Financial Management of Service Centers

Summary

This policy outlines requirements for the financial management of service centers to support:

- Accurate cost allocation
- Compliance with federal government cost principles
- Consistent billing practices that document costs, charges, and billing rates
- Adequate internal controls

Policy Statement

The University at Buffalo (UB, university) allows service centers to recover their costs by charging for goods and services provided, using billing rates established in accordance with this policy and the Financial Management of Service Centers Procedures.

All service centers must comply with Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 C.F.R. 200) (Uniform Guidance). Key requirements of the Uniform Guidance include:

a) The costs of services provided by highly complex or specialized facilities operated by the non-federal entity (e.g., computing facilities, wind tunnels, reactors) are allowable, provided the charges for the services meet the conditions of either (b) or (c) below, and, in addition, take into account any items of income or federal financing that qualify as applicable credits under §200.406.

b) The costs of such services, when material, must be charged directly to applicable awards based on actual usage of the services on the basis of a schedule of rates or established methodology that:
   1) Does not discriminate between activities under federal awards and other activities of the non-federal entity, including usage by the non-federal entity for internal purposes, and
   2) Is designed to recover only the aggregate costs of the services. The costs of each service must consist normally of both its direct costs and its allocable share of all indirect (Finance & Administrative (F&A)) costs. Rates must be adjusted at least biennially, and must take into consideration over/under-applied costs of the previous period(s).

c) Where the costs incurred for a service are not material, they may be allocated as indirect (F&A) costs.

d) Under some extraordinary circumstances, where it is in the best interest of the federal government and the non-federal entity to establish alternative costing arrangements, such arrangements may be worked out with the federal cognizant agency for indirect costs.
Service Center Billing Rate

The service center billing rate is the cost per unit of measure (UOM) used to recover the costs of the service center. New service center billing rates and changes to existing rates are calculated with guidance from Financial Management and approved by:

- Financial Management
- Service center manager
- Department head/chair
- Unit Business Officer (UBO)
- University Controller
- Provost designee, as applicable

Service center billing rates must be calculated and reviewed based on the university’s fiscal year. Rates must be reviewed and adjusted at least biennially.

Service Center Sustainability

Service centers must develop billing rates so that revenues offset costs over a reasonable period of time.

With proper approval, the service center operations may be subsidized, if the center is meeting their research or educational mission to serve the University. When billing rates are lower than cost, the resulting deficit cannot be carried forward as an adjustment to future billing rates. Amounts charged to external users in excess of the internal service center billing rate must be excluded when calculating the service center surplus or deficit.

**Internal Customers**

Internal university customers must be charged at cost for services provided.

**Subsidized Customers**

Service centers must bill all customers for all services provided. With proper approval, the service center may choose to provide a service to an internal group of customers at no charge or at a lower rate than other customers, however, the service center billing rate must be calculated for all internal customers based on total service center expenses and total units of output. Variable rates must be based on clear and identifiable criteria.

**Margins for External Customers**

Services centers are permitted to charge external customers a rate higher than the rate charged to internal customers. Service centers are required to track revenues and costs associated with external customers separately to avoid the perception of overcharging.

Rates charged to external customers may include:

- Full direct costs of the service center operation including direct costs not charged to internal users
- Indirect (F&A) costs of the service center operation
• General University Service Fee (GUSF)
• Sales tax, where applicable

External rates cannot be significantly different than the prevailing rate for identical services provided by commercial organizations in the area.

Revenue from external customers may have Unrelated Business Income Tax (UBIT) implications.

Service Center Accounts

Service centers must establish a separate account(s) to record only service center revenue and expenditures to provide transparency and an audit trail for tracking and performance. All service center accounts must roll up to a service center entity.

An Income Fund Reimbursable (IFR) account(s) should be established to record service center activity. A Research Foundation (RF) service and facility account, and/or University at Buffalo Foundation (UBF) service account may be established to record service center activity with prior approval from Financial Management and the University Controller.

Funds recovered by depreciation included in the service center billing rate must be set aside in a separate account as an equipment replacement reserve to fund the purchase of new equipment.

Contract Requirements for External Customers

Service centers that provide services to external customers must establish Services Agreements (SA) or Testing Agreements (TA).

Billing and Revenue Collection

Billing must be based upon measured and documented utilization using approved billings rates and processed on a timely basis. An invoice must not be issued until the service has been rendered or the materials provided (pre-billing is not allowed).

Invoicing and accounts receivable tracking must be managed through university-approved systems.

Revenue collection must be processed through a university approved-method.

Segregation of Duties and Standard Operating Procedures

Service centers receiving payments must ensure that appropriate segregation of duties is maintained to safeguard funds and the university’s reputation as required by the Safeguarding Cash and Cash Equivalents Policy.

When staffing resources make segregation of duties difficult, compensating controls must be implemented to provide the appropriate checks and balances to detect errors, deter fraud, and prevent concealment of irregularities.

Service centers must have standard operating procedures on file.
Record Retention

The service center manager must maintain rate development documentation. Documentation includes the actual costs of providing the service, units of service provided, billings, collections, and the annual surplus or deficit.
In accordance with the Uniform Guidance, original rate development documents must be retained for three years from the end of the fiscal year covered by the calculations. These documents are subject to external audit (e.g., federal, state, RF, other sponsors) and internal review.

Inventory

Service centers that stock items as inventory must perform an annual physical inventory and reconcile to the inventory records. Inventory valuation must be submitted to Financial Management.

Compliance

All service centers must comply with the Uniform Guidance. Non-compliance could result in government-imposed fines or disallowed costs, harm the university’s reputation, and reflect negatively on future grant proposals.

Background

Service centers are established to provide specific technical or administrative services or goods that support the internal operating activities of the university. Service centers must provide services that are consistent with the university’s mission and the activities of the unit.

The cost of services provided by a service center must be charged directly to all users based upon actual use through a schedule of rates that recover costs. Service center billing rates for internal customers must not exceed the actual cost of providing the goods or services.

