any amount) must be transferred from the service center account and used for any unrestricted purpose prior to the end of the fiscal year.

Auxiliary Service Center: An over recovery of **revenue** (any amount) must be transferred to the auxiliary service center regular operating fund balance account and carried forward to the next fiscal year.

See Section 4.1 SPECIAL NOTE on page 11.

Personnel Services

Salaries, wages, and related fringe benefits associated with the service center. This includes the service center manager, professionals, secretarial and clerical, technicians, operators, student labor, and other staff. Compensation allocated to the service center or recharge operation must be based on each employee's percent of effort.

Recharge

User fees recovered from **internal users** (credited to the appropriate object code).

Restricted Carry Forward Account

A separate and distinct account established for each recharge operation and service center to which a **surplus** of recharges or a **deficit** will be transferred at year end in order to calculate the **net carry forward**.

Revenue

User fees recovered from **external users** (credited to the appropriate object code).

Service Center Standing Committee

A committee appointed to monitor and evaluate service center and recharge operations.

Subsidy

Other non-federal funding sources provided to cover a **deficit** caused by charging insufficient user fees to recover the total **operating costs** of a service center.

Surplus

The amount by which a service center's **recharges** and **external revenues** exceed **operating costs**.

Recharges: A surplus of 10% or less of total annual **operating costs** must be carried forward to the next fiscal year to be included in the calculation of future **billing rates**. The amount of surplus that exceeds the 10% limit for carry forward must be treated as an **over recovery**.

Revenue: A surplus of **revenue** is treated as an **over recovery**.

Unallowable Costs

Costs defined in OMB Circular A-21, Section J, which are not eligible for reimbursement from the federal government, and which must not be recorded in service center accounts. These include, but are not limited to, the following:

- Advertising
- Alcoholic beverages
- Bad debts
- Commencement or convocation costs
- Contingency provisions
- Contributions, donations, remembrances
- Entertainment
- Fines and penalties
- Goods or services for personal use of employees
- Personal use of an institution-furnished vehicle
- Public relations
- Student activity costs
- Travel - first-class

Under Recovery

The amount of **deficit** at year-end that exceeds 10% of total annual **operating costs**. An under recovery must be funded from non-federal sources as a **subsidy**, and may not be carried forward to the next fiscal year.

Unit of Activity

A specific quantity of a service center's product such as a copy, an hour of machine time, an hour of labor, or any other reasonable measurement that is the basis for the calculation of a **billing rate**.

Unrelated Business Income

Income produced by the sale of goods or services to **external users** that is regularly carried on and which is not substantially related to the University's tax exempt purpose. Unrelated business income

revenue is subject to taxation by the IRS. An activity carried on for the convenience of the University community, including students, is not subject to taxation. Contact the Executive Director of Accounting Services for specific information.

Useful Life

The estimated time period over which **capital equipment** and buildings will provide useful service.

User Fee

See **billing rate**.

4.0 SERVICE CENTERS

4.1. Service Center General Policy

- Each service center must have a separate account or set of accounts for the purpose of budgeting and accounting for its operations.
- All actual, incurred, and documented **direct costs** of service center operations must be charged to the service center account.
- Permitted **indirect costs** for **building use allowance**, equipment **depreciation**, and **operations and maintenance** must be charged to the service center account(s) if included in the **billing rate**.

Service center accounts that include equipment **depreciation** in their **billing rates** will have a separate **equipment replacement fund** account which will be used to record accumulated depreciation credits. Service centers that also include **building use allowance** and **operations and maintenance** costs in their **billing rates** will have a **facility renovation fund** account which will be used to record accumulated **indirect cost** credits for those items. This **equipment replacement fund** account is used solely to purchase **capital equipment** for service centers. The **facility renovation fund** account (building use allowance and operations and maintenance) is used solely to pay for alterations and renovations of the service center facility. No other use of these accounts is permitted without the specific written approval of the Office of Budget and Planning.

- All **recharges** and external **revenues** must be credited to the service center account using the appropriate object codes.
- Any **surplus of recharges** of 10% or less in a fiscal year must carry forward to the succeeding year and used to calculate future **billing rates**. Unsubsidized **deficits** of 10% or less must also be carried forward to calculate future **billing rates**.
- Disposition of a **surplus of recharges** in excess of 10% of **operating costs** will be determined by the Office of Budget and Planning and the **Service Center Standing Committee** on a case-by-case basis.
- Federal grants and contracts cannot be charged a higher rate for goods and/or services than any other **internal user**. *No discounts or free service may be given to any user including, but not limited to, academic users and instructional activities.*
- **External users** may be charged a higher rate than **internal users**.

