

# Stanford University Service Centers:

# Policies and Practices



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## Preface

This fiscal year 2009 version of the Stanford University service center manual is still intended as a general guide for service center managers.

This manual continues to give the user as much information as possible in the basics of operating a service center; however there will be areas where more information or clarity on specific issues is needed. Please do not hesitate to contact the Director of Research Administration Policy & Compliance (RAPC), your specific RAPC, or your Cost & Management Analysis (CMA) service center analyst assigned to your service center.

## I. INTRODUCTION

Stanford University conducts research under Government-funded grants and contracts. Service center activities often result in charges, either directly or indirectly, to federally sponsored grants and contracts. Therefore, service center policies and practices must reflect government regulatory costing principles such as those contained in the Office of Management and Budget (OMB) Circular No. A-21, "Cost Principles for Educational Institutions," (A-21).

<http://www.whitehouse.gov/omb/circulars/a021/a021.html>

Additionally, the University became subject to four Cost Accounting Standards (CAS). These standards require the University to follow consistent cost accounting practices throughout the institution. The Cost Accounting Standards imposed are summarized below. They require that institutions do the following:

- CAS 501 - Estimate (propose) costs, accumulate (account for) costs, and report costs consistently.
- CAS 502 - Allocate costs incurred for the same purpose in like circumstances consistently as either direct or indirect costs.
- CAS 505 - Identify unallowable costs and exclude from proposals and claims, and allocate a fair proportion of indirect costs to unallowable activities.
- CAS 506 - Consistently use the same cost accounting period for purposes of estimating, accumulating, and reporting costs.

Therefore, service center policies and practices have been established to provide consistent operational practices among the various service center units, and to ensure compliance with both government regulations and internal university accounting policies.

Service centers are large and small "businesses," providing services which are essential to support the University's teaching and research functions. Examples of centers providing support in academic schools and departments include machine shops, fluorescent-activated cell sorter facilities, specialized computing systems, microarray facility, and magnetic resonance simulator facility. Academic schools or department-level service centers are identified by their award range: ACxxx in the chart of accounts. Administrative or university-level service centers are assigned to award range ALxxx and they provide central services to the entire Stanford community which includes utilities, operation and maintenance shop services, ITSS communication services and data center. The VSC – Veterinary Service Center is identified by its award AKA AF.

## **A. Background and Intent of this Manual**

A service center manual was first issued in 1987 by Cost & Management Analysis (CMA), formally known as Government Cost & Rate Studies (GCRS), as a reference document for both new and experienced service center managers. The manual was revised in April 1995 to provide additional information and to incorporate specific changes in practices. It was revised a couple of times, with additional examples and corrections to the accounting process. The July 2005 version was issued with Oracle Financial information replacing legacy accounting practices. Throughout the revisions, the basic information provided in the various manuals still applies.

The primary purpose of this revision is to defer specific business functional requirements to Stanford University's Administrative Guide. It is important that Stanford's extended financial and administrative community have a set of policies to ultimately refer to for all of the University accounting methods and operating practices, including those related to service centers.

## **B. Summary of Changes in University Policies and Practices**

### **1. Unallowable Costs – Administrative Service Centers**

Starting in FY09, for the Administrative Service Centers there will be limitations on their ability to post certain unallowable costs. Prior to FY09, these service centers were allowed to charge some of the unallowable expenses. However due to two specifically unallowable costs that were questioned and transferred out of the Administrative service center's PTAs during the FY08 year end process, it was decided to revise the service center manual to reflect a more conservative policy for the Administrative service center unallowable charges.

## **C. Other Oracle Project Resources**

Service center managers also need to be familiar with the additional information located on the Oracle Financials at Stanford website: <http://www.stanford.edu/services/oracle/> the various articles and links are all helpful in guiding the user through the Oracle system.

Another site which provides online tutorial sessions for a new user of the Oracle Financial Systems is: [Financial Systems Online Classroom](#)

*Adherence to federal regulations and specific policies as described in the University's Disclosure Statement are implicit in this policy. It is important to note that the University's exposure from non-compliance with federal regulations may involve non-reimbursement from the government as well as adverse publicity which could harm future award applications.*

## **II. FUNCTIONAL RESPONSIBILITIES**

The Office of Research Administration Policy & Compliance (RAPC) has the responsibility for the establishment of service center policies. Various Controller's Office units, the Legal Office, Office of the Vice Provost and Dean of Research Graduate Policy (DoR), the service centers, and school or department administrators and faculty also provide input as needed.

RAPC, CMA, DoR, the Controller's Office, and school and department administrative offices share responsibility for the development and implementation of service center practices under these policies.

Service centers, their departments, and RAPC / CMA monitor service center practices to conform to these policies.

### **A. Office of the Vice Provost and Dean of Research and Graduate Policy (DoR)**

This office sets and oversees general University research policy of which service centers are an integral part. The department's website, <http://www.stanford.edu/dept/DoR/> provides many useful links for sponsored research policies.

### **B. Office of Research Administration Policy & Compliance (RAPC) / Cost Management & Analysis (CMA)**

RAPC has primary management responsibility for monitoring compliance with University and government service center policies.

RAPC and/or CMA:

- oversees and assists in the formation of new academic and administrative service centers;
- reviews and approves academic service center and VSC budgets and rates annually;
- reviews and approves administrative service center budgets and approves rates annually;
- monitors service center performance during the last six months of the fiscal year to ensure adherence to A-21, GAAP and university policies;
- ensures service center compliance with breakeven, non-discriminatory rate setting and other service center policies;
- updates the service center manual as needed;
- assists service center managers with policy or procedural matters;
- will open and close service center accounts;
- will visit service centers periodically to get a better understanding of service center needs; and
- will provide service center training as needed.

RAPC/CMA also acts as liaison in most service center/Government dealings. This includes:

- reporting to the Government on service center rates and operations annually;
- negotiating long term pricing and/or breakeven agreements (LTAs), when appropriate;
- establishing F&A (indirect) cost rates for service centers designated as "specialized service facilities" (see Section III.D., Specialized Service Facility);
- calculating the "credit" due annually to the Government for unallowable costs in service center rates charged to the F&A (indirect) pools and direct to Organized Research;
- and requesting interest allowability in major service center equipment purchases annually.

### **C. Office of Sponsored Research (OSR)**

The Office of Sponsored Research provides pre and post award administration of sponsored projects to the University. OSR reviews proposals, negotiates awards, maintains accounts and records, seeks reimbursement for expenses from sponsors and fulfills sponsor reporting requirements. The department webpage is located at: [Office of Sponsored Research](#)

OSR reviews billings to sponsored grants contracts from service centers when individual user charges are over \$1,000.

### **D. Controller's Office**

Units within the Controller's Office include: General Accounting, FAIR, A/P, Capital Accounting, Tax, etc.:

- process service center accounting transactions in compliance with University requirements;
- provide assistance with external user transactions i.e. unrelated business income tax issues - UBIT;
- provide guidance on charging F&A costs to associated entities;
- provide guidance on the GAAP regulations;
- will monitor computer programs customized by a service center for billing and pricing;
- monitors that internal revenue and expenses balance and provides revenue/expense policies for the campus;
- assist service centers with the purchase of equipment using debt.

The Controller's Office, FAIR, prepares the University's Annual Financial Report which includes the administrative service center's Operating statement.

## **E. School and Department Administrative Offices**

These offices are responsible for the operation of their service centers, as are the equivalents of deans or department heads for the administrative service centers. Service center operations must comply with appropriate University payroll, reimbursement, accounting, and personnel policies and practices.

Responsibility for service center operations is normally delegated to the department administrator or service center manager, who monitors operations and breakeven position, and takes corrective actions as needed. The department administrator or service center manager reviews the center's income, expenses, and rates throughout the fiscal year; and sees that expenses or rates are adjusted as necessary.

It is recommended that the people responsible for monitoring the service center take at least two classes offered in the campus training program.

- Fin 102 Cost Policy - this class will explain how federal government rules and regulations govern the University's cost policy and how to determine which the correct expense code is.
- Fin 670 Regulatory Environment for Sponsored Projects - this class is provided for those who need to understand the regulatory environment under CAS and A-21.

Both of these classes are also available as online tutorials on the web:  
[Cardinal Curriculum Level 1](#)

The department administrators and service center managers must also ensure that:

- The service center's budget is reviewed by and coordinated with the department's budget.
- Ensure that service center personnel charges and expenses are correctly allocated.
- The annual budget and rate submissions are prepared and submitted to RAPC on time (between August 1 and September 30th), and as changes in circumstance require a change in budget and/or rate(s). (New fiscal year budgets and rates not submitted by the end of September should be discussed with the RAPC service centers manager in advance.)
- Monthly service center billings are accurate, timely, and adequately documented. The billing rates should be consistently administered to all users of the service, there should not be subsidized rates charged to one set of users i.e. students versus sponsored research accounts.