As a recipient of federal funding, the university must comply with OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 C.F.R. 200) when developing service center billing rates and charging sponsored program accounts. This policy and the Uniform Guidance require that costs incurred on federal awards must be necessary for the performance of the award and be a reasonable allocation of actual costs relative to the benefit received.

Applicability

This policy applies to service center activities conducted through university accounts including State, RF, and UBF.
Definitions

Entity
Officially recognized campus elements assigned a unique 4-digit number to provide common identifier across systems.

Equipment
An item of tangible personal property having a useful life exceeding one year.

Equipment Reserve
The amount of funds accumulated and set aside to cover the cost of purchasing replacement equipment for the service center.

External Customers
Individuals or organizations whose originating source of funds is outside the university. External users include faculty and staff acting in a personal capacity. Affiliated hospitals and other universities are external users unless the university has subcontracted with them as part of a grant or contract, in which case they are internal users. External users are billed an external rate.

Fiscal Year
The twelve month period used for accounting purposes; the university’s fiscal year is July 1 to June 30.

General University Service Fee (GUSF)
Fee charged against external revenue. The service fee is a flat rate charged across all entities on funds generated through the use of university faculty or staff time and/or use of university facilities.

Indirect (Facilities and Administrative (F&A)) Costs
Costs of administrative and support functions of the university including general administration and general expense, operations and maintenance, building and equipment depreciation, library expenses, and interest.

Internal Customers
Academic, research, administrative, and auxiliary unit whose originating source of funds is within or flows through the university. The originating source includes State, RF, UBF, and Faculty Student Association (FSA) funds. Internal users are billed an internal rate, based on allowable costs.

Inventory
Inventories are defined as the aggregate of those items of tangible personal property which are held for sale in the normal course of business (e.g., supplies), or are to be consumed within one year in the production of a service (e.g., fuel).

Office of Management and Budget (OMB)
The part of the executive branch of the federal government that assists the President in the development and implementation of budget, program, management, and regulatory policies.

Provost Designee
Individual(s) designated to act on behalf of the Provost. Designees are identified for each unit:

- Research Related Centers reporting to Vice President for Research and Economic Development (VPRED)
  - VPRED AND
  - Vice President for Finance and Administration (VPFA)
- Research Related Center reporting to all other VP/decanals
  - VPRED
- Academic Related Centers
  - Vice Provost for Educational Affairs
  - Dean of the Graduate School
- Support Related Centers (no external margin)
  - N/A – approval process ends at the Controller’s Office
- Support Related Centers (Non-Research/Non-Academic) with external margin reporting to VPFA
  - VPFA AND
  - Provost and Executive Vice President for Academic Affairs
- Support Related Centers (non-research/non-academic) with external margin reporting to all other VPs/decanals
  - VPFA

**Service Center**
An operating unit within the university that provides specific technical or administrative goods or services in direct support of the academic or research activities of the university. A service center recovers the cost of its operations through charges to users. Examples include but are not limited to lab analysis services, print and mail services, instrumentation shops, and animal care services.

**Service Center Billing Rate**
Amount charged to a user for a unit of service calculated by dividing the total annual costs of the service center by the total number of billing units expected to be provided to users of the service for the year.

**Service Center Management**
Faculty or staff within a department that manage the financial or day-to-day operations of a service center, including the items listed in the responsibility portion of this policy (this does not include staff from the Financial Management).

**Subsidy**
Additional funding provided by a department or the university to assist in covering costs.

**Subsidized Customers**
User who is charged at a lower rate or not charged at all.

**Unallowable Costs**
Costs that cannot be included in calculating the cost of a service or activity.
Uniform Guidance  
Document issued by the Office of Management and Budget that establishes uniform administrative requirements, cost principles, and audit requirements for federal awards to non-federal entities.

Unit of Measure (UOM)  
Quantity at which the product or service will be billed.

Unrelated Business Income Tax (UBIT)  
Taxes that result from income produced by the sale of goods or services to external users not substantially related to the university’s tax-exempt purpose.

Responsibility

Departmental Service Center Management

- Provide Financial Management with all necessary information to calculate service center rates.
- Assist Financial Management with preparing biennial profit and loss statements.
- Review actual costs and billing rates for reasonableness at least annually and adjust when necessary.
- Submit documentation supporting new billing rate calculations and adjustments to existing rates to Financial Management for review.
- Develop standard operating procedures for the service center, including segregation of duties and compensating controls, as needed.
- Request separate account(s) in the university's accounting systems to record service center revenues, expenditures, and equipment replacement reserves.
- Work with Purchasing and Contract Services or Technology Transfer to establish Services Agreements (SA) or Testing Agreements (TA) with external customers.
- Prepare and issue invoices for actual services provided. Charging users in advance is not allowable per federal regulations.
- Maintain records to document the actual costs of providing the service, units of service provided, revenues, billings, collections, and the annual surplus or deficit.
- Perform an annual physical inventory and reconcile to the inventory records.
- Comply with the Uniform Guidance.

Financial Management

- Provide guidance in the calculation of service center billing rates.
- Provide guidance in the calculation of project break-even (pro forma) and perform biennial reviews.
- Review and recommend approval of new rates and changes to existing rates for service centers.
- Perform periodic reviews of service center financial management to ensure consistency with this policy and federal guidelines.
- Review all equipment included in the service center billing rate to ensure that the equipment is excluded from the university’s indirect (F&A) cost rate charged to federally sponsored projects.
Unit Business Officer (UBO)
- Review and approve service center billing rates, including justification for subsidies
- Provide guidance on establishing and reviewing accounts.
- Provide guidance on procedures for billing and collection revenue.
- Provide guidance on establishing standard operating procedures, segregation of duties, and compensating controls.

Controller, Provost Designee
- Review and approve service center billing rates, as appropriate.

