

Service Center Policy & Procedures Manual

PREPARED BY: GOVERNMENT COST COMPLIANCE

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Executive Summary

Introduction

Service Centers play a crucial role in generating direct charges to externally sponsored grants and contracts. They must be appropriately accounted for in the University's Facilities and Administrative (F&A) cost rate calculation and adhere to sound accounting principles, university policies, and the Uniform Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR Part 200). This document provides a framework for the fiscal operations of Service Centers to ensure compliance with accounting principles, university policies, and government regulations.

Key Compliance Requirements

- Charges must be based on the actual cost of providing the service, not arbitrary pricing, and should reflect all direct costs associated with the Service Center operation.
- The same rates should be applied to all Internal/Federal Users, regardless of funding source (federal, state, private). Only External users may be charged different rates, external users can be charged a rate equal to or greater than the approved Internal/Federal user rates. Federal Users must always receive the best rates.
- Surplus fund balances cannot be used to fund unrelated activities.
- Must maintain a published price list.
- Equipment use (depreciation) may be included in the rate at the discretion of the Service Center if the equipment was not purchased with federal funds. Capital equipment cannot be purchased directly from a Service Center fund. Equipment costs can be recovered over the asset's useful life through depreciation.
- Rates must be reviewed at least once every two years.

Service Center Startup

To establish a Service Center, there must be an expectation of a significant activity, long-term continued need for the services, and anticipation of billing sponsored projects. If these criteria are met, a Service Center Budget & Rate Calculation questionnaire must be submitted to and approved by Government Cost Compliance. Rate must be established prior to starting Service Center operations.

Billing Process

Service Centers must charge approved rates based on actual usage, bill users in a timely manner, and retain supporting documentation for audits. Invoices must show products or services rendered, the number of units sold and the cost charge per unit, which must match the approved rates. Sales tax, when applicable, must be charged to external users without tax-exempt certificates.

Required Reviews

Service Centers annual budget & rates must be reviewed at least every two years at a minimum to comply with federal regulations. Service Centers will be required to be reviewed sooner if fund balance issues arise or there are significant operational changes in the Service Center. Service Centers must notify Government Cost Compliance of any significant

operational change. Government Cost Compliance conducts an annual review of actual recovery & expenses. Service Centers must comply with all requested budget & rate calculation review requests, annual review requests, and internal/external audit requests.

Annual Budget, Rate Development & Financial Operations

The Service Center Annual Budget & Rate Calculation Questionnaire is the mechanism used to prepare annual budgets and calculate rates. Government Cost Compliance will provide training to Service Center administrators on completing the budget & rate calculation questionnaire.

Service Center administration is responsible for completing the required budget & rate calculation questionnaire. Government Cost Compliance is responsible for reviewing the questionnaire and approving the rate calculation. Approved rates will be published on the Office of Research How2 website.

Service Center rates must be calculated to break even over a reasonable period (maximum of two years between reviews). The goal of the Service Center is to calculate a rate that ensures revenues reasonably offset expenses for a given period. All allowable direct costs, including administrative expenses directly associated with the operation of the Service Center, must be included in the expense budget and charged directly to the Service Center. Allowable costs relating to a Service Center must be reasonable, consistently applied, allocable to the Service Center, and not specifically unallowable according to federal regulations. If costs have been determined unallowable by Uniform Requirements, Cost Principles, and Audit Requirement for Federal Awards (Title 2 Part 200 subpart E) or University Policy, then those costs cannot be charged to Service Center funds or included in Service Center rate calculations.

To accurately develop rates for a Service Center, capital equipment costs should be recovered over the asset's useful life through depreciation, rather than in the year of purchase. Service Centers are responsible for completing an annual cash transfer for the depreciation.

Rates must be adjusted to recover deficits or reduce surpluses that are greater than 2 months of expenses. Surplus generated from external users may be transferred out of the Service Center with approval from Government Cost Compliance and the Dean/Unit Head as long as the Service Center retains a positive fund balance after the transfer and the Service Center was not subsidized. Surpluses accumulated from Internal or Federal users may never be used to fund activities unrelated to the Service Center or for capital purchases.

Planned subsidies must be included in the rate calculations. Subsidies must be funded through lump sum cash transfers to the Service Center. Subsidies from restricted funds (e.g., endowment or restricted gift funds) that cannot transfer lump sum subsidies to Service Centers may directly charge the subsidized expenses to the applicable fund. All Subsidies must be approved by the authorized administrator prior to submitting the budget & rate proposal questionnaire. The Dean/Unit Head are responsible for ensuring that cash transfers are prepared for approved subsidies.

Closing a Service Center

To close a Service Center, contact Government Cost Compliance for instructions on closing an established Service Center.

