1. PURPOSE AND SCOPE

Each System university and its colleges, divisions, and departments are 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 UH System and university policies and procedures. 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 UH System and university policies and procedures.

2. POLICY STATEMENT

The costs of goods or services provided by highly complex or specialized facilities operated by the university may be charged directly to applicable federal awards based on actual usage of the goods or services on the basis of a schedule of rates or an established methodology that does not discriminate against federally supported activities of the institution, including usage by the institution for internal purposes, and is designed to recover only the aggregate cost of the services. The cost of each service shall consist normally of both its direct costs and its allocable share of all indirect costs (Facilities & Administrative). System and university policies, procedures, and practices must reflect government regulatory costing principles that require costs to an award be necessary, reasonable, and allocable and comply with the limitations of the award agreement. This document establishes internal controls to ensure compliance with federal regulations outlined in the Office of Management and Budget’s (OMB) Part 200—Uniform administrative requirements, cost principles, and audit requirements for federal awards.

3. DEFINITIONS

3.1 Capital equipment replacement reserve fund: An accumulation of capital equipment depreciation cost recovery. A separate cost center may be established for accumulating 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.

3.2 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.

3.3 Depreciation: The allocation and recognition of the purchase cost of a capital asset over its useful life.

3.4 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.

3.5 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.)

3.6 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.

3.7 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 System. (Examples include, but are not limited to, telecommunication centers, super computers, animal care facilities, wind tunnels and reactors.)

3.8 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.

3.9 Start-up costs: The costs incurred to establish a new specialized service facility.
3.10 **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.

4. **SPECIALIZED SERVICE FACILITY POLICY GUIDELINES**

4.1. **Financial Recordkeeping for Specialized Service Facilities**

a) All financial information to be included in the reporting required by this policy is to come from, and be reconciled to, the university’s official financial records system.

b) 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 1st to August 31st).

c) 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.

d) 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 System 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.

e) Specialized service facilities shall not transfer recovered costs, expenditures, or fund balances from, or to, the operating fund without submitting a request to the System 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.

f) 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).

g) 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 via 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.

h) 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.

i) 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 State of Texas Records Retention Schedule, Category 4: Fiscal Records.

4.2 Recovering Costs Associated with Operating Specialized Service Facilities

a) 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 locations for posting the rates would include (1) the department, (2) the department website, and (3) the specialized service facility location.

b) Billing transactions shall not be initiated in advance of providing goods and services. Progress billings may be made for jobs in process.
c) 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.

d) Revenue (i.e., recovered cost) should include all revenue (including imputed revenue for unbilled services or services provided at a discount to certain users).

e) 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 should be included in the calculation of the subsequent year’s billing rates.

f) Variances between the recovered costs and actual costs should be treated as adjustments to future billing rates.

g) 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 System’s F&A Cost Proposal.

h) 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.

i) 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.

4.3 Providing Goods or Services to Users

a) While specialized service facilities should not routinely sell goods or services to university faculty, staff or students, exceptions may occur:

(1) 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).
(2) 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.

b) Specialized service facilities shall not regularly sell goods or services to the general public or other non-System or university affiliated entities unless written approval for an exception is obtained from the System Senior Associate Vice President for Finance (or his/her designee) in advance of making such sales.

5. ESTABLISHING AND DISCONTINUING SPECIALIZED SERVICE FACILITY OPERATIONS

5.1 Establishing a Specialized Service Facility

a) A written request providing sufficient justification for recognition as a specialized service facility must be submitted to the System’s Division of Administration and Finance, Office of Finance – Cost Accounting Department in a format, and in accordance with procedures, prescribed by that department.

b) The request for recognition as a specialized service facility must include a cost study and proposed billing rates prepared using the appropriate forms found on the Cost Accounting website, Cost Accounting. Other supporting information may also be required. These must be reviewed by the Cost Accounting Department and approved by the Senior Vice Chancellor for Administration and Finance (or his/her designee) before the proposed new specialized service facility begins operations and recovering costs from users.

