



SERVICE CENTER PROCEDURE

SCOPE

This procedure describes the steps required to establish a service center and to develop a service center rate. It also discusses usage tracking, charging, and billing guidelines relevant to service centers in accordance with California Institute of Technology's (Caltech) Service Center Policy. The definitions of terms in the Service Center Policy also apply to this procedure.

PROCEDURE

New Service Centers

Divisions and/or Departments wanting to establish a new service center must work with the Office of Cost Studies to calculate their breakeven rates for each service they plan to provide. In addition, the methodology and procedures that the service center plans to follow for determining service center charges to internal and external users must be provided to the Office of Cost Studies for review to ensure they are compliant with Caltech policy and Federal guidance prior to authorization of the service center.

The following is an example of the method of calculating a breakeven service center rate for a new service center with a single service. When a service center is initially established, the rate will be based on budgeted/projected revenues, expenses, and usage.

An electron microscope costs approximately \$100,000 per year to operate (total allowable costs) and a projected usage of 1,500 hours per year. This results in a breakeven billing rate as follows:

$$\frac{\$100,000}{1,500 \text{ hours}} = \$67 \text{ per hour}$$

According to the tracking log, a researcher used the microscope for four hours on a sponsored project. His or her award should be charged \$268 (i.e. 4 x \$67).

On-Going Service Centers

In the years after a service center is initially set up, the rate should be reviewed biennially and should incorporate budgeted/projected, as well as actual revenues, expenses and usage. For example, the rates submitted for approval for fiscal year commencing October 1, 2017, would be based on FY 2017 projected volume and expenses plus/minus under/over recoveries carried forward from prior fiscal years.

Calculating the Breakeven Rate for Service Centers Offering a Single Service

Examples 1 and 2 below are both based on a budget of \$230,000 of revenues and 2,000 hours of

projected usage for the year.

Example 1:

	FY2015		FY2017
	Actual		Budgeted
Total Revenue	\$ 230,000	Budgeted Expenses	\$ 250,000
Less Total Expenses	<u>- 220,000</u>	Less Prior Year Surplus	<u>-10,000</u>
Surplus	\$ 10,000	Total Budgeted Expenses	\$ 240,000
		Projected Usage	2,000 hours

$$\frac{\$240,000}{2,000 \text{ hours}} = \$120 \text{ per hour}$$

According to the service center tracking log, a researcher used three units of service on his sponsored project. His or her sponsored award should be charged \$360 (i.e. 3 x \$120).

Example 2:

	FY2015		FY2017
	<u>Actual</u>		<u>Budgeted</u>
Total Revenue	\$ 230,000	Budgeted Expenses	\$ 250,000
Less Total Expenses	<u>- 250,000</u>	Plus Prior Year Deficit	<u>20,000</u>
Deficit	\$ - 20,000	Total Budgeted Expenses	\$ 270,000
		Projected Usage	2,000 hours

$$\frac{\$270,000}{2,000 \text{ hours}} = \$135 \text{ per hour}$$

According to the service center tracking log, a researcher used three units of service on his sponsored project. His or her sponsored award should be charged \$405 (i.e. 3 x \$135).

Calculating Breakeven Rates for Service Centers Offering Multiple Services

When calculating breakeven billing rates for service centers that offer multiple services, it is necessary for the service center to have a breakout of the amount of operating resources (e.g., the quantity of labor and non-labor materials consumed and their associated cost) that was used to provide each of the different services. In addition, the center must know the quantity of each of the services provided during the year. Using this information, the breakeven rate can be determined.

The following schedule is an example of the distribution of operating costs across seven different services, volume of activity by service, and the resulting calculated breakeven rate for each service.

Services	% Total Labor Hours	Labor Cost	Non-Labor Cost	Prior Year Carry-Forward	Total Costs	Activity (Actual Quantity)	Calculated Break Even Rate
A	B	C	D	E	F=C+D+E	G	H=F/G
Service 1	28.60%	\$ 105,578	\$ 7,994	\$ (2,010)	\$ 111,562	892.00	\$ 125
Service 2	25.30%	\$ 93,395	\$ 7,071	\$ (1,778)	\$ 98,688	198.00	\$ 498
Service 3	15.84%	\$ 58,474	\$ 4,427	\$ (1,113)	\$ 61,788	21.00	\$ 2,942
Service 4	0.06%	\$ 221	\$ 17	\$ (4)	\$ 234	0.25	\$ 936
Service 5	13.60%	\$ 50,205	\$ 3,801	\$ (956)	\$ 53,050	13.00	\$ 4,081
Service 6	10.80%	\$ 39,869	\$ 3,019	\$ (759)	\$ 42,129	14.00	\$ 3,009
Service 7	5.80%	\$ 21,411	\$ 1,621	\$ (408)	\$ 22,624	25.00	\$ 905
Total Allowable Costs (Actuals)	100.00%	\$ 369,153	\$ 27,950	\$ (7,028)	\$ 390,075	1,163.25	

Biennial Service Center Rate Reviews

Existing service centers with annual operating expenses or revenues of \$100,000 or more are subject to the biennial service center rate review process. The Office of Cost Studies will work with existing Service Center Directors to conduct the formal review and verification process and, if necessary, rates will be adjusted.