SPECIAL NOTE:

Unrestricted Service Centers: A surplus generated by higher billing rates to external users (i.e., revenue per unit of activity exceeds total operating costs per unit of activity) must be transferred from the service center account and used for any unrestricted purpose prior to the end of the fiscal year.

Restricted Auxiliary Service Centers: A surplus generated by higher billing rates to external users (i.e., revenue per unit of activity exceeds total operating costs per unit of activity) must be transferred from the service center account to the auxiliary's regular operating fund balance account and carried forward to the next fiscal year.

Care must be exercised to properly document that billings to external users created the surplus.

Contact the Office of Budget and Planning for assistance.

4.2 Billing Rates

To compute the billing rate, service centers should use the following formula:

$$\frac{\text{Budgeted operating costs +/- prior year net carry forward}}{\text{Expected units of activity}}$$

The calculated rate is then applied to the actual level of this activity when charging users. For example, a computer with estimated annual operating costs of approximately \$100,000 and no net carry forward from the prior year has an estimated output of 1,500 hours during that year. This would result in a rate of \$100,000/1,500 hours = \$66.67 per hour. If a department uses the computer for four hours, then it should be charged \$266.68 (4 x \$66.67).

Some service centers may need to establish separate rates for the various cost centers, or operations, within the service center. Such separate cost center rates would provide more accurate charges to all users than one blended rate based on all of a service center's costs. For service centers using cost center rates, the billing rate of each cost center, or operation, must be documented.

A service center providing more than one service may sometimes make a surplus on some services and incur a deficit on others. Combining the results of various services is acceptable as long as the mix of users of each service is not materially different. Higher prices may not be charged for one cost center in order to subsidize losses on another cost center. The total of revenues, recharges, operating costs and surpluses or deficits for all cost centers included in the service center will be used when calculating the net carry forward.

Service center rates must be calculated, reviewed, and approved annually. When a service center is established in mid-year, rates may be set for longer than twelve months so that the end of the first break-even period coincides with the University's fiscal year-end.

Billing Rate Cost Components

Direct Costs

Personnel Services: An appropriate portion of the salaries and wages of all personnel directly related to the service center's activities, including administrative support personnel, should be included in the rate calculation and charged to the service center's operating account. The portion of such an individual's salary that should be charged to the service center account is the percentage that represents the proportion of effort applied to this service center activity considering the individual's other LSU activities.

Fringe Benefits: Service centers will include fringe benefits of all personnel directly charged to the service center operating account. A fringe benefit rate will be calculated annually by the Office of Budget and Planning based on a prior year's cost experience. This rate must be included in the service center's billing rate calculation.

Supplies and Materials: The costs of supplies and materials needed to operate the service center should be included in the rate calculation. Some service centers maintain an inventory of parts and supplies that are directly related to the services or materials provided to customers. University Stores, for example, maintains a wide array of inventory items supplied to its customers. A machine shop service center may maintain an inventory of commonly used shop supplies that are routinely needed to provide services to its customers. The cost of such supplies and materials, when purchased by the service center, is typically charged to expenditure object 4500 (i.e., "Merchandise for Resale").

Inventories: Inventories of supplies and materials maintained by service centers for resale must be physically counted at least annually. A value must be determined for all items included in the physical count, using an approved valuation method (e.g., weighted average; "first-in, first-out"), and an "inventory adjustment" must be recorded for any such supplies and materials on hand at fiscal year end. Items remaining in the year end inventory have not yet been used to provide services or materials to the service center's customers. Thus, the cost of these items should not be considered a current operating expense in computing billing rates for the following year. The inventory adjustment procedure creates an "asset" (i.e., "Inventory") on the records of the service center at fiscal year end, and also adjusts the service center's expenditure account to reflect the cost of the supplies and materials that were actually used during the fiscal year to provide services to its customers.

If any damaged or obsolete inventory items are on hand at year end, the inventory adjustment procedure should charge the cost of such damage or obsolescence to operating expenses of the current year. This process will result in damage/obsolescence costs being properly included in calculations to compute billing rates for the following year.

Other Costs: Other costs associated with recharge operations or service centers which may be included in its rates are:

rental and service contracts;
special conferences related specifically to the service center or recharge operation;
professional services; and
external interest (OMB Circular A21, Section J.22).

All costs must be properly identified by assigning the object code.

Contact the Office of Budget and Planning if you have questions regarding the allowability of costs and/or refer to OMB Circular A-21.

