

UNIVERSITY of HOUSTON  
MANUAL OF ADMINISTRATIVE POLICIES AND PROCEDURES

SECTION: Administrative Operations  
AREA: General

Number: 03.01.01

<b>SUBJECT: Specialized Service Facilities</b>
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I. PURPOSE AND SCOPE

The costs of goods or services provided by highly complex or specialized facilities operated by the university, when material, must be charged directly to applicable federal awards based on actual usage of the goods or services and on a schedule of rates or an established methodology. Since these activities result in charges, either directly or indirectly, to federally sponsored activities, university policies, procedures, and practices must reflect government regulatory costing principles. An activity will be identified as a "Specialized Service Facility" for purposes of this policy when it anticipates recovering costs from federally sponsored activities in any given fiscal year. This document establishes consistent accounting practices to ensure compliance with federal government regulatory costing principles, such as those contained in the Office of Management and Budget's (OMB) [Circular No. A-24 Uniform Guidance A-81](#).

II. POLICY STATEMENT

Each college, division, and department is responsible for ensuring that all activities relating to the providing of goods or services to federally sponsored activities are carried out pursuant to federal regulations, [and applicable university policies and procedures, and this document](#). This policy, and the related procedures contained herein, applies only to those specialized service facilities that provide goods or services to federally sponsored activities. All other on-campus service providers that do not provide goods or services to federally-sponsored activities are governed by state procurement regulations and guidelines [e.g., [State Comptroller Fiscal Policies and Procedures](#) FPP I.004 (FM 95-115): Purchase Guidelines for On-Campus Service Centers and Auxiliary Enterprises] and other university policies and procedures pertaining to procurement, finance, and accounting (i.e., SAMs and MAPPs).

III. DEFINITIONS

- A. Capital equipment replacement reserve fund: An accumulation of capital equipment depreciation cost recovery. A separate cost center may be established for accumulating ~~(i.e., depositing)~~ the equipment replacement reserve. The purpose of the cost center would be to accumulate funds, recovered through the recognition of depreciation expense, for replacing capital equipment used in specialized service facility operations.
- B. Cost study/break-even analysis: Determination of the billing rate(s) to be charged based upon projected use/activity, in order to recover costs equal to the amount of operating expenses.
- C. Depreciation: The allocation and recognition of the purchase cost of a capital asset over its useful life.
- D. Facilities and Administrative (F&A) Costs: These costs consist of general administration and general expenses. Examples of facilities costs include utilities, building maintenance, custodial services, depreciation, and external interest associated with the financing of building construction. Examples of administrative costs include general

administration and general expenses, such as executive management, payroll, accounting and personnel administration; maintenance and operating expenses, such as office supplies, paper, copier rental expenses; administrative and supporting services provided by academic departments; libraries; and special administrative services provided to sponsored agreements.

- E. Imputed revenue: Revenue (i.e., recovered costs) that would have resulted had the normal billing rate been applied to the units of service that were not charged the full rate. (A lower billing rate may be charged to faculty, staff and students who need to have access to the equipment in a specialized service facility for training purposes.) ~~This is referred to as imputing or imputed revenue.~~
- F. Operating fund: The primary PeopleSoft Cost Center in which all recovered costs must be recorded and all direct, non-subsidized costs or expenses should be recorded.
- G. Specialized service facilities: Highly complex or specialized facilities operated by colleges, divisions, or departments that offer goods and/or services to, and receive recovered costs from, federally sponsored activities of the University of Houston. (Examples include, but are not limited to, telecommunication centers, super computers, animal care facilities, wind tunnels and reactors.)
- ~~An activity will be identified as a "Specialized Service Facility" for purposes of this policy when it anticipates recovering costs from federally sponsored activities in any given fiscal year.~~
- H. Standard cost accounting methods: Defined by the Cost Accounting Standards and applied according to the Federal Register Office of Federal Procurement Policy, Cost Accounting Standards Board of the Office of Management and Budget.
- I. Start-up costs: The costs incurred to establish a new specialized service facility.
- J. Subsidy: Additional funding provided by sources other than the recovery of costs from users. Subsidies may be in the form of actual fund transfers into the operating cost center or the paying of expenses from non-specialized service facility cost centers. The most common forms of subsidy will usually include the payment of employees' salaries, the payment of maintenance and operating expenses, or the purchase of capital equipment from other funding sources. While specialized service facility operations may be subsidized by authorized university allocations, to the extent that specialized service facility expenses are paid for from non-specialized service facility sources, they cannot be included in the university's facilities and administrative cost recovery pool when preparing the F&A Cost Proposal.