- The RAPC approved rate schedule is used for all service center billings. Reviews billings for unapproved services and correct application of F&A rates.
- The service center operates at breakeven, and in accord with its budget (or Long Term Agreement).
- RAPC is notified when a manager's review reveals that the year-end breakeven requirement cannot be met without corrective action.
- Service center records are kept in good order for review and audit.
- All service center equipment, even the subsidized assets, must be identified in Sunflower. Therefore Department Property Associates (DPAs) must be informed by the service center manager of all capital assets used by the center.
- Conducts periodic review of effort of personnel with other tasks performed outside of the service center. Ensure that service center personnel salaries are charged based on actual time spent in service center work.
- The dean or department head, or administrative equivalent, is kept informed of service center matters.
- Reviews for unallowable costs in the academic service centers, a periodic review is also made by RAPC.
- Establish and maintain cash sale controls; posts cash on a monthly cycle.
- Ensure that service center's operational procedures are current.
- Maintain an approved file of external users contracts.

#### **F. University Budget Office**

The Budget Office determines the F&A rate for external users of the service centers. This office may choose to waive the rate, discount it to 8%, or determine that the external user be charged the full OR F&A rate. The 8% may be increased at any time by the Budget Office. Contact the Budget Office if you are requesting a waiver for a new external user's F&A rate. The ITSS and O&M/Utilities Administrative Service Centers and the SoM service centers & VSC enter their budgets into the Budget Office's Hyperion program.

#### **G. Internal Audit**

The mission of the Internal Audit Department is to assist University management and the Stanford Board of Trustees in identifying, avoiding and, where necessary, mitigating risks. Periodic audits have been conducted at various service centers to ensure compliance. In all likelihood service center audits will continue to be conducted in the future.

### **III. WHAT IS A SERVICE CENTER?**

A service center is an organizational unit which provides a specific service or product, or a group of services or products, to users principally within the Stanford academic and administrative community. A service center recovers the cost of its operations through charges to its users. Dissimilar services operated by the same department -- a computer facility vs. a copy center vs. a machine shop -- must be established as separate service center entities, with separate accounts, budgets, and rates.

The cost of running the service center facility or providing the product is charged to users on a "rate" basis. Rates are generally formulated to recover the costs of operations such as salaries, benefits, equipment depreciation, materials, and supplies expense.

Policies and practices described in this Manual apply specifically, and solely, to service centers.

A service center is an ongoing activity. It is not a one time distribution of expense. It is not a clearing account, now known as expenditure allocation, where actual expenses are distributed among benefiting units each month. (See Appendix 1 for a comparison of service centers vs. expenditure allocations.)

An Expenditure Allocation PTA, also known as a Clearing Account, are small-scale activities similar to a service center within an academic department. These accounts, which usually operate at less than \$20,000 in annual expenses, are established to allocate expenses or salaries. If they are salary clearing accounts they may exceed the \$20,000 maximum. The academic department is responsible for all control procedures. Charges for these activities/services should be to the activity specific expenditure code, if available. The Associate Director of RAPC is available for consultation regarding these activities, and will periodically check with the department on such known operations. Such activities may also be audited by external or internal auditors. The application form for opening an Expenditure Allocation PTA is located on the OSR toolkit website.

<http://ora.stanford.edu/ora/rapc/expendalloc.asp>

#### **A. Annual Breakeven**

Most service centers operate on an annual fiscal year breakeven basis, with rates based on budgeted projections of operating expenses and projected levels of activity or demand for the services or products to be provided during the budget period. Organizationally and for accounting purposes, service centers fall into one of two categories at Stanford University: "academic" or "administrative."

## **B. Service Center Groupings**

### **1. Academic Service Centers (Award Range ACxxx)**

These are service centers within a school or department, usually serving specific client groups or needs, most often instruction and research. Most service centers are of this type, and are run on a fiscal year breakeven basis. These centers provide services ranging from shops and labs, to specialized computer facilities, to departmental radiology centers.

Departmental stores service centers are academic unit service centers which, for summer inventory timing and adjustment reasons, manage their operations on a calendar year basis (January through December), rather than on a fiscal year period (September through August). Departmental inventories are normally conducted in June, and there is not enough time to adjust service center rates, expenses, or volume levels to breakeven with an August year-end close. In this Manual, whenever "fiscal year-end" is referred to for the academic service centers, the policy or practice is equally applicable to the academic departmental stores service centers, with their calendar year framework.

### **2. University-Level, Administrative Service Centers (Award Range ALxxx)**

These service centers provide varied and complex services to the Stanford community, with multiple sources of user funding. Because they provide services to auxiliaries and outside users, some of the policies and accounting treatments governing their operations vary from those applied to the academic service centers. The variation for including expressly unallowable costs in these service center rates is described in the "Policies" Section of this Manual (Section V.F.).

## **C. Long Term Agreement (LTA)**

A service center may operate as a Long Term pricing or breakeven Agreement (LTA) service center. Because of its unique nature, initial large capital equipment and building costs, volume fluctuations, or market limitations on annual rate increases, such a center requires longer than one year to recover, or spread out, its operating costs. Long Term Agreements must be negotiated with the Government.

RAPC provides counsel and support in the development and preparation of an LTA proposal. In addition, RAPC either represents or accompanies service center management in negotiating a Long Term Agreement. Currently there are no LTAs.

#### **D. Specialized Service Facility (SSF) (Award Range AKAxx)**

A-21 Section J.44 defines "specialized service facilities" as "institutional services involving the use of highly complex or specialized facilities such as electronic computers, wind tunnels, and reactors . . . ." Because the language in A-21 is not precise, the University has further defined a Specialized Service Facility (SSF) service center as one which meets all three of the following criteria:

- 1) service center must incur annual expenses of at least one million dollars;
- 2) its business must "materially" affect Stanford's on-campus Organized Research F&A (indirect) cost rate;<sup>1</sup> and
- 3) its services must not be easily available from an outside vendor.

Since FY95, University policy requires this type of center bear its allocable share of Facilities & Administrative costs (a.k.a. indirect costs). That means an SSF service center must recover both the direct costs of its operations and its share of the University's allocable F&A costs. A separate overhead rate may need to be negotiated with the Government for each SSF center. The rate is applied to all users of the facility, unless written approval to waive F&A (indirect) costs is received from the Office of the Vice Provost and Dean of Research, or from the Medical School Dean's Office (for a School of Medicine service center).

Currently, only the School of Medicine's Veterinary Service Center VSC, (formerly the Division of Laboratory Animal Medicine, DLAM, Research Animal Facility) is a SSF service center with its own Animal Care Indirect Cost Rate (ACICR). The VSC is subject to the +/- 15% breakeven amount by the end of the fiscal year. The VSC has been assigned its own specific award range AKxxx.

#### **E. What is an Auxiliary Activity?**

An auxiliary activity is a self-supporting entity that exists principally to furnish goods or services to students, alumni, or faculty and staff acting in a personal capacity, and charges a fee for the use of goods or services. Auxiliaries include Housing and Dining Services, Department of Athletics, and the Stanford University Press. Pricing for auxiliary services may be based on market rates, except when charging for service provided to federal awards. Auxiliary services are NOT subject to this service center policy.

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<sup>1</sup> "Materially" means by greater than one-tenth of a rate point.

#### **IV. SERVICE CENTER USERS**

A service center user is the individual or entity purchasing goods or services from a service center. Users fall into two broad categories, with some differences in policy and in accounting treatments.

##### **A. Internal Users**

Internal users are the primary service center customers. Sales to internal users are represented by charges to accounts over which Stanford University has fiduciary responsibility. Internal users from academic, administrative, and auxiliary areas purchase the service center services or products to support their work at Stanford. Purchases should be charged to a University PTA; cash sales are typically not appropriate for internal users.

##### **B. External Users**

An external user is an entity or person over whom Stanford has no fiduciary responsibility, regardless of the user's relation to the University's academic mission. For example, a person or company may be external to the University's mission, but wish to purchase the service center's service because of its unique equipment and/or its staff's expertise. Likewise, an external entity which is affiliated with the University's mission may wish to purchase service center products or services.

Examples of external entities include but are not limited to:

- commercial entities, such as a drug company or other for-profit companies;
- or an affiliated entity such as the external user Stanford Hospital & Clinics (SHC);
- or non-affiliated not-for-profit organizations such as other hospitals, other universities or government agencies;
- or a student, faculty or staff acting in a personal capacity (versus in their student or employee role within the University).

