



SERVICE CENTER FISCAL MANAGEMENT

University of Colorado
Denver | Anschutz Medical Campus
Finance Office

Table of Contents

- I. Intro (*Slides 1-2*)
- II. Service Center & Cost Study Basics (*Slides 3-7*)
 - a) *What is a Service Center (3)*
 - b) *Should you establish a service center (4)*
 - c) *Cost Studies & Steps to Establish a Service Center (5-7)*
- III. How To Do A Cost Study (*Slides 8-12*)
 - a) *Template Options (11)*
- IV. Important Service Center Issues (*Slides 13-20*)
- V. Conclusion (*Slides 21-24*)
 - a) *Policies (21)*
 - b) *Dates and Deadlines (22)*
 - c) *Feedback (23)*
 - d) *Questions and Contact Information (24)*

What is a Service Center?

- A unit providing services or goods to other University departments on a recurring basis
- Service or user fees are assessed to recover the center's operating expenses
 - *It is possible to subsidize these fees to charge less than cost*
- Charges should not exceed break-even or "at cost" rates
 - *Federal or state rules and regulations ([OMB Circular 21](#))*
 - *Grant or affiliate agreements*
 - *Non-Discriminatory rates for all internal users (including affiliates)*
- Not for a profit – charge at break-even rates
- May serve public too – but majority of customers should be internal
- Core Laboratories – centralized, fiscally self-sustained units established to provide unique laboratory or professional services in an economic or efficient manner to research purposes
 - *Sponsored core & Auxiliary core*
 - *Member and non-member rates*

Should you establish a Service Center?

- If it is related to the mission of the University
- A demonstrated need exists
 - *Economic or efficiency benefit*
 - *Strategic planning*
 - *New services*
- Services are required to charge at cost
- A solid business plan and fiscal responsibility
- There is no other service center offering a similar service/product that is already established

Why A Cost Study is Required

- Assessed rates must be in compliance with federal costing policies or any governing rules or agreements
 - *Costs must be directly related to the operation (direct or indirect costs)*
 - *Only allowable costs are included in the rate assessment*
- Minimize audit risk
 - *Cost studies to substantiate the “at-cost” rates*
 - *Cost studies for service centers with annual revenues exceeding \$50,000 are reviewed by the Finance Office*
- Consequences if not in compliance
 - *Return of funds*
 - *Penalty*
 - *Jeopardizing grant funding*

Steps to Establish a New Service Center

1. Submit Cost Study Proposal to Finance Office at Finance.ServiceCenters@ucdenver.edu
2. Finance office review/approval
3. Route to DFA/Dean's Office for approval
4. Submit Chartfield Forms to finance.chartfields@ucdenver.edu
5. New Org set up
6. New speedtype set up
7. Ready to go!

What is in a Cost Study?

- A descriptive overview of goods or services provided
- A description of the customer base
- List of subsidy and support sources
- Prior year numbers for comparison
- All allowable operating costs including...
 - *Direct costs*
 - *Indirect costs*
 - *Labor*
 - *Consumables*
 - *Depreciation*
 - *Overhead charges (GIR and GAR)*
- Projected sales/service quantities, usage and revenue
- Calculation or allocation of the assessed rates (break-even)
- Approval from DFA/Administrator.

How to do a Cost Study

Three Step Process

1. Gather data
2. Organize data
3. Input data into cost model

COST STUDY

Step 1: Gather Data

- Labor (direct v. indirect)
 - **Direct Labor** includes people working on the goods and services.
 - **Indirect Labor** includes those supervising them, who have no actual impact on service/product. But their labor is related to the service center, and allowable
- Operating supplies & services
- Overhead costs
 - GAR 7.00% for FY21; 4.96% without salary
 - GAR is 6% at Denver
 - GIR \$20.00 per square foot for FY21
- Equipment and Depreciation
- Sales and service usage projection

COST STUDY

Step 2: Organize Data

■ Labor

- *Include benefits*
- *Percent of effort in service center*
- *Productive time, administrative time*
- *Grant subsidy*

■ Operating supplies and services

- *Identify costs to specific product or service*

■ Capital equipment

- *PO # or Tag #*
- *Include non-federal depreciation*

Cost Study Templates

Top Down Template

- This approach goes from general to specific
- Identify the big picture first and all of its components
- Requires history and greater knowledge to come up with a reliable pricing plan

Pros:

- Can be time saving for well-established service centers

Cons:

