

# Oregon University System – Fiscal Policy Manual

## Fiscal Operation of Service Centers

Section: Accounting and Financial Reporting  
Title: Fiscal Operation of Service Centers

Number: 05.713

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POLICY

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## **.100 POLICY STATEMENT**

The policy sets forth certain basic system wide standards for the fiscal operation of Service Centers (including Specialized Service Facilities).

## **.110 POLICY RATIONALE**

OUS seeks to ensure that the policies and procedures related to Service Centers are documented, communicated, clearly understood, and consistently applied. This is important from the perspective of financial management and in terms of compliance with cost principles set forth in OMB Circular A-21 since Service Centers charge federal grant funds for services provided.

## **.120 AUTHORITY**

- US Office of Management and Budget (OMB) Circular A-21 "Cost Principles for Educational Institutions"
- ORS 351.085 - Duties and Powers of Chancellor
- OAR 580-040-0005 - Delegation and Assignment of Responsibility
- IMD 6.001 - Finance and Business Affairs Accounting Policies - Assignment of Responsibility
- IMD 6.350 – Building/IOTB Repair and Equipment Replacement Reserves for Auxiliary Enterprises and Other Self-Liquidating Activities
- IMD 6.520 – Budgeting for Auxiliary Enterprises and Other Self-Liquidating Activities

## **.130 APPROVAL AND EFFECTIVE DATE OF POLICY**

Approved by the Controller on July 11, 2005, with an effective date of July 1, 2005.

Revision approved by the Controller on October 30, 2012, with an effective date of July 1, 2012.

## **.140 KNOWLEDGE OF THIS POLICY**

All Chancellor's Office and institutional personnel with financial management and federal compliance responsibilities should be knowledgeable of this policy.

## **.150 DEFINITIONS**

Contributed Capital: Cash or other asset(s) transferred to a Service Center from a source external to the Service Center. Examples include a subsidy from non-federal other funds to cover a Service Center's operating deficit; a transfer of beginning balances from non-federal other funds at inception of the Service Center; the transfer or conversion of a non-federally funded storeroom inventory to a Service Center; or the purchase or transfer of equipment from non-federal other funds to a Service Center.

Service Center: A financially self-sustaining internal entity that exists primarily to provide services to others within the university (e.g., motor pool, computer services, printing, and telecommunications).

Specialized Service Facility: A highly complex or specialized facility operated by the University, as described in Section J of OMB Circular A-21.

Working Capital: Current assets minus current liabilities. Current assets represent the sum of cash and other assets that could be converted to cash in less than one year (e.g., accounts receivable, inventory, and prepaid expenses). Current liabilities represent the sum of all amounts owed and due within one year (e.g., accounts payable and short-term loans).

## **.160 RESPONSIBILITIES**

### **A. CHANCELLOR'S OFFICE**

The Vice Chancellor for Finance and Administration or designee shall have oversight responsibility for this policy.

### **B. INSTITUTION**

Each university Vice President for Finance and Administration or designee shall have oversight responsibility for institutional provisions set forth in this policy. Each university Vice President for Finance and Administration and Vice President for Research shall have oversight responsibility for the institution's policies or guidelines for Service Centers.

## **.170 SERVICE CENTER OPERATIONS**

A Service Center should only be established if the service is primarily to the university community. Self-sustaining activities for which educational activities are the purpose of the sales and services, such as testing services should be set up as Designated Operations (policy can be found at <http://www.ous.edu/dept/cont-div/fpm/acco-05-712>). Self-sustaining activities for which sales and services to students, faculty, or staff is the purpose of the activity should be set up as Auxiliary Operations. All Service Centers shall be established in Banner in Fund type 13.

When costs incurred for a Service Center are not material in amount, they may be allocated as indirect costs. Such arrangements must be agreed to by the institution and HHS.

Three indirect-cost pools are required for such Specialized Service Facilities: depreciation and use allowances, operation and maintenance expenses, and general administration and general expenses. Each category has unique cost components, allocation bases, rates, amounts to determine and accounting requirements.

However, when the costs of a Service Center are material in amount, the Service Centers shall have a published price list established in accordance with OMB A-21 Section J, the current OMB A-133 Compliance Supplement, the institution's Cost Accounting Standards Disclosure Statement (DS-2), and any other applicable federal guidelines or regulations. The determination of rates should take into consideration the following:

- Rates should be based on the total cost of actual usage
- Rates cannot discriminate against the federal government. You may establish a federal rate, an internal user rate, and/or external user rates, as long as the rate charged to federal sources is the lowest.
- Rates should not recover more than the aggregate cost of services over a reasonable specified time period.