#### IV. SPECIALIZED SERVICE FACILITY POLICY GUIDELINES

- A. Financial record keeping for specialized service facilities:
1. All financial information to be included in the reporting required by this policy (~~i.e., request for recognition as a specialized service facility, costs studies, budget analysis, billing rate computations and proposals, revisions to billing rate computations and proposals, etc.~~) is to come from, and be reconciled to, the university's official financial records system.

2. Financial projections and statistical data used in developing billing rates, as well as revisions to billing rates, should be based on a one-year period, normally the university's fiscal year (i.e., September 1<sup>st</sup> to August 31<sup>st</sup>).
  3. All recovered costs shall be recorded in the unique operating funds assigned to specialized service facilities using the accounts created for each type of recovered cost.
  4. All direct costs should be recorded in the unique operating fund assigned to the specialized service facility. However, in those instances where a specialized service facility receives subsidy from another operating fund (or funds), the amount(s) and source(s) of the subsidy must be disclosed and reported to the Division of Administration and Finance, Office of Finance – Cost Accounting Department as part of the biennial billing rate proposal package or the analysis of total costs and recovered costs that is required in the alternate fiscal years.
  5. Specialized service facilities shall not transfer recovered costs, expenditures, or fund balances from, or to, the operating fund without submitting a request to the Office of Finance. The request will be reviewed by the Division of Administration and Finance, Office of Finance – Cost Accounting Department and then forwarded to the Senior Associate Vice President for Finance (or his/her designee) for approval.
  6. Capital expenditures, including cost of equipment, shall not be charged to the operating fund of any specialized service facility, unless the capital expenditure is funded from the recovery of capital equipment usage cost from prior fiscal periods (i.e., accumulated depreciation expense) or the funds have been transferred from another cost center (i.e., subsidy funding received from another cost center).
  7. Other than acquisitions funded by the federal government, depreciation on capital equipment shall be calculated and charged for all inventoried capital equipment assigned to, and used by, the specialized service facility. Depreciation on capital equipment shall be calculated ~~in accordance with university cost accounting procedures by the straight line method~~. Capital equipment depreciation expense shall be considered direct costs and an equipment replacement reserve fund should be established to accumulate funds for the eventual replacement of the capital equipment.
  8. Specialized service facilities are prohibited from recovering the costs incurred to establish a new specialized service facility (start-up costs) from federally-sponsored programs or projects, since federal regulations do not permit these costs to be recovered.
  9. Financial records and supporting documentation for costs, recovered costs, and billing rates must be maintained at the college, division, or department level for the time periods prescribed in the Sstate of Texas Records Retention Schedule, Category 4: Fiscal Records.
- B. Recovering costs associated with operating specialized service facilities:
1. The costs for providing goods and/or services should be charged directly to the users through a billing rate mechanism. The billing rates should be designed to recover the aggregate costs of providing the service. A formal published schedule of billing rates will be maintained by all specialized service facilities.

Approved methods for posting the rates would include in the department, on the department website, and at the specialized service facility location.

2. Billing transactions shall not be initiated in advance of providing goods and services. Progress billings may be made for jobs in process.
3. Users are to be charged based on the number of service units used, such as, hours or minutes of use, number of phone and fax lines serviced, number of installations, animal days, etc.
4. Revenue (i.e., recovered cost) should include all revenue (including imputed revenue for unbilled services or services provided at a discount to certain users).
5. Specialized Service Facilities shall operate on a break-even basis, rather than a profit basis. A year-end surplus should not exceed an amount equivalent to two months (i.e., 60 days) of operating costs. ~~A surplus or deficit occurring in any year shall be included in the calculation of the subsequent year's billing rates.~~
6. Variances between the recovered costs and actual costs should be treated as adjustments to future billing rates.
7. Facility costs are not to be included in the specialized service facility billing rates. Instead, the allocated portion of facility and administrative costs will be assigned to the "Other Institutional Activities" (OIA) cost category of the University of Houston's F&A Cost Proposal.
8. Specialized service facility operating costs and losses are not to be included in the university's F&A Cost Proposal. Losses are not to be included in the General & Administrative or Department Administration cost pools of the F&A Cost Proposal.
9. Specialized service facility fund deficits are not to be transferred to F&A Cost Proposal cost pools and surpluses are not to be diverted for other uses.

