INTRODUCTION

PURPOSE AND USE OF THIS MANUAL

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

Use of this manual and adherence to the procedures contained herein is recommended for all departments having a current activity under its control which meets the definition of a Brown University service center. It is expected that such service center operations will meet the standards of consistency and allowability in rate development, as set forth in this manual.

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

PROCEDURAL STATEMENT

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

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

- All service centers may be subject to rate reviews at least annually as determined by the Controller’s Office.

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

- To the extent practicable, all service centers should operate in separate accounts, normally 3-ledger accounts requested through the Controller’s Office and created solely for the purpose of recording revenues and expenditures related to the service(s) provided.

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

- Pricing of services performed for internal users should be consistent among users and billings to external users should include facilities and administrative costs (F&A Costs, formerly indirect costs) using the current University rate.

Controller’s Office
2/2/2006
INTRODUCTION
   Purpose and Use of this Manual
   Procedural

CHAPTER 1: CREATION OF SERVICE CENTERS
   Planning for Service Centers
   Review and Approval of New Service Centers

CHAPTER 2: ACCOUNTING, BUDGETING, AND BILLING
   CONSIDERATIONS Fiscal Year Accounting
   Budgeting for Service Centers
   The “Breakeven” Expectation
   Monthly Billing
   Documentation of Costs

CHAPTER 3: ALLOWABLE AND UNALLOWABLE COSTS
   Salaries, Wages, and Fringe Benefits
   Materials, Services, and Supplies
   Equipment Depreciation
   Other Direct Costs
   Indirect Costs
   Unallowable Costs

CHAPTER 4: RATE DEVELOPMENT
   The Basic Equation
   Types of Usage Bases
   Calculation of Production Hours Available
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CHAPTER 5: MONITORING
   PERFORMANCE Annual Rate Proposal
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   Annual Financial Operating Reports

CHAPTER 6: POST-OPERATION
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APPENDIX

Controller’s Office
2/2/2006
CHAPTER 1: CREATION OF SERVICE CENTERS

PLANNING FOR SERVICE CENTERS

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

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

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

REVIEW AND APPROVAL OF NEW SERVICE CENTER ACCOUNTS

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

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

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

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

Controller’s Office
2/2/2006
NEW SERVICE CENTER REQUEST FORM

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

Service Center Name:
Initiating Department:

<table>
<thead>
<tr>
<th>Responsible Person</th>
<th>Title</th>
<th>Box #</th>
<th>Extension</th>
</tr>
</thead>
</table>

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

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

Describe how records of usage will be accumulated and maintained:

Before submitting this completed form to the Controller’s Office, please also attach an estimated budget (example on reverse) for the first full operating fiscal year of the service center and an illustration of how proposed rates have been calculated (If it is proposed that the service center begin operations on a date other than July 1, please also provide a proposal and budget for the part of the year in which the service center will be operating.) Any questions regarding the completion of information on this form or on the required attachments may be addressed to the Controller’s Office, X3-2716.

Departmental Approval Signatures:

Responsible Person:
Date:

Department Chairperson:
Date:

Controller’s Office
2/2/2006
CHAPTER 2: ACCOUNTING, BUDGETING, AND BILLING CONSIDERATIONS

FISCAL YEAR ACCOUNTING

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

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

BUDGETING FOR SERVICE CENTERS

Departments responsible for service centers have the option of budgeting service center accounts to facilitate greater ease in measuring actual operating performance. If requested by departments and upon approval of rate proposals by the Controller’s Office, budgets for service center accounts can be entered in detail sufficient to allow monitoring of performance throughout the fiscal year. This action will be taken by the Controller’s Office immediately following the approval of each rate, using optional budget information as submitted with the rate proposals. If a department wishes to modify a service center budget during the fiscal year, simply contact the Controller’s Office as soon as the need becomes known. Budget modifications resulting from mid-year rate adjustments will be accomplished by the Controller’s Office upon completion of interim rate reviews.

THE “BREAKEVEN” EXPECTATION

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

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

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

Controller’s Office
2/2/2006
MONTHLY BILLINGS

Periodic “billings” via manually or electronically prepared Interdepartmental Invoices (I.I.) are the means by which service centers at Brown receive payment from internal (Brown) users for goods and services. Payments from external users (non-Brown entities or individuals) are made via check or wire transfer based upon invoices processed by the billing service center through the Bursar’s Office.

In order that the revenues recorded in the accounting system are closely aligned with the timing of the expenditures incurred that generated the revenues, it is recommended that billings for goods and services be accomplished on a monthly basis. At year end, billings for the month of June should be prioritized so that they are recorded on the accounting system by no later than the 2nd closing for June. Should a department not be able to meet this timeframe, a listing of unposted internal billings and unpaid external billings should be provided to the Controller’s Office to allow for the accrual of revenues in the same fiscal year in which they were earned. Only by posting all entries for each year’s fiscal activity can a reasonable determination be made of the operating results for the service center.

DOCUMENTATION OF COSTS

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

- in the event of questions arising from billed users, the department should provide copies of all records showing the time period for services rendered, calculation of relevant amounts, etc.

- under audit, copies of source documents (e.g. vendor invoices, PO’s etc), internal and/or external billings, supporting calculations, depreciation schedules for equipment, etc. must be provided

- during rate reviews and subsequent fiscal year activities, copies of documentation which support current rates and operating results must be provided

Controller’s Office
2/2/2006
CHAPTER 3: ALLOWABLE AND UNALLOWABLE COSTS

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

**SALARIES, WAGES, AND FRINGE BENEFITS**

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

**MATERIALS, SERVICES, AND SUPPLIES**

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

**EQUIPMENT DEPRECIATION**

- **Non-depreciable Equipment**

  Equipment included in the University’s indirect cost rate (F&A) cannot be included in service center rate proposals.