The external user distinction is very important to the University for unrelated business income tax (UBIT), sales tax, F&A (indirect) cost rate, and Organized Research policy purposes.

There are some service centers which have external users. Sales to external users may be cash (for deposit to the Cashier's Office), or the sale may be posted to a Miscellaneous Receivable PTA. Proper accounting for, approval and monitoring of the use of a service center by external users is requested. See Section VIII, "Use of Service Center Facilities by External Users," for specific practices concerning this type of user, including the application of sales tax, external sales limitation, and F&A rates as appropriate.

## **V. SERVICE CENTER POLICIES**

This section sets forth the policies governing Stanford service centers. The policies have been developed to ensure compliance with the Federal cost principles for educational institutions contained in OMB Circular A-21. These cost principles establish guidelines as to allowability and allocability of all costs that may be recovered on Federal grants and contracts, including costs associated with service center activities.

Except as noted, these policies apply to all service centers at Stanford. The application of many of these policies will be described in greater detail in Section VI, "Service Center Practices."

### **A. Non-Discriminatory Rates**

It is paramount that in establishing its rates, a service center does not discriminate against any internal group of service center users. A service center must charge all internal users the same rate for the same level of services or products purchased in the same circumstances. Rates should not differentiate among internal users. The use of special rates, such as for high volume work or less demanding non-scientific applications, is allowed, but they must be equally available to all users who meet the criteria.

The federal government does not object to charging external users a higher rate than that charged to internal users. However, if your external users are charged higher rates than the revenues and costs associated with your external users, then the costs should be tracked separately to avoid the perception of overcharging. All users of the facility must be billed for services.

External users of a center may not be charged at a rate less than that charged to internal Stanford users. They may be charged a higher rate if written approval is obtained by RAPC.

### **B. Service Center Subsidies**

Service center budgets and rates should be fully costed (i.e., the budget and rates should include all allowable costs directly associated with the service center operations). However, some departments may wish to subsidize service center operations by offering operating budget or other unrestricted funds to the center.

Subsidies for service center operations are unallowable for Government F&A (indirect) cost recovery purposes, and must be properly segregated and excluded from F&A (indirect) costs allocated to Government awards. Therefore, it is Stanford policy that all direct costs associated with operating a center are charged to the service center account throughout the year. At year-end, the service center deficit must be funded in accordance with Section V.D. "Guarantee Account".

A service center which plans on subsidizing its operations must notify RAPC/CMA in its annual budget submission. RAPC/CMA will work with the center to properly account for the planned subsidy before the fiscal year closes. A copy of the subsidy journal is given to CMA who will then pull the amount from the MDTC. A discussion of subsidized rate calculations is included in Section VI.C.2.

### **C. Billing Period**

Service centers should handle year-end and other billings consistently each year, in order to ensure that income recorded is properly matched with costs incurred, and that the year-end breakeven calculation is accurate. Where possible, this should be the University fiscal year, September 1st through August 31st. Service Centers should ensure that August services are billed in August. If the center is recording their services income in the month following, i.e. August services are billed in September, RAPC should be notified. RAPC should also be notified if significant out-of-period billings occur. When calculating the year-end, the center has to maintain a twelve months cost recovery versus twelve months expenses. This allows the best matching of cost recovery and incurred cost.

### **D. Guarantee Account**

In order to establish an academic service center, a "guarantee account" must be designated in the service center's initial proposal by the Stanford unit responsible for the service center. This account is a "guarantee" for the payment of unrecovered service center expense or uncollectible revenue if the service center balance exceeds a 15% loss at fiscal year-end. The guarantee account may be a General Funds operating budget account or other expendable funds in a designated fund or gift account.

Administrative, university-level service centers are not required to have a guarantee account. These centers may have to request additional funds from the Provost if a net operating loss greater than 5% occurs at fiscal year end.

### **E. Breakeven Rates For Service Centers**

A service center must "breakeven" at the end of a 12 month period, or at the end of a Long Term Agreement period. "Breakeven" is defined by Stanford as follows: "the service center will have a net year-end balance which is within plus or minus (+/-) breakeven % of its total annual expenditures (including any prior year balance carried forward)." That is, the service center's annual revenues must roughly equal its annual expenditures at the end of each fiscal year. For a Long Term Agreement service center, its cumulative revenues must roughly equal its cumulative expenditures at the end of its negotiated multi-year period.

The academic service centers and VSC breakeven amount is 15%. Administrative service centers must breakeven within 5% of total expenses. The "+/- 5% or 15%" breakeven policy provides service center managers with some flexibility in dealing with unanticipated income or expense fluctuations. The difference between the "+/- 5% or 15%" net balance and absolute breakeven (a zero net balance) is carried forward into the next fiscal year. The policies described below as to what happens in the event a service center's net balance is outside the +/- 5% or 15% margin provide strong incentives to manage a service center in conformance with a +/- 5% or 15% year-end breakeven position.

**1. > 5% or 15% (Over-recovery)**

If, at fiscal year-end, a service center's revenues produce a net gain in excess of the 5% or 15% breakeven requirement, the center must refund the entire net over recovery to all its users, proportionately for that fiscal year, bringing the service center's net balance to (approximately) \$0.

**2. > 5% or 15% (Under-recovery)**

If at fiscal year-end, an academic service center's expenses produce a net loss in excess of the 15% breakeven requirement, the entire deficit must either be charged proportionately to all service center users or offset against the service center's guarantee account, thus producing a net balance of (approximately) \$0 for the service center for the fiscal year.

The administrative service centers have no specific guarantee account. The large number of these service centers' customers, including external users, may make a proportionate year-end charge-out of such an under recovery an impractical alternative. Hence, the only practical recourse for a fiscal year-end under recovery greater than 5% may be that the service center must request additional funds from its sponsoring department or from the Provost to cover the deficit.

See the "Practices" Section VI.D.3. and Exhibit B for additional definition and examples of +/- 5% or 15% breakeven calculations. Also, see Section VI.D.2 for discussion of mid-year breakeven requirements.

## **F. Unallowable Costs**

Unallowable costs may not be budgeted or expensed by Academic service centers. This is because Academic service centers often charge a significant part of their business to Organized Research, federally sponsored grants / contracts. (See the Cardinal Curriculum, regarding unallowable activities) Expenses such as unallowable interest, alcohol, entertainment, unallowable travel, etc. must be charged to an unrestricted PTA, instead of to a service center account.

Unallowable costs such as unallowable interest and unallowable interest markup are permitted in the rates of the Administrative service centers. This is to allow these service centers to properly distribute all of the costs associated with their capital assets to their internal and external users.

These unallowable costs included in their rates which are charged to University academic and administrative accounts are removed from the appropriate cost objectives (and, therefore, from the F&A cost rate) during the F&A Cost Study process.

## **G. Capital Equipment**

Effective September 1, 2003 (FY04), the University raised the equipment capitalization threshold for both equipment acquisitions and fabrications to \$5,000. Accordingly, effective FY04, "Capital Equipment" is defined as a stand-alone item with an acquisition cost of \$5,000 or more and a useful life of one (1) year or more.

This capitalization threshold is applicable for all academic and university-level service centers. Capital equipment may not be charged *directly* (as a single year expense or period cost) to a service center. However, depreciation on service center assets can be charged to the service center. Please see Section VI.B.3.b regarding financing of service center assets.

Effective FY04, an item costing less than \$5,000 must be expensed in the year of acquisition.

## **H. External Users**

Organizations or individuals whose ultimate source of funds is outside of the University. External users include students and any members of faculty or staff acting in a personal capacity.

The policies regarding approvals and accounting for sales to external users are disclosed in Section VIII, "Use of Service Center Facilities by External Users."

## **I. Sales Tax and Facilities & Administration Costs (F&A is also known as Indirect Costs)**

Sales tax and F&A costs are not applicable for internal sales. However, sales tax and F&A costs may need to be charged on external sales. Please see Section VIII.B.3. and B.4.

## **J. Records Retention**

Service center charges are subject to audit as long as the grants or contracts which they charge (either directly or indirectly) remain subject to audit requirements. Service centers are also subject to periodic review by the University's Internal Audit department and by external auditors, to evaluate compliance with established university policies and accounting practices. Therefore, service center activities must be adequately documented and records maintained to support expenditures, billings, and cost transfers. Each service center must, at a minimum, retain the following:

- Documentation of the proposal for the establishment and approval of a new service center.
- Documentation as to how the chargeout rate(s) were calculated.
- RAPC's rate approval letter(s).
- Supporting documents related to expenses incurred which are not retained centrally. See [Administrative Guide Memo 34.4](#) for description of centrally maintained documentation.<sup>2</sup>
- Records supporting utilization (level of activity).
- Records supporting the amount and basis of user billings (revenues).