Capital Equipment: Federal guidelines do not allow the purchase cost of capital assets to be recovered through service center rates. Therefore, the purchase price of **capital equipment** must *not* be charged to the service center operating account, but rather to the **equipment replacement fund** account(s). If sufficient funds are not available in the **equipment replacement fund** account(s), a transfer may be made from other non-federal sources (such as a departmental account) into the account. It is appropriate, however, to recover the **depreciation** (see following section), external interest, or capital lease costs associated with that asset.

Indirect Costs

Equipment Depreciation: Both major and minor service centers may include equipment **depreciation** costs when computing their **billing rates**. Periodically (at least annually), a journal entry will be recorded by the Office of Accounting Services to charge (debit) the service center account for the actual depreciation expense of equipment identified as belonging to the service center, and to credit the service center's **equipment replacement fund** account. **Depreciation** is not allowable on fully depreciated assets. *Under no circumstances shall depreciation exceed the total acquisition cost of the asset.*

If the federal government has provided any portion of the funding for a piece of capital equipment, whether or not title has vested in the University, **depreciation** for that portion of the funding provided by the federal government cannot be included in the billing rates. Federal funding of equipment is identified by the fact that it was paid for by a federal grant or contract account, or by "federal flow-through funds" from a non-federal governmental agency or private sponsor. The funding source of a specific item of movable property/equipment can be obtained from the Office of Property Management.

Each year, the service center will need to budget **depreciation** amounts to be used in establishing rates for the following year.

Building Use Allowance: Major service centers may also include a use charge on buildings in its rate calculation. **Building use allowance** will be allocated to each service center based on a square footage determination for the service center in the annual space inventory. The Office of Budget and Planning shall be responsible for calculating **building use allowance**.

If the federal government has provided any portion of the funding for a building, the use allowance for that portion of the funding provided by the federal government cannot be included in the billing rates.

Operation and Maintenance Costs: Space occupied by all service centers should be identified and designated as such during the annual space inventory. Space which is occupied by service center equipment must be assigned as service center space, rather than as departmental space. **Operations and maintenance** rates are assessed either on a net assignable square footage basis, or as a direct charge based on actual costs (auxiliaries). Major service centers may include operations and maintenance costs in calculating their internal and external billing rates.

Unit of activity

The **unit of activity** is used to arrive at a **billing rate** which reasonably allocates service center costs in proportion to those receiving its benefits. Selection of an appropriate unit of activity is essential to ensure that users pay only their share of the costs for the services rendered. Two methods are most commonly used to determine the unit of activity: consumption and output. Both methods distribute costs based on a unit of measurement (e.g., hours, pounds, gallons, etc.).

A consumption base is used when expenses incurred to produce the unit are directly proportional to how much that unit has consumed. For example, assume that labor and equipment usage costs can be accurately identified as being consumed on an hourly basis. This means that, for each hour of service, a proportional increase in labor and equipment usage occurs. In this case, the service center would base the **billing rate** on the number of hours of service provided.

Another basis of allocation may be a measure of the output of the service center. An output based rate is calculated when the total cost of the service center is divided by the total anticipated number of units produced per year (e.g., pages printed and samples analyzed). A sample budget with rates established on both the consumption base and output base is found in Appendix 6.1. Under both methods, rates must be calculated using total units of activity.

Projections

Projected Operating Costs: Annual expenses are budgeted in the same way as other departmental expenditure accounts--direct position budgets, benefits, travel, printing, telephone, current expenses, and materials and supplies. Any allowable **indirect costs** included in the **billing rate** should be included in the current expenses line. Budgeting considerations may include changes in operating expenses, changes in **depreciation**, or other known fluctuations. Separate accounts and clear identification of cost types help to facilitate the annual projections.

Projected Recharges and Revenues: Like other University accounts, recharges and revenues for service centers are budgeted by object codes. Service centers must attempt to match the amount of recharges and revenues with the budgeted level of expenses through the development of **billing rates**. When estimating sales or usage levels, considerations may include prior year performance, as well as known future needs of **internal** or **external users** and other environmental effects.

At the end of the fiscal year, it may be necessary to accrue expenses and/or recharges and revenues via journal vouchers to appropriately account for the service center's activity during the correct accounting period. The Office of Accounting Services provides detailed instructions and workshops on year-end closeout procedures. The responsibility for insuring these entries are made lies with the service center manager and the department head.