5.2 Discontinuing Operations as a Specialized Service Facility

a) A written request providing sufficient justification for ceasing operations as a specialized service facility must be submitted to the System’s Division of Administration and Finance, Office of Finance – Cost Accounting Department using the appropriate forms found on the Cost Accounting website.

b) 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. The written request must be approved by a responsible official with oversight authority over the terminated facility, such as the facility director, college dean or appropriate authority in the Division of Research. 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.

6. DEVELOPING AND MAINTAINING BILLING RATES AND PRICING POLICY GUIDELINES

6.1 Specialized Service Facility Billing Rates

a) 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 usage and the published schedule of billing rates.

b) 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, currently in effect. 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.

c) 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.

d) 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.

e) 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.
f) 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).

g) Approved billing rates will be prominently displayed on the premises of the specialized service facility. Approved billing rates will also be submitted to the Cost Accounting Department and made available on the Cost Accounting website.

6.2 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 System Cost Accounting Department and hereinafter referred to as a Billing Rate Proposal. Templates to be used are located on the System Cost Accounting webpage. The content of the Billing Rate Proposal shall, at a minimum, include the following:

a) 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.

b) All direct costs paid for from non-specialized service facility sources (i.e., subsidized costs) must be disclosed in the biennial billing rate proposal.

c) 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.

d) 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.

e) 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.
6.3 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.

a) 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 System’s 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 Vice Chancellor for Administration and Finance (or his/her designee) for approval.

b) 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 1st), 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 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.

6.4 Billing Rate Revision Review and Approval

a) 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 Cost Accounting Department for review and approval by the Senior Vice Chancellor for Administration and 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.

d. In the unlikely event of decreases to already approved billing rates, the same materiality criteria outlined in this section shall apply.

b) 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 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.

(1) 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.

(2) Documentation must be maintained to support each calculated billing rate, billing rate change, or price charged for a particular good or service.

(3) All revisions to billing rates must be reported to the System’s Office of Finance. Updated price lists will need to be provided to the System’s Cost Accounting Department at least 3 working days before the revised billing rates are to take effect.
(4) 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.

7. APPROVAL TO PROVIDE SERVICES AND GOODS TO NON-UNIVERSITY
AFFILIATED PARTIES

Specialized service facilities shall not routinely sell goods or services to the general
public or other non-university affiliated entities without obtaining prior written approval
from the Senior Vice Chancellor for Administration and Finance (or his/her designee) in
a manner and format prescribed by the System Cost Accounting Department.

7.1 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 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).

a) Specialized service facilities should maintain adequate records of IDC
collected in connection with providing services and goods to non-
university affiliated users.

b) IDC collected as a result of providing services and goods to non-university
affiliated entities will be reported to, and disposed of, in a manner
prescribed by the System’s Office of Finance in accordance with policies
and procedures developed and implemented by that office.

7.2 Specialized service facilities can charge a higher rate for the same service to
occasional external customers (i.e., non-UHS affiliated users) than they charge to
internal customers or any 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-university affiliated users and for contacting the University
of Houston System’s Tax Compliance Department for guidance in how to
properly address any potential UBIT issues that may arise from making sales to
non-university affiliated users.
8. REVIEW AND RESPONSIBILITY

Responsible Parties: Senior Vice Chancellor for Administration and Finance
Vice Chancellor for Research and Technology Transfer

Review: Every five years

9. APPROVAL

________________________________________________________________________
Senior Vice Chancellor for Administration and Finance

________________________________________________________________________
Vice Chancellor for Research and Technology Transfer

________________________________________________________________________
Chancellor

________________________________________________________________________
Date

10. REFERENCES

Federal Office of Management and Budget Circulars Uniform Guidance
A-81: Cost Principles of Educational Institutions
for On-Campus Service Centers and Auxiliary Enterprises
Property Management Policies and Procedures
Cost Accounting Webpage
University of Houston System Research Guidelines