Contact Information

<table>
<thead>
<tr>
<th>Contact</th>
<th>Phone</th>
<th>Email</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Management</td>
<td>716-645-2660</td>
<td><a href="mailto:ubs-fees@buffalo.edu">ubs-fees@buffalo.edu</a></td>
</tr>
<tr>
<td>Ashley Butcher</td>
<td>716-645-1521</td>
<td><a href="mailto:ambutche@buffalo.edu">ambutche@buffalo.edu</a></td>
</tr>
<tr>
<td>Contracts Team</td>
<td></td>
<td>Purchasing Buying Teams - Administrative Services Gateway - University at Buffalo</td>
</tr>
</tbody>
</table>

Related Information

University Links

- Develop and Manage State Fees
- Financial Management of Service Centers Procedures
- General University Service Fee Policy
- Human Research – Institutional Review Board
- Managing University Assets Policy
- Safeguarding Cash and Cash Equivalents Policy
- Service Center Fee

Forms

- Service Center Fee Approval Form
Related Links

Federal Acquisition Regulations System - Cost Accounting Standards for Educational Institutions

Office of Management and Budget - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards – Uniform Guidance

History

February 2024
Full review. Updated the policy to:
- Establish service center procedures
- Add a definition for Entity and Provost Designee
- Add a responsibility for Departmental Service Center Management to:
  - Request accounts for equipment replacement reserves; remove this responsibility from Financial Management
  - Comply with the Uniform Guidance
- Establish responsibilities for the UBO
- Remove the responsibility to review and approve service center billing rates from Resource Planning

September 2021
Updated Service Center Internal Users to specify the exception that internal users, whose source of funds is industry-sponsored clinical trial funds flowing through the RF and require IRB services, are billed the external rate for these services.

December 2017
Full review. Updated the policy to:
- Clarify the components included in the development and calculation of service center billing rates
- Outline the process and required approvals for charging service center rates
- Include internal control considerations related to billing and revenue collection required by the Safeguarding Cash and Cash Equivalents Policy
- Provide guidance for:
  - Equipment expense and depreciation based on the purchase price
  - Requirements to complete and reconcile a physical inventory
  - Acceptable payment types for internal and external users

July 2015
Updated OMB Circular A-21 and A-110 references to reflect OMB Uniform Guidance references and requirements; the OMB Uniform Guidance has replaced these circulars.

March 2014
Updated the policy to remove mandatory biennial (every two years) submission of the Billing Rate Worksheet.
August 2012
Updated the policy to:
- Add a clause to state pre-billing in advance of a service is allowable
- Mandate biennial (every two years) submission of the Billing Rate Development Worksheet
- Require Academic Planning and Budget (APB) to review all rates after Financial Services approval

May 2011
Updated the policy statement to include ‘actual services provided’ as a criteria for invoicing and to include a definition of Service Center Management.

Presidential Approval

__________________________________________________________
Satish K. Tripathi, President
_____________________________________
Date
FINANCIAL MANAGEMENT OF SERVICE CENTERS PROCEDURES
Calculating Service Center Billing Rates

Policy Requirements

The service center billing rate is the cost per unit of measure (UOM) used to recover the costs of the service center. New service center billing rates and changes to existing rates are calculated with guidance from Financial Management and approved by:

- Financial Management
- Service Center Manager
- Department Head or Chair
- Unit Business Officer (UBO)
- University Controller
- Provost Designee, as applicable

Service center billing rates must be calculated and reviewed based on the university’s fiscal year. Rates must be reviewed and adjusted at least biennially.

All service centers must comply with Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 C.F.R. 200) (Uniform Guidance). Key requirements of the Uniform Guidance include:

a) The costs of services provided by highly complex or specialized facilities operated by the non-federal entity (e.g., computing facilities, wind tunnels, reactors) are allowable, provided the charges for the services meet the conditions of either (b) or (c) below, and, in addition, take into account any items of income or federal financing that qualify as applicable credits under § 200.406.

b) The costs of such services, when material, must be charged directly to applicable awards based on actual usage of the services on the basis of a schedule of rates or established methodology that:
   1) Does not discriminate between activities under federal awards and other activities of the non-federal entity, including usage by the non-federal entity for internal purposes, and
   2) Is designed to recover only the aggregate costs of the services. The costs of each service must consist normally of both its direct costs and its allocable share of all indirect (Finance & Administrative (F&A)) costs. Rates must be adjusted at least biennially, and must take into consideration over/under-applied costs of the previous period(s).

c) Where the costs incurred for a service are not material, they may be allocated as indirect (F&A) costs.

d) Under some extraordinary circumstances, where it is in the best interest of the federal government and the non-federal entity to establish alternative costing arrangements, such arrangements may be worked out with the federal cognizant agency for indirect costs.
Procedural Guidance

With guidance from Financial Management, service centers must first calculate a service center base rate for each service based on allowable rate components.

**Service Center Base Rate = Budgeted Costs/Budgeted Unit of Measure (UOM)**

**Budgeted costs** are based on prior year costs or an estimate of the upcoming year’s costs. New service center billing rates must be based on a reasonable estimate of the costs to provide the services for the year and the projected volume for the year.

**UOM** is the volume of work expected to be performed (e.g., labor hours, machine hours, CPU time, or other reasonable measurement). This volume of work must be based on the total annual UOMs, regardless of whether the user is charged. This is necessary to avoid having some users pay higher rates to compensate for reduced rates charged to other users.

Once the service center base rate is calculated, service centers may set variable billing rates, based on the customer types.

**Internal Rate = (Cost - Subsidies):**
- The internal rate is billed to internal users; internal users include academic, research, administrative, and auxiliary units whose originating source of funds is within or flows through the university. The originating source includes State, RF, UBF, and Faculty Student Association (FSA) funds.
- The same internal rate must be charged to all internal university users. Multiple internal rates can be established if these alternate pricing structures (e.g., based on time-of-day, volume discounts, turn-around time, department affiliation) have a sound management basis, do not discriminate among users, and do not result in recovering more than the cost of providing the services. All internal rates must be recorded to ensure that they are not inappropriately charged to other users.
- Internal rates are based on the service center base rate (cost), less any approved subsidies.