Breaking Even and the Treatment of a Surplus or Deficit

Although service centers target break-even through budgeting and rate setting, seldom will the actual expenses, plus or minus any prior year **net carry forward**, exactly match the actual **recharges and revenues**. The break-even policy states that a **surplus** or **unsubsidized deficit** for a given fiscal year must not exceed +/- 10% of annual operating expenses, computed as of the fiscal year-end. The surplus or deficit should be calculated based on actual recharges, revenues and expenditures as outlined in Appendix 6.4.

Surpluses/Deficits within the +/- 10% range

A **surplus of recharges** within the 10% range must be transferred to the **restricted carry over account**, netted against the prior years carry forward, and the balance applied to the following year's rate calculation so the operation will **break-even** over time. A **deficit** within the 10% range may either be transferred to the **restricted carry over account** or subsidized by non-federal sources.

For example, the rates submitted for approval during the budget preparation process for the fiscal year beginning July 1, 1999, would be based on the FY 99-00 projected volume and expenses plus or minus any **net carry forward** from the most recently completed fiscal year--in this case, the year ended June 30, 1999.

Example:	<u>Surplus</u>	<u>Deficit</u>
FY 98-99 actual revenues	\$230,000	\$210,000
Total expenses FY 98-99	<u>220,000</u>	<u>220,000</u>
Account balance as of 6/30/99	\$ 10,000	(\$ 10,000)
FY 99-00 budgeted expense	\$250,000	\$250,000
FY 98-99 carry forward*	<u>(10,000)</u>	<u>10,000</u>
Total FY 99-00 budgeted expenses	\$240,000	\$260,000

***NOTE:** Since budgets for the next fiscal year are prepared before the end of a fiscal year, the exact amount of the **net carry forward** will not be known when developing the rate for the next year. Therefore, the rate may need to be adjusted after the actual **surplus** or **deficit** is determined.

Since in both examples, the **surplus** and **deficit** are within +/-10% [$(\$230,000 - \$220,000)/\$220,000 \times 100 = 4.5\%$ or $(\$210,000 - 220,000)/220 \times 100 = -4.5\%$], the **surplus** or **deficit** must be transferred to the **restricted carry over account**, netted against the amount carried forward from the prior year, and the +/- balance applied to the next year's budgeted expenses thereby adjusting the calculated **billing rate**.

Over Recovery--When it appears that a service center is going to end a given fiscal year with an operating **surplus** exceeding the 10% figure, this **over recovery** (the increment beyond the 10%) should be adjusted via a mid-year reduction in **billing rates**. Refer to the section on "Interim Review" in section 4.3. If at fiscal year-end the **surplus** of **recharges** exceeds the 10% threshold, the service center will be required to present a plan of corrective action to the **Standing Service Center Committee**. (See SPECIAL NOTE in section 4.1)

Accumulated **surplus** funds through billings to **internal users** of 10% or less may not be transferred out of the service center's operating account as the balance must be used to adjust subsequent **billing rates**.

Unrestricted Service Centers: Accumulated **surplus** funds through billings to **external users** must be transferred out of the service center's operating account and used for any unrestricted purpose prior to the end of the fiscal year and will not be used to adjust subsequent **billing rates**.

Auxiliary Service Centers: Accumulated **surplus** funds through billings to **external users** must be transferred to the auxiliary's regular operating fund balance account and carried forward to the next fiscal year.

Under Recovery--When it appears that a service center is going to end a fiscal year with an operating **deficit** for the twelve months exceeding 10%, this **under recovery** (the portion beyond the 10%) should be adjusted via a mid-year increase in rates. Refer to the section on "Interim Review" in section 4.3. If at fiscal year-end, the operating deficit exceeds the 10% threshold, the service center will be required to notify the department head and the Office of Budget and Planning to assess the underwriting (support with non-federal funds) of the **under recovery**.

Budgeting, Billing and Accounting for Subsidies

There are only two situations in which a **subsidy** would be necessary to underwrite an **under recovery**:

1. During rate development at the beginning of the fiscal year, it is determined that the computed **billing rate** is too high to generate adequate sales of goods and/or services to sufficiently cover **operating costs** at fiscal year end.
2. At fiscal year end, the service center's **operating costs** exceed **recharges** and external **revenues** as a result of fewer units sold than had been anticipated at the beginning of the year.

The budgeting, billing and accounting procedures are determined by the status of the service center, i.e., unrestricted (general fund) service centers and restricted or auxiliary service centers.

Restricted accounts and auxiliary operations must be approved by the LSU Board of Supervisors; because of the requirements imposed by the Board, approval is difficult to obtain. Consequently, most service center accounts will be unrestricted. Further, auxiliary service centers will typically be self-supporting (i.e. not subsidized) and will receive an allocation of **indirect costs** which will be included in its **billing rate**.