Per [Admin Guide 34.4](#), financial records, supporting documents, statistical records, and all of the records pertinent to a service center's activity should be retained for at least three years, unless a litigation claim or audit is started before the expiration of this period. In these cases, contact the CMA office for the record retention time.

Charges to grants and contracts are subject to challenge at least three, and sometimes four years after the project expires and is fully settled.

Service centers under Long Term Agreements must retain their records until their annual report is audited, or until that year is "closed" by Stanford's cognizant Government agency - the Office of Naval Research, (ONR).

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<sup>2</sup> See the [Administrative Guide Memo 34.4 Retention of Financial Records](#) for list of responsibilities.

## **VI. SERVICE CENTER PRACTICES**

These are the steps necessary to establish and operate a service center throughout a fiscal year. Variations are noted for the administrative service centers, and for the academic stores service centers which are operated on a calendar year basis.

### **A. Establishing a Service Center**

A proposal to establish a new service center should be directed to the RAPC Service Centers Manager. This is often done after a department administrator discusses the logic and feasibility of the proposed service center with the RAPC Service Centers Manager. Such discussions help RAPC to understand the mission of the new center, and the department to understand its new role and responsibilities. Proposals to establish a new service center should be submitted to RAPC at least two months before the proposed start date.

A proposal to establish a new service center must contain the following information:

- The service center award, project and tasks names as they will appear on the expenditure, revenue or operating statements;
- A description of the product(s) or service(s) to be provided, and the potential users (internal and external);
- An explanation as to how the service center rate(s) will be determined, including:
  - a detailed annual expense budget, by expenditure type (including FTE with salary data) for the proposed service center;
  - a description of the activity base, its appropriateness, and the projected level of activity for the first year of operation;
  - the rate calculation(s) using the proposed budget amount(s) and the projected level(s) of activity for the first year of operation.<sup>3</sup>
- A guarantee PTA which has been committed to cover year-end deficits if they occur (required for academic service centers only);

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<sup>3</sup> If a new service center is established in the latter half of a fiscal year, the initial budget and breakeven period may be set for longer than twelve months, to allow the service center time to get itself up and running, and to then be on a fiscal year breakeven period. For example, a service center established in March 2004 could budget and set rates initially for the period through August 2005, and would not be subject to the +/-% breakeven requirement until August 2005. The center would submit an 18 month budget, the center should check budget/forecast amounts at least every quarter.

- The name, title, and phone number of the individual(s) delegated responsibility by the department chairman, or administrative equivalent, for the service center's financial affairs;
- Submit a list of all of the capital assets already purchased that will be used in the service center. The list should contain a description, PO number and SU property tag. A title vest search will be conducted by PMO in order to verify that the equipment may be used in a service center. This list is for capital assets already purchased which will now be used in the new service center. If a PO is in process for assets to be used in the center, the PO should be listed as well.
- Provide the signatures of the department chairman and school dean, or their administrative equivalents, indicating the department's acceptance of financial and operational responsibility for the service center.

Exhibit A of this Manual is a form which may be used to submit the initial service center proposal for review and approval. Other formats may be used as long as the necessary information and approval signatures are provided. A new service center will not be established until signed proposals are received, reviewed, and approved by RAPC.

After the service center proposal is reviewed and approved by RAPC or CMA, RAPC will open a PTA for the new service center.

The RAPC Service Centers Manager then sends notice of the new service center's establishment, its approved rates, and a copy of its initial budget proposal to Stanford's cognizant Federal agency, the ONR. Copies of this letter are sent to the Defense Contract Audit Agency (DCAA), and the service center's department contact.

## **B. Service Center Cost Components**

Following are some general guidelines for the various types of costs which can be charged to a service center to support its activities. Generally, all costs directly associated with the service center's operation should be charged to the service center.<sup>4</sup> However, costs which are unallowable for government costing purposes may not be charged to the academic service centers or the VSC. Therefore, if any unallowable costs are posted to the service center PTA, the center should transfer these costs to their operating, gift, unrestricted PTA as soon as possible. Transfers are reviewed for their timeliness, do not wait until year end to transfer or exceed the “within two months of the end academic quarter” rule, see [Admin Guide Memo 38](#).

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<sup>4</sup> Service centers must inform RAPC of any planned operating or equipment subsidies when submitting annual rates and budgets. (See Sections V.B.3.b. and V.D.1.b.)

## **1. Personnel Costs**

Salaries and the appropriate benefit rate of the service center employees, including lab technicians, machine operators, contingent labor, and other personnel directly involved with the activity of the service center, should be budgeted and charged to the service center. FTE data should accompany budgeted salary data in the annual budget submitted to RAPC.

Administrative staff supporting service center operations should be charged to the center if such support represents 20% or more of that individual's time. Smaller percentages may be charged to the center at the department's discretion. The department should be prepared to provide documentation of that support effort to satisfy audit requirements.

In addition, if a significant portion of salary expense is composed of "overtime" the service center should consult with their ORA financial analyst to develop a separate "overtime" rate. Significant would be in the approximate range of 20% of total salary.

## **2. Supplies and Materials**

The cost of supplies and materials needed to operate the service center should be charged to the center. These costs could include office supplies, special conferences related specifically to the service center, professional services, and technical supplies. While volume discounts and economies of scale may make it prudent to order some supplies in large quantities, goods should not be "stockpiled." Rather, purchase of goods should be reasonably matched with usage.

Other operating expenses which may be included in service center rates are rental and service contracts, equipment operating leases, and professional services. Valid expenses also include charges from another service center.

### *Departmental Stores Service Center Inventories*

If the service center operates to supply a product, i.e. the departmental stores centers, the goods purchased for resale will be charged to its Project/Award and the inventory object code 11405. Service center managers will be offsetting their inventory balance via their allocation journals which will also post sales tax recovery and the center's income.

Only the operating costs required ordering, receiving, and delivering these purchased items are included in the service center account and in the calculation of the service center's breakeven position. The accounting for this type of sale is slightly different than normal service

center sales. (See Section VII.C., "Accounting Practices: Recording Sales of Inventory Items," for further detail.)

### 3. Capital Equipment (Assets)

Service centers must manage and account for capital equipment used in the centers in accordance with the procedures discussed below. These procedures have been developed to ensure compliance with federal regulations regarding the treatment of capital equipment. Although federal regulations do not allow the purchase *cost* of a capital item to be a direct charge to a service center, it is appropriate to charge the center for the depreciation (or principal portion of debt repayment) or lease cost associated with equipment.

#### *a. Property Administration*

The guidelines set forth by Property Management Office (PMO) in the [Property Administration Manual](#) should be followed when purchasing service center equipment.<sup>5</sup> Additionally, the equipment must be clearly identified as a service center asset by proper notation in the purchasing requisition document and in Sunflower as discussed below.

All service center equipment must be identified in the Fixed Asset (FA) Module via Sunflower.<sup>1</sup> Sunflower is being used for both financial and governmental reporting purposes. CMA will use Sunflower / FA to calculate equipment depreciation expenses which are allocable to Federal awards. Therefore, all service center assets, regardless of funding source, must be properly identified in Sunflower / FA as a service center asset.

Sunflower includes several fields of information for each asset, including the following: tag number, asset description, location, acquisition account, department organization code and various other fields. Of particular importance to service centers is the department organization code, which identifies the department which is using the equipment. PMO has established a unique department code in FA for each service center or grouped service centers.

PMO maintains a master list of all of the Department Property Administrators (DPAs) including those that are associated with the service centers. Please refer to the live link on the service center website to access the Master DPA Listing, which is maintained on the

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<sup>5</sup> The *Property Administration Manual* has been revised to incorporate the implementation of the Sunflower Asset System.

<sup>6</sup> The property procedures are located on the PMO website:  
[DPA Look-up](#)

PMO webpage:

[http://ora.stanford.edu/ora/pmo/dpa\\_lookup/default.asp](http://ora.stanford.edu/ora/pmo/dpa_lookup/default.asp). *Service center managers must work with their respective DPAs to ensure that their service center department organization code is properly identified to their assets in Sunflower.* CMA will use these department codes to identify and exclude service center assets from F&A costs allocated to Federal awards.

*b. Funding of Service Center Assets*

As noted above, federal guidelines do not allow the purchase cost of a capital item to be a direct charge to a center. However, depreciation on service center assets may be charged to the service center. Therefore, service centers are required to finance equipment purchases with departmental gift funds or through University Capital Accounting.<sup>2</sup> Refer to Administrative Guide Memo 53.