- Often less accurate
- Less detailed
- Requires more history and knowledge

Bottom Up Template

- This approach begins at specific details and builds on those to see the big picture
- Typically recommended for new service centers

Pros:

- Generally more accurate
- Better for new service centers without a history to base the cost study on
- More accurate and better suited when history/knowledge is lacking

Cons:

- More time consuming

COST STUDY

Step 3: Enter Data in Model

- Select template model (top down or bottom up)
- Allocate costs appropriately
 - *Top down or bottom up*
 - *Depends on number of services and ability to redeploy slack time to other projects.*
 - *By unit of sale (e.g. hour, piece, service)*
 - *Affects utilization check figure*
- Calculate rate for various services

Important Service Center Issues

- Billing Rate Rules
- Billable Hours
- Rate Setting
- Depreciation
- Operating Reserve
- Timely Billing
- Deficit/Surplus

Billing Rate Rules

- Actual and reasonable costs – break even rates
- Unallowable costs:
 - *Bad debts, entertainment, fundraising, internal interest*
 - *Capital equipment (depreciation only allowed)*
 - *Full list see OMB regulations*
- Rates must be:
 - *based on a cost study*
 - *published*
 - *stated in a measurable unit*
 - *reviewed and adjusted at least annually*
 - *non-discriminatory between federal & non federal*

Billable Hours

■ Time Shrinkage

- *40 hours/week x 52 weeks/year = 2,080 hrs.*
 - Less holidays
 - Less vacation time
 - Less sick leave time
 - Less meeting time, break-time
 - Less administrative duties

<i>2. Time Shrinkage</i>			
Total Hours		2,080	Total Hours in Year
Vacation	22	176	Estimated Vacation Hours Taken
Sick	15	120	Estimated Sick Hours Taken
Holidays	10	80	
Daily	85%	6.8	Estimated % of Day doing Production
	Total Hours	1,448	70%
	Minutes	60	

Rate Setting

- Beware of excessive optimism estimating demand – make realistic forecasts
- Compare to market
 - *Reality check*
 - *If no market, maybe survey.*
- Compare to prior year rates

Depreciation

- Depreciation is included in the cost study to set aside funds to replace capital equipment
 - *Depreciation funds are transferred quarterly*
 - *Funds are set aside in a Fund 72*
- Equipment costing \$5,000 or more is considered Capital Equipment and is depreciated
- Note: Equipment purchased from a Fund 30 or 31 does not accrue depreciation – as it is purchased with Federal Funding

Operating Reserve

- Operating capital
- Build into rates
- Prevent deficits & Smooth rates
- Maximum allowed reserve is 60 days of operating expenses

Timely Billing

- Require speedtype before rendering service.
- Journal internal billings at least monthly.
- Improves cash flow
- Timely grant billing
- May use MOU/IUCA for larger, ongoing deals.
- Timely invoicing and revenue accrual for external sales

If you have any additional accounting issues for your service center please contact the accounting help desk at finance.accountinghelp@ucdenver.edu or (303) 724-9610

Surplus vs. Deficit

- Surplus – occurs when actual revenues are more than actual costs.
- Deficit – occurs when actual revenues are less than actual costs.
- Unexpected surplus or deficit?
 - *Consult your financial statements*
- Surplus and Deficits roll over to the next year's cost study
 - *Adjust operating reserve to smooth rates*

Policy & Template

Service Center Web Page

- <http://www.ucdenver.edu/about/departments/finance/Pages/ServiceCenter.aspx>

Policy Web Page

Got to the UCD website: ucdenver.edu

- *Resources For* → *Faculty/Staff*
- *University Policies* → *Finance Policies*
- *Scroll down and select* "*Internal Service Centers & Core Lab Policy*"

Dates & Deadlines

- January 14th, 2020 - Cost Study Overview

- January 21st & 22nd, 2020 – Workshops
 - *One-on-one 30 minute long workshop sessions to help you with your cost study*

- March 6th, 2020 (*extended*) – Deadline to Submit Cost Studies to Finance

Feedback

We value your feedback and are here to support you with you service centers.

We will send out a survey towards the end of the Fiscal Year to collect your feedback about how this process went for you.

Questions?

- Service Center Mailbox

- Finance.ServiceCenters@ucdenver.edu

- Becca Norman, Financial Analyst

- (303) 724-6395

- Becca.norman@cuanschutz.edu

- Accounting Help

- 303-724-9610

- Finance.accountinghelp@ucdenver.edu

- Zac Gonzales, Corey Gillette, Ellen McGrath