Please see the appendix for more guidelines concerning which costs to exclude and include in your rate calculation. Costs used to calculate your billing rate shall be excluded from the F&A rate cost pools.

Rates shall be reviewed at least annually. Documentation of the rate determination methodology shall be kept on file in the university business office for audit purposes.

## **.180 WORKING CAPITAL, NEGATIVE CASH, AND NET ASSET BALANCES**

### A. Working Capital

Working Capital, as reflected in the official accounting records (Banner), will be monitored and analyzed by the institution on an annual basis.

- **Upper Limit:** According to the A-133 Compliance Supplement, working Capital cannot exceed 60 days of cash expenses, which excludes depreciation, amortization, or other non-cash allocations. For federal compliance purposes, the 60-day upper limit is calculated as the average operating expenses for the last year of operation multiplied by .1667 (60 days divided by 360 days).

Excess balances will be reduced in one (or both) of the following ways:

- A rate reduction during the next cycle
- A refund to the user(s)
- **Lower Limit:** If Working Capital is in a deficit position, the loss may be eliminated in one (or both) of the following ways:
  - A rate increase (during the next cycle for rate adjustments)
  - A transfer of adequate funding from a non-federal source to the Service Center (approved by the President or Vice President for Finance and Administration)

If Working Capital is in a deficit position, the remaining deficit may be carried forward as an increase in rates, by establishing a rate increase plan which results

in eradication of the deficit within 1-5 years. This will allow rate increases at a slower rate in order to avoid drastic rate changes from year to year. The deficit may also be recovered by an additional movement of funding in the future year (approved by the President or Vice President for Finance and Administration).

Any rate increase enacted pursuant to this provision must be sufficient to liquidate the Working Capital deficit within five years of implementation.

#### B. Cash Overdrafts, Negative Net Asset Balances

If an individual Service Center ends a fiscal year with a cash overdraft or negative net asset balance, the institution will submit a revised budget plan to eliminate the cash overdraft(s) and/or the negative net asset balance(s) to the Vice President for Finance and Administration. The revised plan must result in eradication of deficit(s) within 1-5 years and must be retained for audit.

The aggregate of an institution's Service Centers (Fund Type 13) must not have a negative net asset balance or cash balance at fiscal yearend. In the event that the aggregate of all funds in Fund Type 13 has a deficit cash or fund balance, steps should be taken to subsidize funds which have caused the deficit using a transfer prior to the close of period 14.

Any transfer of funds made to a Service Center will be accounted for as Contributed Capital and documentation related to the transaction that identifies the source, amount, date, reason, and authorization for the contribution must be retained for audit.

An Inter-fund Loan may also be used to rectify Service Center deficit cash or fund balance. For guidance on the use of Inter-fund Loans, please refer to the OUS Fiscal Policy Manual, Policy 05.271 Inter-Institutional and Inter-fund Loans.

- **Exceptions:** Any exceptions will be approved by the Vice Chancellor for Finance and Administration, or designee and documentation justifying the exception will be retained for audit.

### **.190 REPORTING**

Institutions will prepare and retain a report of compliance with this policy in the institution's Office of Business Affairs. This report will include:

- listing of all Service Center funds reconciled to the general ledger as of the month end prior to the review
- computation of compliance within limits
- notation of plans for eliminating excesses or deficiencies

## **.200 RESERVES FOR REPAIR AND REPLACEMENT**

(1) Service Centers shall maintain building/IOTB repair, if appropriate, and equipment replacement reserves for the purpose of funding the cost of repairs or replacement of depreciable assets. Such reserves should be sufficient to promote the efficient and effective operation of the related operating unit and minimize the potential for unanticipated financial shortfalls that may impact the other funds of the institution.

(2) Each Service Center shall determine the appropriate level of repair reserves for buildings and improvements other than buildings (IOTBs) and equipment replacement reserves based on a capital asset management plan (Plan) that is prepared/updated at least annually and approved by the institution's vice president for finance and administration or designee. The Plan required under this provision will be based on a minimum five-year planning horizon and will assess the repair or replacement needs of each asset or asset class and include an analysis of the annual funding necessary to accumulate the funds required to execute the plan. When preparing/updating the Plan, consideration should be given to the availability of interest earnings on reserves of Service Centers in order to maximize the benefits of setting aside reserve funds. The Plan required under this section must be retained for audit purposes.