**Internal Rate + GUSF = (Internal Rate + GUSF):**
- The internal rate + GUSF is billed to students who are using the center for academic or research and are paying with funds that come from outside the university.
- Internal + GUSF rates are based on the internal rate, plus General University Service Fee (GUSF)

**External Rate = (Cost + GUSF + Markup):**
- The external rate is billed to external users; external users are individuals or organizations whose originating source of funds is outside the university. External users include faculty and staff acting in a personal capacity. Affiliated hospitals and other universities are external users unless the university has subcontracted with them as part of a grant or contract, in which case they are an internal user.
- Multiple external rates can be established if these alternate pricing structures have a sound management basis, are measurable and do not discriminate among users. Examples of acceptable external rates include external academic, external non-profit, and external industry.
- External rates are based on the service center base rate (cost), plus GUSF and any approved markups. Markups must be justified based on going market rates for similar services.
- External rates may be subject to sales tax and Unrelated Business Income Tax (UBIT)
<table>
<thead>
<tr>
<th>Cost</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Labor</td>
<td>The salaries and wages of all personnel directly related to a service center activity (e.g., lab technicians, machine operators) must be included in the rate calculation and charged to the service center operating account. If an individual works on more than one activity, the costs associated with that individual must be allocated to the activities based on the proportional benefit with the total benefit not to exceed 100 percent of an individual's time. This proportion may be determined by an effort or time study or based on a good faith estimate by service center management with an annual review for reasonableness.</td>
</tr>
<tr>
<td>Administrative Staff</td>
<td>The salaries and wages of administrative staff in direct support or Direct Labor. The salaries and wages of all personnel directly related to a service center activity (e.g., lab technicians, machine operators) must be included in the rate calculation and charged to the service center operating account. If an individual works on more than one activity, the costs associated with that individual must be allocated to the activities based on the proportional benefit with the total benefit not to exceed 100 percent of an individual's time. This proportion may be determined by an effort or time study or based on a good faith estimate by service center management with an annual review for reasonableness.</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>Fringe benefits related to State IFR, RF, or UBF salaries charged to the service center operating account must be included in the service center billing rate calculation. Because the university does not pay fringe benefits for salaries funded by state operating accounts, fringe benefits for these salaries may not be included in the service center billing rate calculation.</td>
</tr>
<tr>
<td>Capitalized Equipment</td>
<td><strong>Equipment With a Purchase Price Equal To or Greater Than $5,000:</strong> Equipment with a purchase price equal to or greater than $5,000 cannot be entirely included as a cost in the year purchased when calculating service center billing rates. The cost of the equipment must be included in the service center billing rate as depreciation, using the straight-line method. Straight-line depreciation is calculated by dividing the original purchase cost of the equipment by its useful life. This ensures that users pay only for equipment cost associated with the usage in a given year.</td>
</tr>
</tbody>
</table>
| Non Capitalized Equipment   | **Equipment With a Purchase Price Less Than $5,000**  
Equipment with a purchase price less than $5,000 is treated as an equipment expense. 
**Equipment Purchase Price of $1 to $999:** expense the total cost in the year purchased  
**Equipment Purchase Price of $1,000 to $4,999:** expense the total cost over a three year period or useful life                                                                                             |
| Maintenance Costs           | The cost of service contracts or repairs costs needed to maintain service center equipment must be included in the rate calculation and charged to the service center operating account.                                                                                                                                                                                                                     |
| Materials and Supplies      | The cost of materials and supplies needed to operate a service center must be included in the rate calculation and charged to the service center operating account. If a service center sells products from an inventory or maintains an inventory of parts and supplies used in providing its services, inventory records must be maintained.                                                                                      |
| Other Expenses              | Other expenses may include, but are not limited to:  
- Conference expenses  
- Equipment operating leases  
- Memberships, subscriptions and professional services  
- Rental and service contracts  
- Software  
- Travel expenses that are reasonable and related to service center operations                                                                                                                                                                                                                     |
| Additional Expenses for Students Paying with Non-University Funds or External Customers |  
- General University Service Fee (GUSF)  
- Square Footage  
- University Indirect Facility and Administrative Rate |
UNALLOWABLE RATE COMPONENTS
The OMB Uniform Guidance includes a list of considerations for selected items of cost. The list is not all-inclusive and failure to mention a particular item of cost is not intended to imply that it is either allowable or unallowable. Unallowable costs must be excluded from service center billing rates.
The following list contains some of the costs that have been specifically identified in OMB's Uniform Guidance as unallowable:

<table>
<thead>
<tr>
<th>OMB Section</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>§200.421</td>
<td>Advertising costs that are not for (1) the recruitment of personnel required by the award; (2) the procurement of goods and services required to perform the award; and (3) the disposal of scrap or surplus materials acquired in the performance of the award.</td>
</tr>
<tr>
<td>§200.421</td>
<td>Advertising and public relations costs (1) of meetings, conventions, convocations, or other events related to other activities of the University; (2) of promotional items and memorabilia; and (3) designed solely to promote the University.</td>
</tr>
<tr>
<td>§200.423</td>
<td>Alcoholic beverages.</td>
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<tr>
<td>§200.424</td>
<td>Alumni activities</td>
</tr>
<tr>
<td>§200.426</td>
<td>Bad debts.</td>
</tr>
<tr>
<td>§200.430</td>
<td>Compensation for personal services (1) that is not reasonable for the services rendered and (2) does not conform to the established written policy of the university, consistently applied to all activities.</td>
</tr>
<tr>
<td>§200.431</td>
<td>Compensation for automobile costs that relate to personal use by employees (including transportation to and from work), regardless of whether the cost is reported as taxable income to the employees.</td>
</tr>
<tr>
<td>§200.432</td>
<td>Conferences that (1) do not have the primary purpose of disseminating technical information beyond the University and (2) are not reasonable for successful performance of the award. Conferences can also mean meetings, retreats, seminars, symposiums, and workshops.</td>
</tr>
<tr>
<td>§200.434</td>
<td>Contributions and donations made by the university to other entities, including cash, property, and services.</td>
</tr>
<tr>
<td>§200.438</td>
<td>Entertainment costs, including amusement, diversion, and social activities and any associated costs that don't have a programmatic purpose or are not authorized by the awarding agency.</td>
</tr>
<tr>
<td>§200.445</td>
<td>Goods or services for personal use by employees.</td>
</tr>
<tr>
<td>§200.454</td>
<td>Membership in any country club or social or dining club or organization, as well as membership in any organization whose primary purpose is lobbying.</td>
</tr>
<tr>
<td>§200.459</td>
<td>Professional and consultant services rendered by persons who are officers of the university.</td>
</tr>
<tr>
<td>§200.466</td>
<td>Scholarships and student aid costs, in lieu of wages, that (1) are not for necessary activities of the award; (2) are not in accordance with established policies of the university; (3) are not consistently provided in a like manner to students in return for similar work conducted in other university activities; (4) are not for students enrolled in an advanced degree program that is related to the award; (5) are not reasonable compensation for the work performed; (6) are not conditioned explicitly upon performance of the necessary work; and (7) occur when it is not the university's practice to similarly compensate students under awards as well as other activities.</td>
</tr>
<tr>
<td>§200.467</td>
<td>Selling and marketing costs of any products and services of the university, without prior approval of the awarding agency.</td>
</tr>
<tr>
<td>§200.469</td>
<td>Student activity costs incurred for intramural activities, student publications, and student clubs, unless specifically provided for in the award.</td>
</tr>
<tr>
<td>§200.474</td>
<td>Travel costs for lodging and subsistence (1) that are not reasonable and consistent with the university’s established travel policy and (2) are for dependents, unless the travel is for a duration of six months or more and have been approved by the awarding agency.</td>
</tr>
<tr>
<td>§200.474</td>
<td>Travel costs for commercial air travel that are in excess of the basic least expensive unrestricted class offered, except when such accommodations would require circuitous routing, travel during unreasonable hours, excessively prolonged travel, additional costs that would offset savings, or are not reasonably adequate for the traveler’s medical needs.</td>
</tr>
</tbody>
</table>
## ADDITIONAL UNALLOWABLE COSTS

<table>
<thead>
<tr>
<th>Cost</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment Purchased With Federal Funds</td>
<td>Depreciation of equipment purchased by federally sponsored programs, whether or not title has reverted to the university, cannot be included in the service center billing rates. Where the university has agreed to cost-share a piece of equipment on a federal award, depreciation of the university-funded portion is allowable in the service center billing rates.</td>
</tr>
<tr>
<td>Equipment Included In the University’s F&amp;A Rate</td>
<td>The federal government cannot be charged for the depreciation of a piece of equipment both through a service center billing rate and through the university’s indirect (F&amp;A) rate. Financial Management will review equipment items included in the service center billing rate to confirm that the equipment is excluded from the university’s indirect (F&amp;A) rate charged to federally sponsored programs.</td>
</tr>
</tbody>
</table>

### Related Forms & Links

- [Service Center Fee Approval Form](#)

### Responsible Individuals

<table>
<thead>
<tr>
<th>Task</th>
<th>Title or Department Responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide Financial Management with all necessary information to calculate service center rates</td>
<td>Service Center Managers</td>
</tr>
<tr>
<td>Review actual costs and billing rates for reasonableness at least annually and adjust when necessary</td>
<td>Service Center Managers</td>
</tr>
<tr>
<td>Submit documentation supporting new billing rate calculations and adjustments to existing rates to Financial Management for review</td>
<td>Service Center Managers</td>
</tr>
<tr>
<td>Provide guidance in the calculation of service center billing rates.</td>
<td>Financial Management</td>
</tr>
<tr>
<td>Provide guidance in the calculation of project break-even (pro forma) and perform biennial reviews.</td>
<td>Financial Management</td>
</tr>
<tr>
<td>Review and recommend approval of new rates and changes to existing rates for service centers.</td>
<td>Financial Management</td>
</tr>
<tr>
<td>Perform periodic reviews of service center financial management to ensure consistency with this policy and federal guidelines.</td>
<td>Financial Management</td>
</tr>
<tr>
<td>Review all equipment included in the service center billing rate to ensure that the equipment is excluded from the university’s indirect (F&amp;A) cost rate charged to federally sponsored projects.</td>
<td>Financial Management</td>
</tr>
<tr>
<td>Review and approve service center billing rates.</td>
<td>Unit Business Officer, Controller, Provost Designee</td>
</tr>
</tbody>
</table>

---
Determining Levels of Subsidization or Margins (for external customers)

Policy Requirements

Service centers must develop billing rates so that revenues offset costs over a reasonable period of time.

With proper approval, operations may be subsidized, if the center is meeting their research or educational mission to serve the University. When billing rates are lower than cost, the resulting deficit cannot be carried forward as an adjustment to future billing rates. Amounts charged to external users in excess of the internal service center billing rate must be excluded when calculating the service center surplus or deficit.

Internal Customers
Internal university customers must be charged at cost for services provided.

Subsidized Customers
Service centers must bill all customers for all services provided. With proper approval, the service center may choose to provide a service to an internal group of customers at no charge or at a lower rate than other customers, however, the service center billing rate must be calculated for all internal customers based on total service center expenses and total units of output. Variable rates must be based on clear and identifiable criteria.

Margins for External Customers
Services centers are permitted to charge external customers a rate higher than the rate charged to internal customers. Service centers are required to track revenues and costs associated with external customers separately to avoid the perception of overcharging.