Unrestricted Service Centers

Budgeting (for Operating Budget)

If there is a planned or known subsidy as reflected in example 1 above, the subsidy amount (the difference between service center's projected **recharges** and external **revenues**, and **operating cost**) will be budgeted in a separate expenditure account with the term "subsidy" in the account description.

The service center's budgeted **revenues** and **recharges** must equal budgeted service center expenditures in the operating accounting (exclusive of the subsidy account).

Billing out a subsidy

In example 1, the department head and dean must identify the non-federal source of funds which will underwrite the **under recovery** on the Rate Development Worksheet (Appendix 6.3) submitted at the beginning of the fiscal year.

In example 2, the **under recovery** will be funded from non-federal sources at fiscal year-end; the service center manager is required to notify the department head and the Office of Budget and Planning to assess the underwriting of the **under recovery**.

Underwriting the Service Center Charge to a Specified User(s)

If a college/department that supervises the service center underwrites the charge to a specified user(s) (for example, students enrolled in a lab course), the college/department must budget the charge to the proper account. The expense must be charged to an account with a function [i.e., instruction projects ('0' in the 7th digit); research ('1' in the 7th digit of the University account number), and the public service ('2' in the 7th digit)] that reflects the service to the user(s). This account must be billed for services at the same rate as all other users. For example, if a student lab course is underwritten, an account with the instruction function should be charged. The same procedure should be used if the department/college elects to underwrite part of the service center charge for a specified user. This process is required to ensure that service center charges are recorded in the proper Facilities and Administrative rate base. This is the ONLY permissible way that a particular type of user may be subsidized.

Accounting

All charges by a service center will be accounted for in the indirect cost calculation in the pool or base of the account charged for correct computation of the indirect cost rate calculations. An **under recovery** incurred by unrestricted (general fund) service centers must be funded through non-federal sources by the end of the fiscal year. A surplus of revenues must be fully expended by the department/college before the end of the fiscal year and the Office of Budget and Planning in concert with the **Service Center Standing Committee** will provide instructions for the disposition of an **over recovery of recharges**. To comply with Cost Accounting Standards, a fiscal year surplus of recharges (not to exceed 10% of annual operating expenses) must be included when calculating the **billing rates** for the next fiscal year.

Restricted or Auxiliary Service Centers

Budgeting

Restricted or auxiliary service center budgeted revenues must equal budgeted expenditures. If there is a planned subsidy, it will be included as a budgeted revenue.

Billing out a subsidy

The same procedure specified in the preceding unrestricted service center section must be used.

Accounting

All charges by service centers will be accounted for in the indirect cost calculation in the pool or base of the account charged for correct computation of the indirect cost rate calculations.

Restricted or auxiliary service centers must carry-forward a **surplus** of recharges and may carry-forward a **deficit** (not to exceed 10% of annual operating expenses) from one fiscal year to the next. Like unrestricted service centers, restricted or auxiliary service centers are required to include the **surplus** or **deficit** in the **billing rate** for the next fiscal year.

4.3. Monitoring Procedures

Interim Review

During the budget preparation process, service center managers must submit, through their department heads, projections of **recharges**, **revenues** and expenditures for the next fiscal year. Service center managers must evaluate their financial position and **billing rates** periodically throughout the year to assess their positions with respect to attaining **break-even** status.

Rate Changes

If a **surplus** in excess of 10% is projected, a mid-year reduction in rates should be implemented. **Billing rates** may be increased to fund an unforeseen **deficit**. (See section 4.2 on Over and Under Recoveries.)

The service center unit considering a proposed rate change is responsible for initiating a request with accompanying justification and documentation. The request should be forwarded to the department head for review and approval before submitting a final proposal to the Office of Budget and Planning. The Director of the Office of Budget and Planning (or designee) will approve, reject, or modify the proposed rate change.

Year-end Rate Performance Review

At fiscal year-end, all service centers are required to submit to the Office of Budget and Planning through their department heads actual financial results as calculated in the Recharges, Revenues and Expenses Worksheet (Appendix 6.4.)

Rate Setting for Next Fiscal Year

During the operating budget development process, service center managers should submit a Rate Development Worksheet (Appendix 6.3) to their department heads detailing rate changes they propose to make for the upcoming fiscal year before submitting a final proposal to the Office of Budget and Planning. The Director of Budget and Planning (or designee) will accept, reject, or modify the rate proposals, and these approved rates must be used by the service centers to project the **recharges** and **revenues** described in Section 4.2.