Although formal service center review will not be performed at Caltech for service centers with annual operating expenses or revenues of \$100,000 or more, this does not preclude these smaller service centers from being required to comply with the same service center regulations as these regulations are not based on a dollar threshold amount. The Cost Studies Office will be performing a high-level review for these smaller services centers to verify that the centers have not received annual income that exceeds their annual operating expenses (i.e., cost recoveries exceeding 100%).

Part of the rate review includes the preparation of the service center financial profile. The financial profile is used to verify that all annual operating costs, income, subsidies, carry-forward amounts, and cost recoveries have been identified and included and accounted for in the billing rate analysis. The schedule below demonstrates that each of the cost components making up the annual operating costs in the previous schedule have been included in the breakeven rate calculations.

Caltech		
Service Center Rate Review		
Financial Profile		
Name of Service Center: Service Center XYZ Manager or Contact Person: Dr. ABC PTAs: ABC.000001-1-OARCHG.00001 Period: FY2015 Location (Building and Room (s) Nos.): None 215		
Financial Data: (Exclude Unallowable Expenses)	Calculations	FY2015 Actuals
Allowable Expenses:		
Labor with Staff Benefits	A	\$ 369,153
Materials & Supplies	B	\$ 27,950
Other Non-Labor	C	
Equipment Depreciation (if applicable)	D	
Prior Year Carryforwards (CFW) (if applicable)	E	\$ (7,029)
Net Allowable Operating Expenses	F=sum(A:E)	\$ 390,074
Unallowable (see reference attachment 4)	G	\$ -
Total Operating Expenses	H=F+G	\$ 390,074
Total Revenues	I	\$ 384,488
Year End Balance (next year CFW)	J = F - I	\$ 5,587
Cost Recovery Rate	K = I / F	99%
Subsidy Amount	L	\$ 5,587
<i>Breakeven Rates & Activity Levels</i>	FY2015	
Services	Activity (Annual Users)	Rate (\$/Year per User)
Service 1	892.00	\$ 125
Service 2	198.00	\$ 498
Service 3	21.00	\$ 2,942
Service 4	0.25	\$ 936
Service 5	13.00	\$ 4,081
Service 6	14.00	\$ 3,009
Service 7	25.00	\$ 905

Documentation and Record Retention

Service Centers have the responsibility for retaining work papers supporting rate calculations, pricing decisions, and documentation of rate approvals. In addition, other supporting records that should be retained may include but are not limited to time records and chargebacks. If service center personnel are charging time to multiple categories of service, timesheets and payroll distribution confirmation reports should be maintained to document the allocation of the employee's salaries and wages, even if these reports are also filed centrally. Billing and usage logs or records should also be maintained to identify the service provided to each user, total units of service provided, and the cost per unit.

Records supporting the initial rate development and any analysis completed as part of the biennial service center rate review should be retained by the Office of Cost Studies. All of these documents should be retained for the period required in Caltech's Record Retention Schedule.

ROLES AND RESPONSIBILITIES

Office of Cost Studies

- Assists new Service Center Directors in calculating breakeven rates.
- Completes biennial service center reviews consistent with the Service Center policy and provides the results of the review and recommendations to the Service Center Director and Division Administrator.
- Provides guidance and advice on any service center practice identified during the biennial review process that may be considered non-compliant with Caltech policy, Federal regulation, or viewed as being "high risk".

Service Center Director, Principal Investigator, and/or Division Administration

- Coordinates the rate review process with the Office of Cost Studies and provides all necessary information in a timely manner in a format that can be easily used to perform cost analyses.
- Establish acceptable methodologies and processes for the service center to document the work activities and usage of operating resources associated with each of the customer billing transactions. The process utilized by the service center must be able to identify the amount of relevant activities and operating resources that support the customer charges recorded in the ORACLE Financial System.

RELATED REFERENCES

Office of Management and Budget's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards [2 CFR, Part 200](#)

Office of Management and Budget's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards [2 CFR, Part 200 §200.468](#), Specialized Service Facilities

[Caltech's Service Center Policy](#)

[Caltech's Record Retention Policy](#)

PROCEDURE ISSUED BY

This procedure is issued by the Office of Financial Services.

EFFECTIVE DATES AND UPDATES

Action Take	Effective Date	Description of Action
Original Procedure	10/01/2003	A portion of this procedure was incorporated into the original Service Center Policy as an appendix which was approved by Sharon Patterson, AVP Finance and Treasury.
Revised Procedure	09/30/2016	Revised to separate the procedures from policy and to incorporate changes needed to original procedure to provide more guidance for the service centers. Reviewed and revised by the Office of Financial Services. Approved by the Office of Financial Services.