Rates charged to external customers may include:

- Full direct costs of the service center operation including direct costs not charged to internal users
- Indirect (F&A) costs of the service center operation
- General University Service Fee (GUSF)
- Sales tax, where applicable

External rates cannot be significantly different than the prevailing rate for identical services provided by commercial organizations in the area.
Revenue from external customers may have Unrelated Business Income Tax (UBIT) implications.

Procedural Guidance

During the rate development process, Financial Management will provide an annualized break-even pro-forma and will assist with reviewing the break-even analysis annually.

Responsible Individuals

<table>
<thead>
<tr>
<th>Task</th>
<th>Title or Department Responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review and approve justification for subsidies</td>
<td>Unit Business Officer</td>
</tr>
</tbody>
</table>
Establishing Service Center Entities and Accounts

Policy Requirements

Service centers must establish a separate account(s) to record only service center revenue and expenditures to provide transparency and an audit trail for tracking and performance. All service center accounts must roll up to a service center entity.

An Income Fund Reimbursable (IFR) account(s) should be established to record service center activity. A Research Foundation (RF) service and facility account, and/or University at Buffalo Foundation (UBF) service account may be established to record service center activity with prior approval from Financial Management and the University Controller.

Funds recovered by depreciation included in the service center billing rate must be set aside in a separate account as an equipment replacement reserve to fund the purchase of new equipment.

Procedural Guidance

At a minimum, service centers must have at least one account for tracking revenue and expenditures and that account must be assigned to the service center’s entity. If a service center has funding from multiple funding sources (i.e., payroll in state operating; revenue and expenditures in state IFR; payroll or endowment funding in UBF), all accounts related to the service center entity must be assigned to the service center entity.

Operating Accounts

Financial Management recommends creating a series of sub-accounts (IFR) or tasks (RF) to track revenues and expenditures. This will help centers when they are reviewing their rates. Service centers may choose to create one sub-account or task for each instrument or service provided. The benefit of this approach is that centers can quickly identify the instruments or services that are generating a margin, breaking even, or need to be subsidized. Financial Management can also quickly run reporting on the expenses that are related to each instrument or service when helping the center calculate updated billing rates.

Service centers may choose to deposit the revenue directly into each of the sub-accounts or tasks, or they may choose to deposit all revenue into the one sub-account or task and then reconcile the accounts on a regular basis. The benefit of using one sub-account or task for revenue is centers can provide one payment link to external customers and can also easily reconcile when payments are received.

Centers that receive funding to subsidize operations should create a sub-account or task for that funding.
### EXAMPLES OF USING TASKS FOR DIFFERENT INSTRUMENTS OR SERVICES WITHIN A CENTER

<table>
<thead>
<tr>
<th>VP/Decanal Unit</th>
<th>Functional Role</th>
<th>Area/Discipline</th>
<th>Department</th>
<th>Sub Department/Program</th>
<th>Base Entity</th>
<th>UB Entity Number</th>
<th>Service Center Account Number</th>
<th>Service Center Account Name/Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>School of Pharmacy and Pharmaceutical Sciences</td>
<td>SPPS Academic</td>
<td>Pharmaceutical Sciences</td>
<td>3032</td>
<td></td>
<td>0508</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Pharmacological Sciences</td>
<td>3033</td>
<td></td>
<td>0511</td>
<td>1138</td>
<td>1143271-1-79763</td>
<td>Revenue &amp; Expenses for Quadrupols Mass Spectrum Spectrometers - MS</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Pharmacological Sciences Instrumentation Facility for Liquid Chromatography Mass Spectrometer (LCMS)</td>
<td>3034</td>
<td></td>
<td>1087557-1-54096</td>
<td>3034</td>
<td>1087557-2-54096</td>
<td>Revenue &amp; Expenses for Nanobrook Omni Dynamic Light (DLS)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Spectroscopy and Thermal Analysis</td>
<td>3034</td>
<td></td>
<td>1087557-3-54096</td>
<td>3034</td>
<td>1087557-4-54096</td>
<td>Revenue &amp; Expenses for Photon Technology (PTI)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Spectroscopy and Thermal Analysis</td>
<td>3034</td>
<td></td>
<td>1087557-5-54096</td>
<td>3034</td>
<td>1087557-6-54096</td>
<td>Revenue &amp; Expenses for Molecular Devices Spectramax</td>
<td></td>
</tr>
</tbody>
</table>

If a center has multiple funding sources, they may elect to create a series of accounts based on the expenditure type and how it is funded.

### EXAMPLES OF USING ACCOUNTS BASED ON EXPENDITURE TYPE

<table>
<thead>
<tr>
<th>VP/Decanal Unit</th>
<th>Functional Role</th>
<th>Area/Discipline</th>
<th>Department</th>
<th>Sub Department/Program</th>
<th>Base Entity</th>
<th>UB Entity Number</th>
<th>Service Center Account Number</th>
<th>Service Center Account Name/Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>School of Engineering</td>
<td>SEAS Administrative</td>
<td>SEAS Centers</td>
<td>0301</td>
<td></td>
<td>0301</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>School of Engineering and Applied Sciences Machine Shop</td>
<td>SEAS Service Centers</td>
<td>0306</td>
<td></td>
<td>0309</td>
<td>9005550000</td>
<td>Revenue Extra Service Equipment Supplies</td>
<td></td>
</tr>
<tr>
<td></td>
<td>State Operating</td>
<td>TBD</td>
<td>Payroll</td>
<td></td>
<td>0594</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Reserve Accounts**

Funds recovered by depreciation included in the service center billing rate must be set aside in a separate account as an equipment replacement reserve to fund the purchase of new equipment. At the request of the service center manager, Financial Management will establish an account to accumulate depreciation dollars. Centers may choose to create a completely separate account number or for RF, they may choose to create a separate project or task under the center’s main award.