C. Providing goods or services to users:

1. ~~Specialized~~ While specialized service facilities should not routinely sell goods or services to University of Houston affiliated faculty, staff or students, exceptions may occur:- ~~When sales are made to University of Houston affiliated faculty, staff or students:~~
  - a. A lower billing rate (and, in certain circumstances, possibly no billing rate) may be charged to faculty, staff and students who need to have access to the equipment in a specialized service facility for training purposes (and not for an activity for which the charges are to be passed-on or recharged to a federally-sponsored activity).
  - b. Specialized service facilities must keep a record of such use and when calculating the year end under or over recovery of the service center, the normal charge rate should be applied to the units of service that were not charged the full rate. This is referred to as imputing or imputed revenue.
2. Specialized service facilities shall not regularly sell goods or services to the general public or other non-University of Houston affiliated entities unless written

approval for an exception is obtained from the Senior Associate Vice President for Finance (or his/her designee) in advance of making such sales.

V. ESTABLISHING AND DISCONTINUING SPECIALIZED SERVICE FACILITY OPERATIONS

A. Establishing a specialized service facility

- ~~1. A written request providing sufficient justification for recognition as a specialized service facility must be submitted to the Division of Administration and Finance, Office of Finance – Cost Accounting Department in a format using the appropriate forms found on the Cost Accounting website, Cost Accounting, and in accordance with procedures, prescribed by that department.~~
- ~~2. The request for recognition as a specialized service facility must include a cost study and proposed billing rates prepared using forms and in a format prescribed by the Division of Administration and Finance, Office of Finance – Cost Accounting Department. These must be reviewed by the Cost Accounting Department and approved by the Associate Vice President for Finance (or his/her designee) before the proposed new specialized service facility begins operations and recovering costs from users.~~

B. Discontinuing operations as a specialized service facility

1. A written request providing sufficient justification for ceasing operations as a specialized service facility must be submitted to the Division of Administration and Finance, Office of Finance – Cost Accounting Department ~~in a format, and in accordance with procedures, prescribed by that department~~ using the appropriate forms found on the Cost Accounting website, Cost Accounting.
2. The request shall include the planned termination date, reason for discontinuing the operation, an explanation of the specialized service facility's plan for the resolution of any cost center surplus or deficit, and the planned disposition of capital equipment and remaining inventory. Other information (supporting schedules, documentation, etc.) may be required ~~as deemed appropriate and necessary by the Division of Administration and Finance, Office of Finance – Cost Accounting Department.~~ Upon completion of close out, the specialized service facility's primary cost center should have a zero balance and be inactivated by the Budget Office.

VI. DEVELOPING AND MAINTAINING BILLING RATES AND PRICING POLICY GUIDELINES

A. Specialized service facility billing rates

1. All users must be charged for the cost of goods and services (i.e., billing rates) they receive from a specialized service facility based on their ~~actual~~ usage and ~~pursuant to a the~~ published schedule of billing rates.
- ~~2. All billing rates should be determined based on the return required to establish sufficient cash flow to support the specialized service facility charges to federally-sponsored activities will reflect the lowest rates. Price discrimination against federally-sponsored activities of the university, including usage by the university for internal purposes, is strictly prohibited. Billing rates for goods and/or services should not discriminate between Federal and non-Federal users including internal university activities, for the same level of services or products.~~

3. Billing rates shall be stated in measurable units of goods or services, and a separate rate shall be established for each class of goods or services provided.
4. Billing rates must be reviewed and approved biennially and, when warranted, adjusted to compensate for under or over recoveries of costs in prior fiscal periods.
5. Billing rates should be directly related to the cost of producing and delivering the goods or services. Billing rates should consist of all material direct costs including salary and wages, materials and supplies, maintenance and operating expenses, and depreciation expense for capital equipment usage. Billing rates will not be allocated to each specialized service facility based on identifiable square feet associated with each specialized service facility.
6. Billing rates shall be based on standard cost accounting methods and designed to recover not more than the aggregate cost of the services over a long-term period (i.e., they should not make a profit or accumulate large surplus balances).