Consequences of Non-Compliance

Service Centers have 60 days to resolve non-compliance issues. The Dean or Unit Head responsible for the Service Center will be notified if the center remains noncompliant after the 60-day period. The Dean/Unit Head is responsible to ensure Service Centers operating within their College/Unit adhere to all university policies & required government regulations. Government Cost Compliance may opt to suspend Service Center operations for non-compliance issues.

SERVICE CENTER PROCEDURAL MANUAL

MANUAL PURPOSE

Service Centers generate significant direct charges to externally sponsored grants and contracts. They must also be appropriately treated in the University's Facilities and Administrative cost rate calculation. As such, Service Centers involve substantial compliance risk to the university, requiring significant oversight and accounting unique to these operations. This document provides a framework for the fiscal operations of Service Centers to assist them in complying with sound accounting principles, university policies, and government regulations. Despite variations in size, complexity, and type of services provided, all Service Centers should follow common administrative practices and comply with the Policies and Procedures manual.

TYPES OF SERVICE CENTERS

Service Centers are Recharge Units within the institution that provide a service or group of services or a product or group of products to users within the institution for a fee. The University has two types of Service Centers:

1. **University Service Center:** Recharge Units that provide a service or product on a continuous basis to the University Community (including the public) and charge the user a predetermined rate calculated to recover the unit's total operating costs, including internal overhead costs greater than \$100,000, which materially affect the University's indirect cost pool.
2. **Departmental/College Service Center:** Recharge Units that provide a specific type of service or product to a limited segment of the University community and charge a predetermined rate calculated to recover the direct costs of providing the service. The unit's internal overhead costs that could be allocated do not materially affect the University's indirect cost pool.

SERVICE CENTER STARTUP

The following should be considered to determine the need for a Service Center:

- There must be anticipation of significant activity, both in dollar amount and number of transactions.
- Services will be needed on a long-term, continual basis.
- The Service Center anticipates the need to bill sponsored projects.

Government Cost Compliance will determine if the unit meets the criteria to operate as a Service Center.

The unit must submit a Service Center Budget & Rate Calculation questionnaire to Government Cost Compliance for approval to set up a Service Center. Government Cost Compliance will provide training for the unit's administration in preparing the required questionnaire. The rate calculation questionnaire must be approved by

Government Cost Compliance prior to setting up the Service Center's D6 (Designated) & P6 (Plant) Funds.

Upon receipt of an Approval Notification, the Service Center will need to complete an e-form in UCFlex to set up a Designated D6 Service Center Fund and a Renewal & Replacement P6 Fund (P6xxxxx) for capital purchase.

SERVICE CENTER USERS

Service Centers must set rates for the following three user groups:

- **Internal/Federal Users:** Users using internal UC department funds to purchase services. This rate must be used when billing sponsored projects or external federal agencies. Federal Users must always be treated as the most favored customer and receive the lowest rate. This rate may also be used when billing Cincinnati Children's Hospital Medical Center (CCHMC).
- **External/Non-Federal Users:** Organizations or individuals whose originating source of funds is outside of UC. At no time should an external customer be charged less than the federal government or internal users for the same service. Sales tax, when applicable, must be charged to all external users who do not provide their tax-exempt certificates.

SERVICE CENTER BILLING PROCESS

Service Centers must charge all internal and federal users at the approved rates for the service or product. Rates cannot differentiate among Internal or federal user groups. External Users can be charged at a higher rate than those charged to federal or internal users.

Service Centers must bill all users based on actual usage. Users should never be billed in advance or from a quoted amount. Users should be billed in a timely manner, preferably monthly. Service Centers must retain supporting documentation/invoices that fully substantiate the cost, in the event of an audit. All invoices must provide the following information:

- Description of the products or services rendered (e.g., chemicals, sample processing)
- Number of units sold (e.g., pounds, number of hours)
- Cost charged per unit
- Sales tax, when applicable, must be charged to external users who do not provide their tax-exempt certificates

REQUIRED SERVICE CENTER REVIEWS

The Service Center Questionnaire is the mechanism used to prepare annual budgets and calculate rates in accordance with UC Policies and Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards (2 CFR Part 200).

Service Centers are required to be reviewed at a minimum of every two years. Service Centers may be required to be reviewed sooner if fund balance issues arise or there are significant operational changes in the Service Center. Government Cost Compliance will notify Service Centers when rate reviews are required.

All Service Centers are subject to an annual review of actual recovery & expenses. Government Cost Compliance conducts reviews annually. Service Centers must comply with all requests during annual reviews.