<http://adminguide.stanford.edu/ch5contents.html> memo 53  
<http://adminguide.stanford.edu/53.pdf>

If the center is interested in obtaining University loan funding they must obtain approval from Capital Projects and Management (CP&M). Please refer to the CP&M website:

<http://cpm.stanford.edu/alternate.htm> for Form 1 procedures.

After approval has been granted by CP&M, Capital Accounting will establish amortization entries in the General Accounting system to charge the center for the principal portion of the debt repayment. The amortization period for financed assets is set equal to the useful life of the asset. The debt amortization is thereby equal to the annual depreciation expense for the asset. The asset categories and useful lives for all University assets are included in Memo 53.

Service center assets acquired with Operating Budget funds, as well as any other assets used by the center, must be identified as service center assets in Sunflower. (See discussion in the Property Administration section above.) Government and non-Government funded equipment cannot be depreciated through a service center.

More importantly, federally-funded equipment, even if title is with the University, cannot be used in a service center unless specifically allowed by the Government sponsor. The service center manager should contact their DPA if use of Government funded equipment is contemplated in a service center.

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<sup>2</sup> Departments may choose to subsidize service center equipment (i.e., purchase equipment with unrestricted department funds and not charge the center for depreciation). This equipment must still be identified as a service center asset (by department code) in Sunflower. It is vital that the equipment is NOT included in the equipment depreciation cost pool for F&A rate cost studies or proposals.

c. *Interest on Debt Funded Equipment*

The interest associated with the debt for financed equipment which costs \$10,000 or more is allowable per revised A-21 Section J.22.e. The University has decreed that although the interest on assets financed from FY05 forward is automatically allowable, interest on asset financed prior to FY05 are not. Therefore, unless the service center prior to FY05 interest on specific capital assets paid to an external party associated with debt for new equipment costing \$10,000 or more was agreed to be allowable by the ONR interest is unallowable.

Service center managers should contact Capital Planning & Management CP&M if they wish to purchase equipment using debt through University external financing. .

Interest will NOT be charged if the equipment funds are obtained from the center's department's gift or unrestricted funds. It is only when the center requires the use of external financing that interest is required. Contact Capital Accounting to see if they are willing to post the monthly amortization payment to the department's gift account and if not, the department should post the monthly depreciation journal.

Starting in FY04, Capital Accounting has begun charging a markup fee for utilizing the University's finances. This unallowable markup can not be posted to an academic or the VSC service center. Therefore for the unallowable markup fee the service center should provide Capital Accounting with an unrestricted or gift PTA.

d. *Asset Categories and Depreciable Lives*

Depreciation is an accounting term which recognizes that a capital equipment asset's value is spread out over a period of useful life, or benefit. The asset is "consumed" over an extended period of time, typically several years. This period is called the useful life of the asset. The following list of asset classifications and useful lives are limited to Stanford assets typically required in a service center. <sup>8</sup>

<u>Asset Category</u>	<u>Depreciable Life</u>
Computer Equipment	3 years
Vehicles	4 years
Scientific/Technical Equipment	5 years
Data Handling Equipment	5 years
Standard Telecommunications Equipment	5 years
Major Software Systems (>\$500,000 capitalization)	10 years
- (not including capital equipment {hardware})	

<sup>8</sup> For assets not shown, please call Capital Accounting or refer to [Admin Guide Memo 53](#).

Shop Machinery and Tools	10 years
Office Furniture & Equipment	10 years
Complex Telecommunications Equipment	10 years

Service center equipment depreciation is calculated on a monthly straight-line basis, and begins the month after the asset is put into service.<sup>9</sup> The cost of the equipment is divided by its useful life to determine each month's or year's depreciation expense. The entry made to recognize this use for a service center is:

*Debit* - Service Center PTA 58665 - SU Internal Principal Amortization

*Credit* - Original PTA for funding for the equipment (the Capital Accounting financing PTA, or the department's gift or unrestricted PTA used for the purchase of the asset)<sup>10</sup>

By the end of the equipment's useful life, the source that funded the purchase of the acquired equipment has been "repaid" by the service center through "amortization" entries.<sup>11</sup>

If the asset was purchased in FY05 forward with University financing, there will also be an external loan interest allowable charge which can be allocated to the service center users in the rates.

*e. Donated Equipment*

An equipment donation is considered to be the equivalent economically of a cash donation which is subsequently used to purchase equipment. When a service center receives an equipment donation, it may be depreciated through the service center, or recorded in a departmental gift account. In either case, the donated asset must be properly identified by the DPA as a service center asset. (See discussion in the "Property Administration" section above.) If donated capital equipment is acquired for use in a service center, refer to the [Property Administration Manual](#) for instructions on recording the asset in the Sunflower, booking the value, and gathering the required supporting documentation. For additional information on the treatment of donated Capital Assets please refer to Exhibit J: Capital Assets.

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<sup>9</sup> For equipment depreciation indirect cost purposes, the useful life for all non-service center assets acquired prior to FY97 was as follows: assets acquired through FY82 are depreciated over 15 years; assets acquired from FY83 through FY92 are depreciated over 10 years, and assets acquired from FY93 through FY96 are depreciated over 8 years.

<sup>10</sup> If equipment is financed (purchased using the Capital Accounting PTA), a sinking fund account is credited for the "depreciation." If equipment was purchased using non Operating Budget department funds (a gift or unrestricted PTA), that gift or unrestricted PTA is credited.

<sup>11</sup> Technically, this is an "amortization" charge, a paying off of the loan of funds used to purchase the asset. For service centers, the amortization (repayment of the loan) schedule is matched to the life of the asset (its depreciation schedule).

#### **4. Facilities & Administrative (F&A) - Indirect Costs**

A service center will usually not be charged for its campus-provided O&M services, or for its utility consumption; these are indirect costs. However, if a service center is an extraordinary user of a utility, it will be charged for that consumption, so that its "above normal" usage cost is passed on directly to its users. The ITSS Data Center, with its mainframe computers, is charged directly for its use of electricity and chilled water due to its heavy demand for those utilities.

A service center will generally not be charged for the cost of its space-depreciation and debt service-except as explained in Section 5 which follows. Nor will a service center be charged for University General and Administrative ("G&A") or other indirect costs.

A Specialized Service Facility Service Center is an exception to the above. Appropriate indirect costs will be allocated to such a Facility, and must be recovered from its users.

#### **5. Capital Project Costs -- Specialized Purpose Building Component**

A "specialized purpose building component" is that component of a building which is above and beyond the normal requirements for office or lab space and which is specifically built to meet the requirements of the service center. Examples of a specialized purpose component include the raised floors for the ITSS Data Center, the special air handling requirements for the Veterinary Service Center's Research Animal Facility, and the University's Utilities' infrastructure systems.

Generally, building costs should not be charged directly to a service center. However, the depreciation and/or debt service for a specialized purpose building component may be charged directly to a service center. This type of expenditure is rare, and must be dealt with on an individual basis. Service center managers should contact RAPC if they anticipate this type of expenditure for their service center operation.

#### **6. Prior Year Balance (PYB)**

If an annual breakeven service center's year-end net balance is within the required 5% or 15% of its net operating expenditures, this amount (the net overrecovery or underrecovery) automatically becomes a component of the service center's next year fiscal position, and should be factored into its rate setting for that year. A prior year overrecovery will reduce the next year's expenditure level; a prior year underrecovery will increase the next

year's expenditure level for purposes of rate setting and of that year's +/- % calculation.

From September 1, 2004 forward the PYB for all service centers is recorded as a +/- amount associated with object code 30001. The amount may not be adjusted during a fiscal year, unless it is with General Accounting's approval and their effort.

When running specific Oracle reports based on the award/fund parameter the PYB will be listed for the award/fund in project 1000000 for each service center.

The PYB amount is used for the calculation of +/- 5% or +/- 15% breakeven.

## C. Service Center Rate Determination

### 1. General Rate Calculation

In its simplest form, or for a one product service center, a service center's rate is cost-based. Users are allocated a share of service center costs based on their relative use of service center products or services. A single, unitized cost rate (cost per unit of output) is used to recover the expense of providing a product or service. This rate is calculated by dividing the total budgeted cost for providing the product or service by the total projected level of activity for the budget period.

"Total budgeted expense" equals all costs directly associated with a service center's operations.