B. Billing rate proposal content and format

Specialized service facility billing rates will be established, modified, and revised using forms, and in a format, prescribed by the ~~Division of Administration and Finance, Office of Finance~~—Cost Accounting Department and hereinafter referred to as a Billing Rate Proposal. Templates to be used are located on the Cost Accounting webpage. The content of the Billing Rate Proposal shall, at a minimum, include the following:

1. A cost study containing an analysis of the most recently completed fiscal year's activity will ensure that all costs incurred to provide goods and services have been identified and taken into consideration when computing the accumulated over or under recovery of costs (i.e., any accumulated surplus or deficit balance). Any surpluses or deficits occurring in one fiscal year should be included in the calculation of the subsequent fiscal years' billing rates.
2. All direct costs paid for from non-specialized service facility sources (i.e., subsidized costs) must be disclosed in the biennial billing rate proposal.
3. A budget for the current fiscal year's activity developed by estimating the results of the current fiscal year's activity and identifying the amount of anticipated over or under recovery of costs that will need to be carried forward when proposing billing rate(s) for the upcoming fiscal year.
4. Projections and proposed billing rates for the upcoming fiscal year anticipating the future fiscal year's activities based upon the expected activity levels and the proposed billing rates to be in effect during the upcoming fiscal year.
5. Copies of the billing rate proposal computations must be kept on file at the college or department for the time periods prescribed in the state of Texas Records Retention Schedule, Category 4.

C. Billing rate proposal review and approval

Proposed billing rates, material revisions to already approved billing rates, and billing rates developed for new goods or services added during the fiscal year must be approved before being charged to users. After their initial approval, specialized service

facilities shall prepare and submit a billing rate proposal on a biennial basis at least 90 days prior to the beginning of the fiscal year in which the proposed billing rates are to take effect.

1. Specialized service facilities must submit their biennial billing rate proposals, or proposals for billing rates developed for new goods or services added during the fiscal year, to the Division of Administration and Finance, Office of Finance – Cost Accounting Department at least 90 days before they are to become effective. These will be reviewed by the Cost Accounting Department and then forwarded to the Senior Associate Vice President for Finance (or his/her designee) for approval.
2. For those alternate fiscal years when a biennial billing rate proposal is not required, within 6 months from the fiscal year end (i.e., on, or before March 1<sup>st</sup>), specialized service facilities shall forward an analysis of all costs (including subsidized costs) and total recovered costs (including subtotals for each Fund Code) to the ~~Division of Administration and Finance, Office of Finance~~—Cost Accounting Department for review and verification that the specialized service facility did not over-recover costs for the most recently completed fiscal year. This analysis shall be in a format, and in accordance with procedures, prescribed by that department. Templates for fund equity are located on the Cost Accounting webpage.

D. Billing rate revision review and approval

1. Material revisions to already approved billing rates, or billing rates developed for new goods or services added during the fiscal year that will have a material impact on the service center's anticipated total costs or total recovered costs, must be submitted to the ~~Division of Administration and Finance, Office of Finance~~—Cost Accounting Department for review and approval by the Senior Associate Vice President for Finance (or his/her designee) at least 90 days before they are to become effective.

A revision to the already approved billing rates, or the addition of a new good or service, will be deemed material if:

- a. The revision or addition represents a 10%, or greater, increase in the already approved billing rates for the same, or comparable, quality of goods or level of services.
  - b. The revision or addition will result in a 10%, or greater, increase in the total anticipated recovered costs for the same, or comparable, quality of goods or level of services.
  - c. Based upon the anticipated level of cost recovery resulting from the revision or addition, recovered costs for the goods or services will exceed total costs (i.e., the revision will result in the over-recovery of costs) of producing the goods or services.
2. Already approved billing rates may be revised as deemed necessary by specialized service facility and college/division/departmental management. In all instances, billing rates and modified billing rates must be based on the actual cost of providing the goods or services. Revisions to already approved billing rates that do not meet the above criteria for materiality must be reported to the ~~Division of Administration and Finance, Office of Finance~~—Cost Accounting

Department prior to being charged to users. Updated price lists reflecting changes to already approved billing rates will need to be provided to the Cost Accounting Department at least 3 working days before the revised billing rates are to take effect.

- a. Billing rate computations modifying, adding or revising specialized service facility billing rates must be documented and approved by the college/division business administrator, the department chairman (where applicable), and the college dean or division head.
- b. Documentation must be maintained to support each calculated billing rate, billing rate change, or price charged for a particular good or service.
- c. All revisions to billing rates must be reported to the Office of Finance. Updated price lists will need to be provided to the ~~Office of Finance~~Cost Accounting Department at least 3 working days before the revised billing rates are to take effect.
- d. Copies of the billing rate revision computations must be kept on file at the college or department level for the time periods prescribed in the state of Texas Records Retention Schedule, Category 4.

#### VII. PROVIDING SERVICES AND GOODS TO NON-UH AFFILIATED PARTIES' APPROVAL

Specialized service facilities shall not routinely sell goods or services to the general public or other non-University of Houston affiliated entities without obtaining prior written approval from the Senior Associate Vice President for Finance (or his/her designee) in a manner and format prescribed by the ~~Division of Administration and Finance, Office of Finance~~—Cost Accounting Department.