(3) Each Service Center with capital assets of \$150,000 (recorded cost) or more will prepare and retain the capital asset management plan (Plan) referred to in the preceding section. Should the Plan indicate the need for building/IOTB repair and/or equipment replacement reserves, a fund should be established for those purposes (if not already established) and funded accordingly. Institution-specific policies will determine whether Service Centers with less than \$150,000 (recorded cost) of capital assets will prepare a Plan and establish and fund any reserves.

(4) Generally, building/IOTB repair and equipment replacement reserves may not be used for any other purpose than to repair or replace capital assets used in the operation of the related Service Center. Consideration should be given to statutory requirements, applicable federal cost requirements, and the source of funding before authorizing the use of building/IOTB repair and equipment replacement reserves for any other purpose. Authorization for such other use may only be granted by the institution's vice president for finance and administration or designee and must be documented and retained for audit purposes.

(5) Costs for funding building/IOTB repair and equipment replacement reserves may not be included in the Service Center billing rates. Reserves should be funded using the fund addition and deduction mechanisms (E&F account codes). Transfer codes should not be used as they would, in effect, cause the depreciation to be double expensed.

(6) Except as otherwise provided, exceptions to the requirements of sections (1) through (4) may be granted by the Vice Chancellor for Finance and Administration or designee.

## **.690 CONTACT INFORMATION**

Direct questions about this policy to the following offices:

<b>Subject</b>	<b>Contact</b>
General questions from institutional personnel	Institution Office of Business Affairs
General questions from institutional central administration and Chancellor's Office personnel	Chancellor's Office Controller's Division

## **• .695 HISTORY**

07/11/05 – Approved

10/30/12 – Policy updated – incorporated FASOM 5.03

*Policy Last Updated 10/30/12*

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## **APPENDIX**

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## **.700 GUIDELINES FOR RATE CALCULATIONS**

The following are important items to consider when establishing your Service Center billing rates:

- Determine the total cost of each service, including direct and indirect costs
- Determine if institution-wide indirect costs will be included in specialized Service Center rates
- Do not include costs which are unallowable per section J of A-21 in the calculation of billing rates which will be charged to federal grants
- Do not include costs for new equipment or to fund the equipment reserve, only applicable depreciation
- Factor in any surpluses or deficits due to the prior billing rates
- When estimating the usage for a service, remember to impute revenue for non-paying or discounted users (i.e. graduate students in Chemistry may use the service without charge to them.) when calculating the rate for federal users
- Remove indirect costs included in billing rate and any subsidies from the indirect cost calculation

## **.710 ACCOUNTING EXAMPLES FOR SERVICE CENTER TRANSACTIONS**

**TRANSFER OF FUNDS TO SUBSIDIZE A SERVICE CENTER DEFICIT** - There are two methods of accounting for transfers – the expanded detail transfer account codes and the simplified transfer account codes. Each institution has designated which method they will use. Please contact your institution’s Business Office to determine which method your campus follows.

**Expanded Detail Transfer Account Codes**

To transfer funds from FT11 to a Service Center:

Debit – Index for FT11 department providing subsidy and account code 92255 – Tfr Out – from FT11 Budgeted Ops

Credit – Index for operating fund receiving subsidy and account code 91255 – Tfr In – from FT11 Budgeted Ops

To transfer funds from another fund type (ie auxiliary), not FT11 or FT13, to a Service Center:

Debit – Index for fund providing the funds and account code 92005 – Tfr Out- between FTYP Lvl 2 (not FT11)

Credit – Index for Service Center fund receiving the funds and account code 91005 – Tfr In- between FTYP Lvl 2 (not FT11)

**Simplified Transfer Account Codes**

Debit – Index for department providing the funds and account code 92003 – Tfr Out – Inter-fund

Credit – Index for Service Center receiving the funds and account code 91003 – Tfr In – Inter-fund

**FUND ADDITION TO FUND A RESERVE**

In order to fund your required Equipment Replacement Reserves, you must use the fund addition/deduction account codes.

Debit – Service Center Fund debits an F0002 fund deduction account code

Credit – Reserve Fund receiving assets credits an E0002 fund addition account code

**.720 CLOSING A SERVICE CENTER**

A Service Center may be closed, with the approval of the institution’s Vice President for Finance and Administration, once it becomes either no longer necessary or viable.

The following steps should be considered when closing a Service Center:

1. Ensure that all financial transactions have occurred (i.e. all outstanding items have been billed and all payments have been made).
2. The department responsible for the Service Center should identify another, non-federal source to cover any remaining deficits.
3. All remaining general ledger account balances should be moved to another, appropriate fund. Fund balances should not be moved using the E and F account series.

*Appendix Last Updated: 10/29/12*