- **Depreciable Equipment**

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

<table>
<thead>
<tr>
<th>Equipment Type</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scientific Equipment</td>
<td>7 years</td>
</tr>
<tr>
<td>Computer Equipment</td>
<td>3 years</td>
</tr>
</tbody>
</table>

**TRAVEL**

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

**OTHER DIRECT COSTS**

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

Controller’s Office
2/2/2006
INDIRECT COSTS

Recovery of facilities and administrative costs (F&A costs; formerly indirect costs) at the current federally negotiated rate from external users of service centers is allowable.

UNALLOWABLE COSTS

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

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

Any questions regarding allowability of expenses to service centers may be addressed to the Controller’s Office.

Controller’s Office
2/2/2006
CHAPTER 4: RATE DEVELOPMENT

THE BASIC EQUATION

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

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

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

For example, a microscope costs approximately $100,000 per year to operate and has an estimated usage (activity level) of 1,500 hours during the year. The resulting hourly rate would be calculated as $100,000/150 hours = $66.67 per hour. A researcher using the microscope for 4 hours would then be charged $266.68, or 4 X $66.67.

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

TYPES OF USAGE BASES

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

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

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

TREATMENT OF OVER/UNDER-RECOVERIES

It normally is not possible to predict exactly what rate(s) will result in having achieved a breakeven financial position at the end of the fiscal year. For this reason, it is necessary to account for over-recoveries (surpluses) and under-recoveries (deficits) annually so that they may be factored into any new rates.

Any over-recovery or under recovery for a given fiscal year should be considered as a separate line item in subsequent year budgets submitted as a part of the annual rate proposal process.

Controller’s Office
2/2/2006
PRICING OF MULTIPLE SERVICES

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

Exhibit 4-1

BROWN UNIVERSITY
SAMPLE RATE CALCULATIONS

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

EXAMPLE 1: ESTIMATING LABOR HOURS (CONSUMPTION APPROACH)

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

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

   \[37.5 \text{ hours/week} \times 38 \text{ weeks} = 1,425 \text{ hours}\]
   \[35.0 \text{ hours/week} \times 14 \text{ weeks} = 490 \text{ hours}\]

   **Subtotal** \(1,915 \text{ hours}\)

   **Less:**
   - Vacation (22 days \(7.37 \text{ hours/days}\)) \(712 \text{ hours}\)
   - Holidays (11 days \(7.37 \text{ hours/days}\)) \(81 \text{ hours}\)
   - Estimated contingency for sick and
down time (10 days \(7.37 \text{ hours/day}\)) \(74 \text{ hours}\)

   **Total estimated production hours per person** \(1,598 \text{ hours/year}\)

2. Multiply times the number of employees:

   \[\text{Number of employees} = 2.5 \times 1,598 \text{ hours/year} = 3,995 \text{ billable hours}\]

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

   \[\text{Consumption Rate} = \frac{\$255,000 \text{ Total Costs}}{3,995 \text{ Billable Hours}} = 56.32 \text{ per hour}\]

Controller’s Office
2/2/2006
EXAMPLE 2: ESTIMATING UNIT COST (OUTPUT APPROACH)

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

1. Unit Cost = \( \frac{\text{Total Costs}}{\text{Copies}} \) = \( \frac{75,000}{1,200,000} \) or $0.06 per copy

Controller’s Office
2/2/2006
CHAPTER 5: MONITORING PERFORMANCE

ANNUAL RATE PROPOSAL AND REVIEW PROCESS

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

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

2. Once the initial rate structure of a service center has received approval; rate proposal information for all subsequent fiscal years should be submitted by August 30th and includes the following:

   A. Annual financial operating report for the year just ended.

   B. Proposed rate structure for the current year. If rate are based upon calculations previously approved by the Controller’s Office and there have been no changes in methods, only a listing of proposed rates is required.

   C. Revenue and expense budget incorporating the final surplus/deficit for the year just ended, if any (recommended, not required).

   D. Description of any changes in methods from those previously approved by the Controller’s Office. If there have been any changes in methods used in calculating rates, a new rate proposal may be requested by the Controller’s Office.

3. The Controller’s Office will review and approve all rate proposals, including those that are based upon previously approved rate structures and will notify departments when completed. Rate proposals normally will be reviewed by the Controller’s Office in the order received.

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

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

ANNUAL FINANCIAL OPERATING REPORTS

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

2/2/2006
Exhibit 5-1 shows the recommended format that may be used when preparing annual financial operating reports. While departments are free to select alternative formats, the following key elements should be contained in all reports submitted to the Controller’s Office for rate review purposes:

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

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

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

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

5. The amount of any University or other subsidy.

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

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

Controller’s Office
2/2/2006
Exhibit 5-1

Brown University
<Service Center Name> Operating Report
<Fiscal Year>

Income:

   External Billings $
   Internal Billings
   Total Income $

Expenses:

   Salaries $
   Fringe Benefits
   Tuition
   Materials & Services
   Travel
   Equipment (Depreciation Only)
   University Services
   Subcontracts
   Other
   Total Expenses $

Net Operating Surplus/Deficit $
Subsidy (if appropriate) $

Operating Account Number:
   Reserve Account Number: (if any)

Contact Person:

Address/Telephone:

Controller’s Office
2/2/2006
CHAPTER 6: POST-OPERATION REQUIREMENTS

RECORD RETENTION

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

AUDITS

Audits of the University may require participation by departments responsible for service center operations when the scope of these audits warrants it. In such cases, the department employee designated as having responsibility for a service center will be contacted as far in advance as possible by the Controller’s Office. An appropriate Controller’s Office staff member will assist service center personnel in identifying any documents selected for audit that cannot be located.

Controller’s Office
2/2/2006