"Projected Level of Activity" is the total estimated volume of work to be performed in a service center, expressed as labor or machine hours, CPU time, or units of products or services to be provided. This is the denominator to be used in the calculation of the service center rate, as shown below. The actual level of activity multiplied by the service center rate determines the amount to be charged to each user.

$$\text{Rate} = \frac{\text{Total Budgeted Expense} \\ \text{(Plus Prior Year Underrecovery, or} \\ \text{Minus Prior Year Overrecovery)}}{\text{Total Projected Level of Activity} \\ \text{for the Budget Period}}$$

**While most service center rates will be cost based for each specific service or product, a service center offering multiple related services**

**or products may establish rates for a variety of services that, in aggregate, recover the total costs of the center.**

Rates are normally calculated on an annual basis for each fiscal year. Adjustments may be made as needed during the year to accommodate changing circumstances and to ensure year-end breakeven within the “+/- 5% or +/-15%”. (See discussion in Section VI.D.2.)

In some instances, rates based on considerations other than costs may be used where warranted and approved by RAPC. In such cases, policies regarding full costing, overall breakeven, and non-discriminatory pricing must still be adhered to.

## **2. Alternative Rate Structures**

Some service centers may experience special circumstances which call for rates utilizing an approach different from the general rate calculation. Tailored rate structures or pricing mechanisms may be used as described below, but only if the resulting rates are non-discriminatory with respect to specific classes of users, e.g., Organized Research.

### *a. Subsidized Rates*

For various reasons, a department may wish to have its service center charge its users less than fully costed rates; and may choose to subsidize center operations with operating budget or other unrestricted funds. In these circumstances, a center should first calculate a fully costed rate in accordance with the “General Rate Calculation” discussed above. A percentage discount can then be applied to the fully costed rate to derive the desired subsidized rate to be used throughout the year. Subsidized rates must be consistently charged to all internal university center users. External users should be charged the fully costed rate(s).

Throughout the fiscal year, all service center expenses must still be charged to the service center account. At the end of the year, the net year-end balance should be evaluated in accordance with the breakeven policies contained in Sections V.E. and VI.D.3.

### *b. Stores Service Centers*

A stores service center rate is determined by dividing its administrative or operating costs by its projected cost of goods sold. Its rate is, therefore, a markup percentage on the cost of goods sold.

The stores service centers will generally incur a low percentage of inventory loss as a normal course of business. 24 hour “self-service”, illegible or incomplete log sheets, closed sponsored accounts, etc. will cause a percentage of inventory loss. The percent of loss is calculated

by dividing "Amount of Loss" by "Cost of Goods Sold" and the annual amount should be within 10%. If the inventory loss is more than 10%, the guarantee account should be charged for the inventory loss amount.

*c. Time-of-Day*

Service centers that have a wide fluctuation in usage during the day may establish a time-of-day rate structure. Higher rates may be charged during hours of peak use, "prime time," to provide incentives to reduce the demand for services during these times. This structure helps all users by improving performance during peak hours and encouraging the utilization of off-peak hours, thereby reducing the cost for additional equipment. This structure should also encourage an increase in volume which should help keep rates low since expenses will be divided over a greater number of users.

Service centers utilizing a time-of-day rate structure must show that all users have an opportunity to use the center during non-peak hours and that no particular user, especially Organized Research, is disadvantaged by the proposed rate structure. This type of rate structure is used most frequently in computer and communications service centers and also with use of scientific equipment such as magnets for magnetic resonance imaging (MRIs).

*d. Computer Shares*

Computer facilities may charge users based on the computer "shares" concept. The computer capacity is divided into shares, gigabytes, etc and users purchase shares/bytes necessary to meet their computing requirements.

*e. Market-based Pricing*

In some instances, analysis of a service center's sales may show that its products or services are sold in substantial quantities both to Stanford users and to the general public. In such cases, federal regulations permit the use of established catalog or market prices, if approved by the cognizant government agency. In other instances, a service center such as a stores or copy center may provide services similar to providers external to Stanford. Because of competitive pricing levels, a service center may be able to charge only what the market will bear for one or more of its products or services. When using market-based pricing, the service center must still comply with the non-discrimination and overall breakeven requirements. *Also, market-based prices can not exceed the actual cost of providing the service(s) in total.* Therefore, as long as the service center breaks even in total some rates may be priced above actual cost while others are below

cost. Remember to charge all users the same rates do not discriminate between them, i.e. sponsored users vs. department users.

*f. Volume Discounting*

Sometimes economies of scale dictate that a large quantity of a product or service can be provided to a customer at a lower overall cost than the normal per unit rate. Such a volume discount is allowed as long as it is 1) disclosed and justified in the service center's proposed budget and rates; and 2) its effect is not discriminatory to a single type of customer, other than by amount of product or service provided.

*g. Other*

Other cost/rate structures to meet specific service center needs may be approved by RAPC, but must be in compliance with Federal Cost Principles (A-21 and CAS).

## **D. Annual Requirements**

### **1. Budget and Rate Submission**

*a. Submission Dates*

Each year, a service center's proposed budget and rate(s) must be submitted to RAPC/CMA between August 1st and September 30th.<sup>12</sup> Even if the service center is not changing its rate(s), a new proposed budget supporting that rate must be submitted for the upcoming fiscal year. Rate approvals are usually specified on a fiscal year basis, i.e., "September 1, 2008 through August 31, 2009."

The large scale Administrative service center budgets are utilized by the Budget Office. These centers generally submit their operational budgets to the Budget Offices database system in the first part of August.

*b. Submission Requirements*

The annual budget and rate submission should include the following:

- **Service Center Budget.** The budget must include the total operating costs of the center, even if some costs will be subsidized with other unrestricted funds. The budget should include line

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<sup>12</sup> When August income and expense are fairly well-known, service centers should strive to submit their budgets and rates to RAPC/CMA as early as possible in August. When this is not the case, service center budgets should be submitted by the end of September.

items for the various service center cost components (as relevant) described in Section VI.B., by expenditure type where possible.

- Service Center Rate(s). All rates used by a center must be submitted to RAPC and disclosed to the Government. If subsidized rates will be charged, both the fully costed rates and the subsidized rates must be submitted to RAPC.
- Service Center Revenues. Projected by estimated usage of service(s) to be provided.
- Subsidies. A center must identify any departmental subsidies anticipated to be used to augment the center's budgeted income. (Use of equipment within the service center that is not financed and depreciated to the service center is also a subsidy. These assets should be identified in Sunflower.)
- External Users. Anticipated sales to external users must be identified in the budget submission.

*c. RAPC Review and Approval*

It is RAPC's goal to have all service center proposed budgets reviewed and new rates approved by the end of November. Notice of RAPC's review and approval of rates is sent to the University's cognizant Government agency, the Office of Naval Research (ONR); with copies to the Defense Contract Audit Agency (DCAA), the responsible individuals in the service center's department, and school and/or department heads/financial management.

If RAPC's review and approval has not been completed, a service center's new, proposed rate(s) may be used for the new fiscal year billings. If any problems which affect the rate(s) are then uncovered in the RAPC review process, these billings must be adjusted, to reflect the actual rates approved.

## 2. Service Center Status Review

### *a. Review Procedures*

Service center managers are expected to evaluate their service center's activity each month, for the following:

- to determine accuracy of billings and expenses charged (including that the proper, approved rates were used to charge);
- to remove any unallowable costs charged to an academic service center to an operating budget or gift account / remove any unallowable costs not associated with capital assets posted to an administrative service center by transferring to an operating budget or gift account; and
- to assess each month's effect on the budget and projected year-end breakeven position.

RAPC/CMA may perform a cursory review of service center income and expense on a monthly basis in the early part of the new fiscal year. RAPC/CMA conducts a detailed, comprehensive mid-year review of the performance of each service center, to identify any problems early and to help ensure that all centers will breakeven by the end of the year. Mid year review data is followed up on and is updated thereafter with review and analysis (as needed) of monthly service center data to fiscal year end.

### *b. Rate Adjustments*

A request to change a service center rate should be made as soon as it appears that the service center will not breakeven at year-end using the previously approved rate. Such requests should be routed to RAPC/CMA for review and approval before the new rate is used.

A request for a rate change must include a revised income and expense budget, an estimate of the level of activity anticipated during the revised budget period, and an explanation of the reason(s) for the changes in budget and rate(s).

If the rate revision results from a prospective change in either services provided or operations, then the rate change may be prospective only. Otherwise, the rate change should be retroactive to the beginning of the fiscal year (to ensure that each individual service center user is only charged his fair proportionate share for total service center usage during the year). Over-recovery in excess of 15% at the time of re-budgeting must be refunded proportionately to all academic service center users billed at the original rates. Under-recovery in excess of

15% must be charged proportionately to all academic service center users, or offset against the center's guarantee account. When adjusting rates mid-year, academic service centers must rebate/recover such that the net balance is within +/-15%. Centers may refund or recover to a zero net balance, at their discretion, at mid year.