4.4. Responsibilities

Service Center Standing Committee

The **Service Center Standing Committee** shall maintain an ongoing study of the operations of service centers. The Standing Committee will make recommendations as necessary to the Chancellor and appropriate Vice Chancellors regarding improvements to this procedure as well as the efficiency of service center operations.

The Service Center Standing Committee shall consist of 7 members:

- Four faculty or administrators, who are familiar with externally funded research and the operations of service centers, will be appointed by the Vice Chancellor for Research and Graduate Studies, with input from Deans of Colleges, or Directors of Institutes with major funding from outside agencies. Examples include but are not limited to the Colleges of Basic Sciences and Engineering, CCEER, and the School of Veterinary Medicine.
- Two administrators from Finance and Administrative Services will be appointed by the Vice Chancellor for Finance and Administrative Services. One of these administrators shall chair the committee.
- One major service center director, appointed by the Vice Chancellor for Finance and Administrative Services.
- After an initial two year term, all members shall serve staggered, three year terms. Committee members can serve additional terms.

The Standing Committee may appoint and assign charges to special committees (ad hoc) as deemed necessary by the Committee.

Department Head or equivalent

Ultimate responsibility for each service center rests with the appropriate Vice Chancellor and Dean or equivalent. Responsibilities of the department head or equivalent include:

- review and approve/reject/modify and forward to Office of Budget and Planning the request to establish each new service center within the unit;
- review and approve/reject/modify and forward to Office of Budget and Planning individual rates for all service centers within the unit;
- review and approve/reject/modify and forward to the Office of Budget and Planning all rate adjustment requests within the unit;

- review the performance of all service centers with respect to **break-even** at fiscal year-end and assure that any **surpluses** or **deficits** are included in the rate calculation(s) for the following year; and,
- ensure that appropriate record retention policies and procedures, as prescribed by the University Archivist, are followed for closed service centers.

Service Center Manager

The Vice Chancellor delegates day-to-day responsibility for a service center to the service center manager who should closely monitor the operations and take corrective actions as needed, advising and consulting on all material decisions affecting the service center. The manager should assure that:

- a schedule of **billing rates** is prepared and submitted timely to the department head during the preparation of the operating budget;
- documentation of year-to-date, actual data concerning financial and operational information (relevant to making determinations about **billing rate** adjustments) is prepared and submitted to the department head according to an interim schedule, along with new rate development worksheets if new rates are requested;
- the service center's financial results with respect to **break-even** are reviewed on a timely basis at year-end, and future rates are adjusted for **over recoveries** and/or **under recoveries** as appropriate;
- the department head and the Office of Budget and Planning are notified of estimated fiscal year-end cash balances, **surplus** or **deficit**, to be carried forward in the service center accounts by June 30 of the fiscal year just ended;
- the approved rate schedule is applied accurately and uniformly to all users;
- the Office of Budget and Planning is notified immediately of new equipment purchases so that depreciation will be calculated accurately;
- the service center's movable property/equipment is reconciled with the Office of Property Control and Equipment Records' inventory listing on an annual basis, and specific equipment funded through federal sources is specified;
- the equipment **depreciation** as provided by the Office of Budget and Planning is incorporated in the service center rates in accordance with the procedures set forth in this policy;

- billings are timely and adequately documented, and receivables are properly recorded, controlled, and reconciled; and
- records are maintained in accordance with the procedures set forth in this policy so that inquiries concerning charges can be addressed.

Office of Budget and Planning

The Office of Budget and Planning is assigned responsibility for the following:

- review and approve, in conjunction with the appropriate department head and dean, all requests to establish new service centers;
- approve service center rates as part of the **revenue and recharge** estimates during the operating budget process;
- assure that any **surplus or deficit** generated within each service center is included in the **billing rate** calculation for the following year;
- in conjunction with appropriate dean and department head, review and determine the adequacy of closure documentation when a unit requests that a service center be eliminated;
- receive notification from the service center managers of fiscal year-end fund balances (**surplus or deficit**) to be transferred to the **restricted carry forward account** by June 30 of the fiscal year just ended.

4.5 Billing Procedures

All billings should be appropriately recorded in LSU accounts. External users should be billed via invoice. Billings must be based upon measured and documented utilization that is properly authorized for the account charged (see section 4.2 - "Projections" for special procedures which may be necessary for year-end closeout).

All billings must be at rates established and approved in accordance with the provisions of this policy. *No goods or services may be provided at a discount or at no cost unless all internal users are charged the lowest rate. At no time will an external user be charged at a rate less than federal grants or contracts and other internal users.*

Documentation to support the charges must be retained by the billing department (see section 4.6 - Record Retention). *Advance billing for undelivered services or products is not allowed.* The invoice should provide the department charged with the following information:

- what the charge is for;
- how many units were consumed/produced; and
- rate charged per unit.