ANNUAL BUDGET, RATE DEVELOPMENT & FINANCIAL OPERATIONS

Service Center rates must be calculated to break even over a reasonable period of time (max two fiscal years). The goal of the Service Center is to calculate a rate which will ensure revenues reasonably offset expenses for a given period. The Service Center Questionnaire is the mechanism used to prepare annual budgets and calculate rates. Service Center administration is responsible for completing the required budget & rate calculation questionnaire.

Billing Units

The first step in establishing billing rates is to determine the basis for billings (billable units). The billable unit should be included in the rate description. A Service Center should choose a billing unit that is practical to track in order to create bills and support rate calculations. The billing unit must have a direct relationship with the cost of providing the service. Examples include per hour, per test, per equipment hour.

Estimate of Billable Usage/Volume

Service Centers will need to estimate annual usage/volume for all user groups. A Service Center with a history of operations should base estimates on historical data adjusted for expected growth or decline.

Service Centers without historical data should document their assumptions in determining the projected volumes and include those assumptions in the questionnaire assumptions section.

Estimates of Personnel & Operating Expenses

Service Centers are required to report estimated annual personnel, fringe benefits, allowable direct & indirect operating expenses, and equipment depreciation on the appropriate questionnaire sections. Established Service Centers should base estimated costs on historical costs adjusted for inflation and expected growth.

All allowable operating costs related to a Service Center must be directly charged to the Service Center, even if the revenue generated by the Service Center will not be enough to cover the cost of providing the service. This does not include institutional overhead costs such as general administration and facilities management (i.e., utilities, landscaping, etc.). The only exception is for expenses that are being subsidized with Endowment Funds, which cannot be directly charged to the Service Center; however, these costs must be included in the rate calculation as a subsidy. Service Centers are not permitted to charge unallowable expenses to a Service Center.

Allowable Costs

All direct costs, including administrative expenses directly associated with the operation of the Service Center, must be included in the expense budget, and charged directly to the Service Center.

Allowable costs relating to a Service Center must be:

- Reasonable

- Consistently Applied
- Allocable
- Not specifically unallowable according to federal regulation

Personnel Costs

Direct salaries & wages of non-administrative personnel directly related to Service Center activity (e.g., lab technicians, machine operators, storeroom clerks).

Indirect Administrative Staff salary & wages for the administration or management of a Service Center must be directly charged to the Service Center based on time study or effort reporting.

Fringe Benefits

Fringe Benefits are calculated based on the approved Federal Benefit rate negotiated with the Department of Health and Human Services.

Direct Operating Costs

- Materials & Supplies
- Lab Supplies
- Repairs & Maintenance, including equipment maintenance contracts
- Rental & Service Contracts
- Personnel training costs
- Non-Capital Equipment (<\$5,000)
- Software (<\$100,000)
- Travel (Must be related directly to and necessary for the operations of the Service Center & comply with UC Travel Policy 2.1.6)
- Internal Overhead Cost billed by Government Cost Compliance (Applicable for University Service Centers Only)

Indirect Operating Costs

- Telephone Costs
- Postage
- Office Supplies

Unallowable Costs

Unallowable costs are costs that have been determined unallowable by Uniform Requirements Cost Principles and Audit Requirement for Federal Awards Title 2 Part 200 subpart E or University Policy.

Unallowable costs include but are not limited to the following:

- Advertising
- Alcoholic Beverages
- Alumni Activities
- Bad Debts
- Capital Equipment
- Commencement & Convocation Costs
- Contingency Provisions

- Defense & Prosecution of Criminal and Civil Proceedings, Claims Appeals, and Patent Infringement
- Donations & Contributions
- Entertainment Costs
- Executive Lobbying Costs
- Fines and Penalties
- Fund Raising Costs
- Goods or Services for Personal Use
- Housing and Personal Living Expenses
- Internal Interest Costs
- Memberships, Subscriptions and Professional Activity Costs
- Promotional Items and Memorabilia
- Public Relations Costs
- Rental Costs
- Student Activity Costs
- Student Financial Aid & Scholarships

Equipment Depreciation

To accurately develop rates for a Service Center, equipment costs should be recovered over the asset's useful life through depreciation, rather than in the year of purchase. This approach allocates the equipment cost to the Service Center users who benefit from it. Equipment must be reported on the equipment tab of the questionnaire.

Capital assets are defined as items with a purchase price of \$5,000 or more and an estimated useful life exceeding one year. Software purchases of \$100,000 or more are also considered capital assets and may be depreciated in the Service Center, as per University Capital Asset Policy 2.1.13. Federal guidelines prohibit recovering the purchase price of capital assets through Service Center rates.

Depreciation expense costs must be obtained from the University's Financial System (UCflex).

Surplus-Deficit

Prior year Service Center fund balances must be reported on the Surplus/Deficit tab of the questionnaire. Rates will be automatically adjusted to recover prior year deficit balances or reduce prior year surplus balances exceeding 60 days' worth of expenses.