Notification of RAPC's review and approval of the revised budget and rate and its effective date is sent to the same distribution as the original rate approval letter.

*c. New Service Rate Request*

If an established service center is requesting a rate for new service please refer to the New Service Rate Request, Exhibit I. If you are requesting a new service rate after already submitting your center's rates for the year, include a revised total service center budget to show you will breakeven at year end.

**3. Breakeven Calculation**

The +/- 5% or +/- 15% breakeven position is calculated as follows:

$$\frac{\text{Net Balance} \\ (\text{Operating Income} - \text{Operating Expense})}{\text{Operating Expense}} \text{ +/- PYB} / \text{Total Exp +/- PYB}$$

The current year's net balance equals a service center's year to date (YTD): YTD revenue less its YTD expense, plus or minus the prior year balance carryforward (PYB).

The prior year balance carryforward may be zero, positive, or negative. If the prior year balance is an over-recovery, it will reduce current year expense; if it is an under-recovery, it will increase the current year expense base for +/- 5% or +/- 15% breakeven calculation purposes.

The percentage of over- or under-recovery experienced to date equals the net balance divided by the YTD expense plus or minus the PYB. Examples of breakeven calculations are provided in Exhibit B.

Service centers having multiple accounts for management purposes, but operating within the same organizational entity, may have these accounts' income and expenses "rolled up" combined for the purpose of the +/- 5% or +/- 15% breakeven calculation. Examples of this are the administrative centers: O&M Shops and Utilities. Or the academic centers: Veterinary Service Center (allowed to breakeven on the subtotal of their various PTAs i.e. animal feed PTA, animal supplies PTA, etc. but it is NOT allowed to break even based on species subsidizing – it is unallowable to

charge more for mice per diem to subsidize large dog per diem). Another service center is the Protein and Nucleic Acid Facility which has multiple services/rates for “Protein Sequencing” all of which should subtotal to within +/- 15%.

#### **4. Fiscal Year-end Close**

In July - August via e-mail, RAPC distributes to each service center manager a memo that discusses the closing process and calendar for that fiscal year end. The memo will also be posted on the service center webpage. General closing process responsibilities are discussed below.

##### *a. Service Center Responsibilities*

- 1) Complete 12th month billing: In order to most appropriately match costs with revenues, it is important to have each month's income billed to the service center's users by the accounting close of that month. This is especially important at fiscal year-end when the service center needs to ensure that its twelve months of expense are matched with its twelve months of income. It is also important to have any adjustments to service center expense made by fiscal year-end.
- 2) Unallowable costs: No unallowable costs or activities should be included in an academic department, service center account. Each center manager must review the center accounts for unallowable costs or activities, and transfer the expense to an appropriate non-service center account.

Administrative service centers are currently only allowed to include certain specific unallowable costs associated with their capital assets in their rates. These centers should review all of their costs for general appropriateness as fiscal year-end approaches.

- 3) Breakeven review: Each manager should estimate his service center's breakeven percentage prior to year-end. (See Section VI.D.3.). Service center recoveries exceeding the +/- 5% or +/- 15% should be resolved in accordance with section V.E. Service center managers should discuss the proposed resolution of recoveries exceeding +/- 5% or +/- 15% with RAPC, and inform RAPC/CMA with the iJournal numbers which correct these situations.

##### *b. RAPC Review*

- 1) Academic service centers

During the closing of twelfth month, RAPC reviews a preliminary report for the academic service center accounts. Each service center is reviewed a final time for unallowable costs, any other activity problems noted during the year, and to confirm the +/- 15% breakeven position.

If RAPC's review discloses any problems, the service center manager is consulted and corrects the problem. Corrective actions include the following:

- transferring an unallowable cost off the service center account;
- completing billings for twelve months of service center usage;
- refunding a greater than 15% overrecovery, in total, to all users proportionately;
- funding a greater than 15% loss, in total, from the guarantee account or by charging it out to all users proportionate to their fiscal year use.

The year end process has been determined and Exhibit F has been updated with year end close deadlines.<sup>13</sup> Academic service centers will need to run their own online reports to determine if hard close entries will be required.<sup>14</sup> Hard close statements will be printed and distributed to the service centers.

## 2) Administrative service centers

The administrative service centers year end balances will be rolled up to the Award/Fund level. Given the larger operational scope and nature of these service centers, hard close entries are often necessary to record and correct expenses after soft close figures are known. RAPC/CMA analysts review both soft close and hard close administrative service center Reportmart statements for possible problems, and for +/- 5% breakeven. Final adjustments must be made in hard close. Hard close statements will be printed and distributed to service centers.

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<sup>13</sup> Most academic service centers do business mainly with Instruction and Departmental Research users and Organized Research users. Charges to sponsored PTAs should be completed in the soft close however if adjustments still need to be made, centers will also have hard close to post final entries. The academic service center PTAs balances will be rolled into their award/fund with a default project and org code.

<sup>14</sup> Departmental stores service centers (calendar year-end centers) must combine parts of two fiscal years, January through August 31 and September through December, to form their calendar year-end operation and breakeven positions. These service center managers and RAPC review their operations and calendar year-end position prior to December, similar to the above, fiscal year timing schedule.

Occasionally, extraordinary or unusual circumstances may cause a service center to unexpectedly end the fiscal year outside the +/- 5% breakeven position. The reasons must be made known to RAPC. Lack of regular, normal departmental managerial oversight is not an acceptable reason to allow non-conformance to the +/- 5% breakeven requirement.

If RAPC determines that the service center could not reasonably have adjusted its expenses or rates in time to achieve fiscal year-end breakeven, the balance may be allowed to be carried forward into the next year's budget and rates. RAPC notifies the Government of such exceptions to policy, the reasons why they occurred, and what corrective actions were taken.

## **5. Annual Reporting to the Government**

After the close of each fiscal year, RAPC submits to the Government a summary status report for each service center. The summary schedule lists the income, expense, and breakeven position for each center. Also documented are the reasons for any center not meeting the +/- 5% or +/- 15% breakeven requirement and the action taken to resolve the problem.

## VII. ACCOUNTING PRACTICES

This section describes in greater detail some of the journal entries required for service center accounting. It is extremely important that service center income and expenses be recorded correctly using the object codes / expenditure types in Stanford's Chart of Accounts that are appropriate to each type of service center.

### A. User Billing

Per [Administrative Guide Memo 38.1 - Allocations and Offsets](#)

“1.d. **Approvals** — Before an allocation journal or feeder is submitted to the financial system, the department processing the journal/feeder must have received approval from an authorized individual for each PTA charged.”

Therefore, a valid account charge number and authorization for work must be provided to the service center prior to allowing user purchase of service center services.

This authorization allows the center to bill the designated account for services. The authorization remains with the service center as backup for billings.

It is recommended that the service center incorporate into their authorization request form:

- approval from the person authorized to charge the account;
- a “maximum” or “not to exceed” dollar amount, or explicitly state “unlimited”;
- an end date if it is a sponsored account;
- a list of who is allowed to charge to the account.

“Uploads” or “Feeders” are available in Stanford's iJournals system for uploading the large numbers of internal billings. This allows the center to set up its charges on a text formatted spreadsheet, which can then be uploaded directly into iJournals. The service center manager should contact the iJournals Contact for information on using these methods.

Service center charges should be made using the 58320 expenditure type, unless a more descriptive and specific expenditure type exists (e.g. 58315 SU Photocopy, 58810 SU Lab Supplies, etc.).

It is helpful to use the same journal description(s) for all regular service center charges. This helps the Controller's office, OSR and RAPC identify billing transactions more readily when searching for data in the accounting system. It is also helpful to include the approved service center rate in the journal description, or the phrase “service center rates approved by RAPC per letter of September 14, 2007.” The time period for which services are being billed should also be specified in the journal.

Additional entries are required for billings to external users. These are described in Section VIII.C., "Sales to an External User."

## **B. Recording Sales**

Service centers use the following revenue object codes to record income for their sales to internal users: 48110, 48115, 48120, etc. Some Administrative service centers should use the revenue object codes 48210, 48215, etc. to record intradepartmental sales to themselves (e.g. Communication Services expenditure for their own telephone lines). Use of multiple revenue object codes enables a service center to track its income from various sources or for various services.