### EXAMPLES OF USING ACCOUNTS BASED ON EXPENDITURE TYPE

<table>
<thead>
<tr>
<th>VP/Decanal Unit</th>
<th>Functional Role</th>
<th>Area/Discipline</th>
<th>Department</th>
<th>Sub Department/Program</th>
<th>Base Entity</th>
<th>UB Entity Number</th>
<th>Service Center Account Number</th>
<th>Service Center Account Name/Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research and Economic Development</td>
<td>VPRE RD Administrative</td>
<td>VRED Centers and Institutes</td>
<td>0653</td>
<td></td>
<td>0653</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>VRED Centers and Institutes</td>
<td>Center for Computational Research</td>
<td>1091</td>
<td></td>
<td>1091</td>
<td>1180622-1-97217</td>
<td>CCR Fees</td>
<td></td>
</tr>
<tr>
<td></td>
<td>VRED Centers and Institutes</td>
<td>Center for Computational Research</td>
<td>1091</td>
<td></td>
<td>1091</td>
<td>1184998-1-97217</td>
<td>CCR Reserves</td>
<td></td>
</tr>
</tbody>
</table>
Related Forms & Links

Entity Request Forms

New Account Request Forms

- State Income Fund Reimbursable (IFR)
- Research Foundation Service and Facility
- University at Buffalo Foundation

Responsible Individuals

<table>
<thead>
<tr>
<th>Task</th>
<th>Title or Department Responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Request separate account(s) in the university’s accounting systems to record service center revenues, expenditures, and equipment replacement reserves.</td>
<td>Service Center Managers</td>
</tr>
<tr>
<td>Provide guidance on establishing and reviewing accounts.</td>
<td>Unit Business Officers</td>
</tr>
</tbody>
</table>

Contract Requirements for External Customers

Policy Requirements

If a service center is providing services to external customers, service center managers must make sure that the necessary Services Agreements (SA) or Testing Agreements (TA) are in place.

Procedural Guidance

Additional Information Coming Soon (Meeting set with Purchasing and Contract Services and Technology Transfer)

Contact the Contracts Team for additional information.

Responsible Individuals

<table>
<thead>
<tr>
<th>Task</th>
<th>Title or Department Responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work with Purchasing and Contract Services or Technology Transfer to establish Services Agreements (SA) or Testing Agreements (TA) with external customers.</td>
<td>Service Center Managers</td>
</tr>
<tr>
<td>Prepare and sign agreements</td>
<td>Purchasing and Contract Services or Technology Transfer</td>
</tr>
</tbody>
</table>

Billing and Revenue Collection

Policy Requirements

Billing must be based upon measured and documented utilization using approved billings rates and processed on a timely basis. An invoice must not be issued until the service has been rendered or the materials provided (pre-billing is not allowed).
Invoicing and accounts receivable tracking must be managed through university-approved systems.

Revenue collection must be processed through a university-approved method.

**Procedural Guidance**

**Billing**
Billing must be based upon measured and documented utilization using approved billings rates and processed on a timely basis.

- Invoices must be based upon documented and properly approved rates.
- All invoicing must be processed on a timely basis (i.e., within one month from the time of service) and with approved service center billing rates.
- An invoice must not be issued until the service has been rendered or the materials provided (pre-billing is not allowed).
- Invoices must include the following information:
  - Name and account number of the service center
  - Invoice number or another unique identifier
  - Date of service or sale
  - Nature of the services rendered or number of units sold (must match approved price list)
  - Related unit charged and extension to show total cost per line of time
- The service center is responsible for monitoring collections on accounts receivable.

**Revenue Collection**
Depending on the service center’s funding source and the customer’s funding source, there are different processes for invoicing and collecting payments.

<table>
<thead>
<tr>
<th>Service Center Funding Source</th>
<th>Customer Funding Source</th>
<th>Invoice Template</th>
<th>Customer Payment Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>State - Income Fund Reimbursable Account (IFR)</td>
<td>State</td>
<td>Interdepartmental Invoice (IDI)</td>
<td>Signed IDI - Recharge Codes on both sides</td>
</tr>
<tr>
<td>RF</td>
<td>Interdepartmental Invoice (IDI)</td>
<td>Signed IDI - RF Expense Code on RF side, Source Code 3311 on State IFR side</td>
<td></td>
</tr>
<tr>
<td>UBF</td>
<td>Interdepartmental Invoice (IDI)</td>
<td>Signed IDI</td>
<td></td>
</tr>
<tr>
<td>External</td>
<td>Invoice</td>
<td>ACH, Wire Transfer, UB Marketplace</td>
<td></td>
</tr>
<tr>
<td>Research Foundation - Non Sponsored Service and Facilities Account (RF)</td>
<td>State</td>
<td>Invoice</td>
<td>ShopBlue (RF as Vendor)</td>
</tr>
<tr>
<td>RF</td>
<td>Interdepartmental Invoice (IDI)</td>
<td>Signed IDI - Recharge Codes on both sides</td>
<td></td>
</tr>
<tr>
<td>UBF</td>
<td>Interdepartmental Invoice (IDI)</td>
<td>Signed IDI</td>
<td></td>
</tr>
<tr>
<td>External</td>
<td>Invoice</td>
<td>ACH, Wire Transfer, RF Marketplace</td>
<td></td>
</tr>
<tr>
<td>University at Buffalo Foundation Account</td>
<td>State</td>
<td>Invoice</td>
<td>ShopBlue (UBF as vendor)</td>
</tr>
<tr>
<td>RF</td>
<td>Invoice</td>
<td>ShopBlue (UBF as vendor)</td>
<td></td>
</tr>
<tr>
<td>UBF</td>
<td>Interdepartmental Invoice (IDI)</td>
<td>Signed IDI</td>
<td></td>
</tr>
<tr>
<td>External</td>
<td>Invoice</td>
<td>ACH, Wire Transfer, UBF Marketplace</td>
<td></td>
</tr>
</tbody>
</table>

*Internal customers paying with State, Research Foundation or UB Foundation funds CANNOT use a pcard to make payments. Internal customers must use one of the approved payment methods listed above.*