A deficit can occur if actual costs exceed expected costs, actual billing volumes are lower than expected, or there was a planned subsidy.

Large ongoing deficits (other than planned subsidies) should be avoided as they may indicate suboptimal operation of the Service Center. Management should investigate the causes of deficits and discuss terms and conditions for ongoing operations. When a deficit occurs, the rate schedule should be adjusted to increase future rates to recover the deficit. If the deficit is too large to be funded by next year's rate increase, it must be funded from a non-sponsored source. Units without appropriate funding sources should work with their Dean's Office to arrange funding.

A Service Center may maintain a surplus balance of up to 60 days' worth of expenses without adjusting rates. When a surplus exceeds 60 days' worth of expenses, rates should be adjusted

to decrease future billing rates and reduce the surplus. Surplus generated from external users may be transferred out of the Service Center with approval from the unit's Vice President or Dean and Government Cost Compliance under the following conditions:

- The surplus can be directly associated with external users.
- The Service Center will retain a positive fund balance after the transfer.
- The Service Center was not subsidized with internal UC funds.

Surpluses accumulated through billing internal and federal users may never be used to fund activities unrelated to the Service Center or capital purchases.

Subsidies

A planned subsidy exists when the Service Center uses a billing rate insufficient to cover expected costs. Estimated subsidies for the annual budget period must be included in rate calculations and reported on the subsidy tab of the questionnaire. All subsidies must be approved before the questionnaire is submitted for review.

Subsidies must be funded as a lump sum transfer of funds into the Service Center from the funding source.

Subsidies from restricted funds (e.g., endowment or restricted gift funds) that cannot transfer lump sum subsidies to Service Centers must directly charge the subsidized expenses to the applicable fund.

Designated Fund Assessment Fee

The University will charge a 4% assessment fee against externally generated revenue. This assessment will be charged to applicable Service Centers monthly for applicable external users.

Closing a Service Center

To close a Service Center, contact Government Cost Compliance for instructions on properly handling Service Center accounts and resolving associated issues.

Responsibilities

Service Center Administration

- Comply with the Service Center Policies & Procedures manual and other related policies and regulations.
- Initiate the creation and/or closing of the Service Center with Government Cost Compliance.
- Oversee ongoing operations of the center.
- Bill customers for goods and/or services in a timely manner, preferably monthly.
- Maintain detailed records supporting charges to all users.
- Prepare annual budget and rate calculation questionnaires for approval by Government Cost Compliance as requested.
- Notify Government Cost Compliance of new services/products or significant cost changes.

- Notify Government Cost Compliance when the Service Center will no longer be operational.
- Ensure all cash transfers are processed for equipment depreciation and/or subsidies.
- Comply with internal and external audits and annual reviews conducted by Government Cost Compliance.

Government Cost Compliance

- Consult with appropriate managers and department administrators when establishing a Service Center, advising based on the Service Center policy and procedures.
- Provide formal training to all staff and faculty involved in the administration of the Service Center.
- Assist in establishing Service Centers, preparing rate calculation questionnaires, and conducting reviews.
- Review and approve rate calculation questionnaires for all new and existing Service Centers to ensure accuracy and consistency with applicable policies and procedures.
- Retain documentation of rate calculations on approved Service Center rates.
- Address issues of non-compliance and identify solutions.
- Monitor Service Center fund balances.
- Conduct annual reviews of Service Center invoices and journal details for consistent application of policies.
- Review and approve all internal transfers to and from Service Center funds.
- Publish approved rates on the Government Cost Compliance website.
- Ensure Service Center costs are appropriately addressed in Facilities and Administrative (F&A) cost proposals to the Federal Government.

Dean/Unit Head

- Approve and fund subsidies requested by Service Centers under their direction.
- Ensure Service Center administration adheres to University Policies & Government Regulations.

Consequences of Violating University Policy

The Service Center's director/manager will be notified of noncompliance with university policy, federal laws, and/or statutes for sponsored research and will have 60 days to rectify the issue and operate within the policy.

The Dean or Unit Head responsible for the Service Center will be notified if noncompliance persists after the 60-day period.

Government Cost Compliance may suspend Service Center operations and remove the Service Center and approved rates from the Government Cost Compliance website.

Related Links:

[Service Center Policy 2.1.24](#)

[2 CFR Part 200](#)

[Allowability, Reasonableness & Allocability of Costs for Sponsored Projects Policy 2.1.22](#)

[Designated Fund Assessment Fee](#)

[Sales & Service Funds Policy 2.1.32](#)

[Travel Expenses Policy 2.1.6](#)

[Office of Research HOW2 Website](#)

Contact

Government Cost Compliance

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