- A. The billing rates for sales made by specialized service facilities to the general public or other non-university affiliated entities, if approved, should include the university's on-campus indirect cost (IDC) rate to recover institutional overhead costs. Written requests for exceptions to this overhead cost recovery policy should be submitted to the ~~Division of Administration and Finance, Office of Finance~~—Cost Accounting Department in advance of making sales to the general public. These requests will be reviewed by the Cost Accounting Department and approved by the Senior Associate Vice President for Finance (or his/her designee).
  1. Specialized service facilities should maintain adequate records of IDC collected in connection with providing services and goods to non-UH affiliated users.
  2. IDC collected as a result of providing services and goods to non-UH affiliated entities will be reported to, and disposed of, in a manner prescribed by the Office of Finance in accordance with policies and procedures developed and implemented by that office.
- B. Specialized service facilities can charge a higher rate for the same service to occasional external customers (i.e., non-UH affiliated users) than they charge to internal customers recharging to federally sponsored activities. This "profit" element does not have to be included when determining the over/under recovery of costs when computing the carry-forward into future fiscal years' billing rates. However, this "profit" element may qualify for consideration as Unrelated Business Income Tax (UBIT). Specialized service facilities are responsible for keeping adequate and accurate records regarding sales to, and collections from, non-UH affiliated users and for contacting the University of Houston's



Tax Compliance Department for guidance in how to properly address any potential UBIT issues that may arise from making sales to non-UH affiliated users.

VIII. REVIEW AND RESPONSIBILITY

Responsible Parties: Senior Associate Vice President for Finance

Review: Every three years on or before June 1

IX. APPROVAL

Rathindra Bose

Vice President for Research and Technology Transfer

Carl Carlucci

Executive-Senior Vice President for Administration and Finance

Renu Khator

President

Date of President's Approval: April 4, 2012

X. REFERENCES

Federal Office of Management and Budget Circulars Uniform Guidance

A-2481: Cost Principles of Educational Institutions

State Comptroller Fiscal Policies and Procedures FPP I.004 (FM 95-115): Purchase Guidelines for On-Campus Service Centers and Auxiliary Enterprises

Property Management Policies and Procedures

Cost Accounting Webpage

University of Houston Research Guidelines

### REVISION LOG

Revision Number	Approved Date	Description of Changes
1	12/02/1999	Initial version
2	02/20/2003	Applied new MAPP template. In Section III, added Facilities and Administrative (F&A) Costs and Specialized service center; updated Specialized Service Center Committee (SSCC) and Subsidy. Rewrote Section IV and V to reflect current operating practices with specialized service centers; removed examples of service center rates. Responsible party changed to AVP for Finance. Updated all forms in Addendums

Revision Number	Approved Date	Description of Changes
3	05/17/2011	Applied revised MAPP template and added new revision log. Retitled MAPP from "Service Centers (Recharge Centers)" to "Specialized Service Facilities." Rewrote entire procedure to reflect current operating practices, deemphasizing "recharge centers." Clarified Administration and Finance, Office of Finance – Cost Accounting Department responsibilities throughout the document. Removed all Addendums and index terms
4	04/04/2012	Changed financial reporting date in Section VI.C.2 from January 31 <sup>st</sup> to March 1 <sup>st</sup> . No additional changes were indicated by the SME
<u>5</u>	<u>TBD</u>	<u>Changed titles and links as applicable. Changed the OMB reference from Circular A-21 to Uniform Guidance A-81 in Section I and Section X. Removed "depositing" as an example for accumulating in Section III.A; removed both last sentence in Section III.E and second paragraph from Section III.G. Deleted examples from Section IV.A. regarding financial record keeping. Added accounts created for each type of recovered cost to Section IV.A.3. Added "straight line method" for depreciation on capital equipment calculation in Section IV.A.7. Added approved methods for posting rates in Section IV.B.1. Added exceptions for selling goods and services in Section IV.C.1. For Section V.A and Section V.B.2, written requests should be using appropriate forms found on the Cost Accounting website. Removed Section V.A.2. For Section VI.A.2, all billing rates should be determined based on return required to establish sufficient cash flow to support the specialized facility charges to federally-sponsored activities reflecting the lowest rates. For Section VI.B and VI.C.2, templates to be used are located on the Cost Accounting webpage. Added Cost Accounting webpage to Section X</u>