**Accounts Receivable Tracking**
Additional Information Coming Soon (Pending iLabs Implementation)


**Related Forms & Links**

iLabs Onboarding Packet (Available upon request from Financial Management, per implementation timeline)

Interdepartmental IDI

ShopBlue

Depositing Revenue Webpage – Coming Soon (In progress with Financial Management)

**Responsible Individuals**

<table>
<thead>
<tr>
<th>Task</th>
<th>Title or Department Responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepare and issue invoices for actual services provided. Charging</td>
<td>Service Center Managers</td>
</tr>
<tr>
<td>users in advance is not allowable per federal regulations</td>
<td></td>
</tr>
<tr>
<td>Provide guidance on procedures for billing and collection revenue.</td>
<td>Unit Business Officers</td>
</tr>
</tbody>
</table>

**Segregation of Duties and Standard Operating Procedures**

**Policy Requirements**

Service centers receiving payments must ensure that appropriate segregation of duties is maintained to safeguard funds and the university’s reputation as required by the [Safeguarding Cash and Cash Equivalents Policy](#).

When staffing resources make segregation of duties difficult, compensating controls must be implemented to provide the appropriate checks and balances to detect errors, deter fraud, and prevent concealment of irregularities.

Service centers must have standard operating procedures on file.

**Procedural Guidance**

Service centers must have Standard Operating Procedures on file, outlining who is responsible for each task in the center. Financial Management can assist centers with templates that outline these procedures.

**Related Forms & Links**

Standard Operating Procedures for Handling Cash and Cash Equivalents

Credit Card Procedures

**Responsible Individuals**

<table>
<thead>
<tr>
<th>Task</th>
<th>Title or Department Responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop standard operating procedures for the service center,</td>
<td>Service Center Managers</td>
</tr>
<tr>
<td>including segregation of duties and compensating controls, as</td>
<td></td>
</tr>
<tr>
<td>needed.</td>
<td></td>
</tr>
<tr>
<td>Provide guidance on establishing standard operating procedures,</td>
<td>Unit Business Officers</td>
</tr>
<tr>
<td>segregation of duties, and compensating controls.</td>
<td></td>
</tr>
</tbody>
</table>
**Record Retention**

**Policy Requirements**

The service center manager must maintain rate development documentation. Documentation includes the actual costs of providing the service, units of service provided, billings, collections, and the annual surplus or deficit.

In accordance with the Uniform Guidance, original rate development documents must be retained for three years from the end of the fiscal year covered by the calculations. These documents are subject to external audit (e.g., federal, state, RF, other sponsors) and internal review.

**Procedural Guidance**

Service center managers should work with their departments to store documentation.

**Responsible Individuals**

<table>
<thead>
<tr>
<th>Task</th>
<th>Title or Department Responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintain records to document the actual costs of providing the service, units of service provided, revenues, billings, collections, and the annual surplus or deficit.</td>
<td>Service Center Managers</td>
</tr>
</tbody>
</table>

**Inventory**

**Policy Requirements**

Service centers that stock inventory must perform an annual physical inventory and reconcile to the inventory records. Inventory valuation must be submitted to Financial Management.

**Procedural Guidance**

Inventories are defined as the aggregate of those items of tangible personal property which are held for sale in the normal course of business (e.g., supplies), or are to be consumed within one year in the production of a service (e.g., fuel). Some examples of inventory components include hospital pharmaceuticals and supplies; central, maintenance, mechanical and electrical stores; fuel, diesel, and coal; office and computer supplies; lumber; fabric; hand tools; and postage.

Annual physical inventory counts must be based on physical counts performed as of June 30th. Service center staff must manually count all supplies and reconcile these numbers against system inventory. Large variances must be investigated.

The value of inventory is determined by a physical count on a specific date and is recorded by valuing the actual inventory count in accordance with the inventory method used (e.g., FIFO, LIFO, weighted average, specific identification).

The FIFO (first-in, first-out) method of valuing inventory is illustrated below and is the preferred method. This method of recording inventories is based on the assumption that costs should be charged against revenue in the order in which they occurred. The inventory remaining on hand is presumed to consist of the most recent costs. The first goods acquired are the first goods out, and the last goods acquired are in the ending inventory.
## Units Purchased During the Year

<table>
<thead>
<tr>
<th>Date</th>
<th>Units</th>
<th>Cost Per Unit</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 15</td>
<td>20,000</td>
<td>$5.20</td>
<td>$104,000</td>
</tr>
<tr>
<td>November 22</td>
<td>50,000</td>
<td>$5.00</td>
<td>$250,000</td>
</tr>
<tr>
<td>January 1</td>
<td>30,000</td>
<td>$5.40</td>
<td>$162,000</td>
</tr>
<tr>
<td>March 6</td>
<td>5,000</td>
<td>$5.30</td>
<td>$26,500</td>
</tr>
<tr>
<td>May 26</td>
<td>5,000</td>
<td>$5.50</td>
<td>$27,500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>110,000</td>
<td></td>
<td><strong>$570,000</strong></td>
</tr>
</tbody>
</table>

Ending Inventory per physical count is 14,000 units.

<table>
<thead>
<tr>
<th>Date</th>
<th>Units</th>
<th>Cost Per Unit</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 26</td>
<td>5,000</td>
<td>$5.50</td>
<td>$27,500</td>
</tr>
<tr>
<td>March 6</td>
<td>5,000</td>
<td>$5.50</td>
<td>$27,500</td>
</tr>
<tr>
<td>January 1</td>
<td>4,000</td>
<td>$5.50</td>
<td>$22,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>14,000</td>
<td></td>
<td><strong>$77,000</strong></td>
</tr>
</tbody>
</table>

Inventory Valuation is $77,000

### Responsible Individuals

**Task**

- Perform an annual physical inventory and reconcile to the inventory records.

**Title or Department Responsible**

- Service Center Managers