Billing System Controls

Service centers will issue billings at least monthly. Billing activity must be reconciled to the applicable account ledger, and any possible errors investigated and corrected in a timely manner.

4.6 Internal Controls

It is essential that all service centers and recharge operations maintain proper internal controls in their day-to-day business functions (e.g. payroll, purchasing, billing customers, processing customer payments, etc.).

When establishing an effective internal control structure, many of the best procedures depend upon an adequate segregation of duties and responsibilities so that the work of one employee automatically provides a cross-check of the work of one or more other employees on the same transaction. This cross-checking is designed to prevent one employee from being able to process erroneous or inappropriate transactions without detection.

The principal duties to be segregated are the functions involving *authorizing* transactions, maintaining *custody* over the assets, and *recording or reporting* transactions. For example, it would be a breach of adequate internal control if the same employee had the ability to order materials (*authorizing* transactions), supervise their storage (maintaining *custody*), and have responsibility for the annual year-end inventory (*recording or reporting*). Likewise, in the payroll function the same employee should not be able to create new employee records (*authorizing* transactions), post hours worked into the payroll system (*recording or reporting* transactions), and receive and distribute paychecks (maintaining *custody*).

It is recognized that adequate duty segregation in a small operation can sometimes be difficult to achieve due to the limited number of employees to whom duties can be assigned. There are, however, steps that can be taken in these instances to minimize the risks associated with an inadequate segregation of duties. Examples include:

- conducting analytical review procedures (often called "reasonableness tests"). Such procedures encompass the study of relationships among selected or related data. Examples of analytical review procedures include comparing like financial information for a current period with that of prior periods, and comparing related data in cases where valid correlations exist;

- extending close supervision over employees; and
- unannounced, periodic ledger reconciliations (comparisons of original source documentation to ledger transactions) to ensure that all transactions recorded were properly authorized.

In addition to adequate duty segregation, some other elements of adequate internal control include:

- preparation and monitoring of budgets;
- timely processing of documents;
- use of pre-numbered forms for reconciliation purposes;
- subsequent reconciling of ledgers or other summarized data to related source documentation by an employee who is independent of processing the original transactions being reconciled;
- preparation of written policies and procedures covering all business practices;
- preparation of employee job descriptions which clearly establish the duties and responsibilities of the positions, and which document adequate duty segregation;
- requirements of appropriate management approvals, with dual signature requirements for material transactions;
- providing adequate security over receipts awaiting deposit, and other assets; and,
- assuring that all employees are knowledgeable of the various State and University policies applicable to their duties and responsibilities.

4.7 Record Retention

It is the responsibility of service center management to maintain records of the documentation and details supporting all charges, and to answer inquiries concerning those charges. Service center charges are subject to audit by internal and/or external auditors as long as the grants or contracts being charged remain subject to audit. Service center activities must maintain adequate and properly documented records to support expenditures, billings, and cost transfers. Each service center must retain the following:

- work papers documenting rate calculations;
- justification of the selected unit of activity;

- documentation, including invoices, supporting actual costs of operations; and,
- records documenting and measuring the total use of the service center's products or services--*billable and any non-billable*.

All financial records and supporting documents, including salary and wage documents pertinent to a service center's activity, must be retained for at least three years unless a litigation claim or audit is started before the expiration of this period. In these cases, records shall be retained until seven years after all litigation, claims, or audit findings are resolved. Charges to grant or contract accounts are subject to challenge for three, and sometimes four or more years, after projects expire and are closed. Because some projects run for over ten years, there is no simple "rule-of-thumb" for defining a holding period. If there is any doubt concerning how long service center records should be maintained, please contact the University Archivist.

4.8 Establishing New Service Centers

When a unit determines that a need for a new service center exists, it must submit a request through the department head to the dean or equivalent. If approved, the dean will forward the request to the Office of Budget and Planning for approval of the rates and assessment of the impact on the University budget. Upon approval and establishment of new account(s) by the Office of Budget and Planning, the Office of Accounting Services, Sponsored Program Accounting, and the Contract Administration Department will be notified by the Office of Budget and Planning that the new service center has been established.

The request must include the following:

1. The "Request for Establishing a new Service Center/Recharge Operation Account" is contained in Appendix 6.2. This multi-purpose form will be used to set up the service center account(s), the **equipment replacement fund** account, **facility renovation fund** account, the **restricted carry forward account**, and to obtain the following additional information:

the name of the affiliated department;

a description of the products or services to be provided;

a description of the users of the products or services, both **internal** and **external**;

justification of the need to create the service center, including an explanation as to why other internal or external providers of these product(s) or service(s) are not being used in lieu of establishing a service center;

an identification of the allocable space in which the service will be provided (list *all* buildings and rooms to be used by the service center);

the name, title, and phone number of the service center manager; and

the signature of the service center manager, department head, and dean or equivalent indicating acceptance of management and fiscal responsibility for the service center.

2. The Rate Development Worksheet (Appendix 6.3), including a detailed budget of annual **operating costs** to be included in the **billing rate(s)**, an identification by LSU tag number of moveable property to be utilized by the service center (whether or not equipment **depreciation** will be included in the rate), a description of the **unit of activity**, estimated activity for the budget period, the rate calculation using budgeted amounts, and the projected level of activity for the first year of operation. If the establishment of the service center is mid-year, the initial budget and break-even period may be for longer than twelve months. (See section 4.2 above)

A service center providing similar services to the same population may require multiple accounts in order to efficiently manage the operation(s) and accurately compute different **billing rates**. [e.g., Electron Microscope Facility and Spectroscopic Facility could be set up using two accounts within one service center for management purposes (see section 4.2 on billing rates)].

4.9 Termination

If a service center ends operations, a request for elimination must be sent through the department head and dean or equivalent to the Office of Budget and Planning. The dean or equivalent must ensure that records are maintained in accordance with the appropriate records retention policy (section 4.7).

5.0 Recharge Operations

Departmental operations that provide goods and/or services primarily to University departments for a fee and that have total annual **direct costs** of providing those goods and/or services of less than \$50,000, are classified as recharge operations.

Rates/Application of Rates

- Recharge operations must obtain a separate, distinct account from the Office of Budget and Planning to budget and account for its operations. Refer to section 4.8 for establishing new recharge operations.
- Billing rates approved by the Office of Budget and Planning are designed to recover *no more than the direct cost* of the goods or services being provided. Refer to section 4.2 for details on calculating rates and section 4.3 on mid-year rate changes.

- The departments performing recharges must develop cost data supporting the unit costs charged. The rates must be developed based on the **direct costs** incurred in providing the service. For example, the rate for spectrophotometer would include costs for technician salary, maintenance contract, glassware, chemicals, etc. It would not include equipment depreciation or space-related costs.
- The unit cost must be consistently applied to all users, irrespective of funding source, and charges must be allocated to users based on actual use.
- Recharge operations must develop and maintain a method of accurately tracking units of activity. **Units of activity**, or usage, must be tracked and billed to all users. *It is unacceptable for any user to receive services at a discount or at no cost.* Further, as units of activity are used in determining the appropriate **billing rate(s)**, the method of tracking units will become part of the documentation necessary to support the rate structure(s). Refer to section 4.2 for details on billing out a **subsidy**.
- Recharges to a particular sponsored project or any other account may be applied only when there is a direct relationship to the account being charged.

When there is a clear cause/benefit relationship to the funding source, then it should be charged directly to that funding source. When there is not a clear relationship, then the charge may not be direct charged (particularly to sponsored projects). Instead, alternative funding sources (such as departmental accounts) should fund the charges.

- It is the responsibility of the department head to periodically review the rate calculations of recharge operations to ensure that rates do not exceed the **direct cost** of providing the service, and that the total **direct cost** does not exceed \$50,000.

If the direct cost is projected to increase to over \$50,000, a minor service center must be established during the budget process for the next fiscal year.

- At fiscal year-end, all recharge operations will be required to submit to the Office of Budget and Planning through the appropriate department head their actual financial results as calculated in the Recharges, Revenues, and Expenses Worksheet in Appendix 6.4.

Documentation Support

- For each service that is recharged to users, the department must maintain documentation detailing how the rate-per-unit has been determined and applied.
- At the department level, service providers are obligated to maintain, and produce upon request, detailed and documented support for the rate(s) charged to users. This support should include records of the expenses incurred for the operation charged. Refer to section 4.6 on record retention.

- All charges must be supported by a document/invoice that details the nature and components of the charge(s). The support for charges should be sufficient to allow the document to stand alone in the event of a subsequent review.

For an invoice to stand alone, an uninformed reader would be able to review the support and through its description understand what it is for and how the total amount was calculated. The invoice should specifically document the following:

what the charge is for;
how many units were consumed (i.e., pounds, hours, # of items); and
the rate charged per unit.