Subsidy income should be booked into an object code that the service center reserves for subsidy entries alone; the suggested object code is 48180. Fiscal year end subsidy entries should be posted to 48180 on an iJournal with a description field stating that the entry is a fiscal year end subsidy. If the subsidy entry can be made before year end, i.e. the department has already determined what amount would be allocated to the service center at the beginning or mid-year; the center should post the entry as the funds are available. Also, the description should state that the entry is a subsidy.

**Sales (income) should never be recorded as a credit to an expenditure code.** Credits for expenses are only used to record amounts received for returned goods and other expense related adjustments. The improper use of such credit entries will understate both service center revenue and expense in the breakeven calculation. As a result, the service center's rate might have to change unnecessarily to adjust for the larger surplus or deficit that would accumulate and be carried forward that year, and the service center's users would be affected by such rate change, as well as University expenditures being recorded incorrectly.

## **C. Recording Sales of Inventory Items**

Object code 11405 has been assigned as the code to identify items purchased for resale to accounts that are not identified at the time of purchase. The purchases are recorded in the service center's Project/Award with code 11405 until a sale is recorded against a specific account. When the "sale" is made, the "inventory" account is credited for the cost of the item sold, the "cost of goods sold" expenditure type captures the cost without markup and the service center account is credited for the "cost of goods sold" and the cost associated with selling that item (the markup rate). "Cost of goods" accounting was required to meet the needs of FAIR and accurate posting of interdepartmental sales. For an example of the accounting entry, refer to Exhibit C.

On very rare occasions the item sold out of "inventory" is capital equipment (fabrication). When this type of item is sold, the charge to the user must be to

a capital equipment (fabrication) expenditure type. The user is responsible for seeing that the proper procedures for purchasing equipment are followed (e.g., that the iProcurement purchase order for capital assets requisition is used and not expensed directly to a service center). Contact Property Management Office (PMO) for assistance or clarification. [PMO](#)

#### **D. Documentation of User Charges**

Documentation of service center user charges should include the level of activity, the rate used to calculate the charges, and the month for which the charge is incurred. This allows service centers to show their users and auditors that the correct rates were used to calculate the amounts charged on monthly allocation journals. Periodic internal or external audits may be conducted on this documentation. Refer to [Administrative Guide memo 38.1](#) section 1.c. Documentation.

## **VIII. USE OF SERVICE CENTER FACILITIES BY EXTERNAL USERS**

Because of the risk of incurring large penalties for improper use of the University's not-for-profit status, Stanford is cautious about allowing external use of service center facilities. The primary reason service centers exist is to share resources and provide services for internal users. Inappropriate outside use of service center facilities could jeopardize Stanford's tax-exempt status for various purposes, give rise to claims of warranty and other liabilities, or appear to involve unfair pricing in relation to service providers in the local business community.

Situations may arise, however, where the unique nature of a service center's products or services and other factors justify allowing external users limited access to those products or services. Also, expanding a service center's volume of business may enable the service center to lower its rates, benefiting internal users.

Such limited external use of service center facilities requires prior written approval as discussed below. Additional accounting and monitoring is also required.

### **A. What is External Use?**

External use of facilities is any use of facilities which is performed by an entity that is not, for the purpose of that use, under the governance, supervision or responsibility of the Board of Trustees of the Leland Stanford Junior University. Depending on several factors, external use of Stanford facilities is restricted or prohibited. Such factors include the category of outside user, where the service or use occurs, what direct benefits (other than financial) are provided to Stanford because of the use and other relevant circumstances. Restrictions and prohibitions are based on capacity concerns (Stanford's own use must take priority over any other use) and legal constraints (principally income and property tax).

External / inter-company / affiliated users are categorized as follows:

- The University Hospitals – inter company
- Faculty, staff, students and patients of Stanford University are external when receiving services outside the context of their work for Stanford. (i.e. Faculty member uses services in the context of his private and separate consulting business.)
- Affiliated organizations are those that have long standing relationships with Stanford and are often housed on or near the Stanford campus, that share in Stanford's educational and research missions (e.g. Center for Advanced Study in the Behavioral Sciences)
- Certain entities whose presence on campus is solely to provide services under contract to Stanford University may be considered affiliated (e.g. American Building Maintenance, legal, consulting and accounting firms using office space and phone lines solely for a current engagement at Stanford)

- Clearly independent entities with no ties to Stanford are external (e.g. drug companies)

There are generally no restrictions on the use of facilities by the University Hospitals. Such use is considered to support the overall mission of Stanford.

Services to faculty, staff, students and patients are usually protected from tax by the so-called “convenience exception” in the Internal Revenue Code. The exemption was created to allow organizations like Stanford to provide services locally to individuals in this category, rather than have them drive long distances to obtain the same service on the outside. However, such is not a blanket protection, particularly in cases where there is a ready market for this service in the surrounding community. The exemption therefore does not apply to services performed off campus. On campus services, if truly provided for the convenience of faculty, staff and students, and to clearly further Stanford’s mission and not merely to generate additional funds, will be allowed for this category.

Services provided to affiliated organizations in the context of establishing and maintaining their physical presence on campus will be permitted (e.g. utilities, communications, maintenance, etc.). In the case of other services, there should be a showing that the provision of the services enhances the mission of Stanford or that obtaining similar services from an outside provider would create a logistical hardship for the entity.

Entities whose presence on campus is solely to provide services under contract to Stanford may draw only those services that would be considered essential to support their presence on campus, and then only in the context of serving Stanford. Such entities must not use Stanford resources to further the interests of other clients. The for-profit operator of a lunch room could use Stanford space to house her Stanford inventory. She would not be allowed to use that space for inventory used in a private catering business.

Clearly independent entities are extremely limited in their use of Stanford facilities. Such use is governed by protocols such as Research Participation Agreements, where such external use provides a meaningful enhancement of the Stanford’s mission (other than financial gain), is not in conflict with Stanford’s regular use and where the facility is unique within a 50 mile radius of Stanford and the using entity.

Please contact the University Tax Director, Chris Canellos, if there is any question on the identification of a user as an external user, subject to the UBIT 15% limitation vs. an associated organization, not subject to UBIT 15% limitation.

## B. Sales to External Users

### 1. Approval Process

The required approvals, as described in a. and b. below, are essentially the same for both academic and administrative service centers.

For all service centers, prior approval is *not* required for the following external/inter-company/affiliated user transactions:

- Cash sales to faculty, staff, and students.
- Sales to the following external / affiliated organizations: Stanford Hospital and Clinics (SHC), Lucille Packard Children's Hospital (LPCH), the Stanford Credit Union, Alumni Association, Eating Clubs, and Stanford Fraternities and Sororities.

For sales to all other external users, the following approval process must be followed by both academic and administrative centers.

#### a. Collaborative Agreements with External Users

The University believes that most transactions between service centers and external users are not collaborative in nature. However, if a service center and an external user collaborate on the intellectual direction, interpretation and/or outcome of the requested service, the external activity is subject to the Research Participation Agreement (RPA) Policy located in the <http://www.stanford.edu/dept/DoR/rph/10-6.html> Please refer to the RPA policy and Implementation Guidelines for an in depth discussion of the approval process and accounting treatment.

#### b. Other Agreements with External Users

The majority of transactions with external users is not collaborative in nature and is subject to the following approval process and accounting treatment. The University has implemented revised policies and procedures for all service center sales (academic and administrative) that are not collaborative in nature. This policy requires that each service center that has, or anticipates having external users, must complete a Service Center External Sales Proposal Routing Sheet and a proposal to provide services to external users. This procedure does not apply to associated organizations.

The proposal must include:

- i. A description of the types of services to be provided and the rates to be charged for them,

- ii. An indication of the anticipated level of external sales, relative to total sales (e.g., 5% of total sales),
- iii. A discussion of whether or not the services to be provided are unique (i.e., are the services easily available locally, within 50 miles?),
- iv. A discussion of how the anticipated external user services support the University's academic mission of education and research,
- v. The corporate status and industry of the anticipated external users (e.g., for-profit, non-profit or individuals, educational institutions, pharmaceutical companies, bio-technical companies, etc.),
- vi. A list of the equipment used in the conduct of providing services to external users (please provide SU tag number and asset description),
- vii. If the external user will be personally using the service center's equipment the Standard Agreement should be signed by each external user prior to their initial use of the service center facility (the service center must retain each signed agreement in its records), Risk Management has required that external users who will be physically utilizing the center's facilities formally acknowledge Stanford's non-liability in case of any accident while they are working on campus and
- viii. The location where the service is to be performed.

The Proposal Routing Sheet (PRS) must be signed by either the school Dean (academic centers) or the Provost (administrative centers). The Service Center Manager is responsible for distributing the signed PRS and proposal to the following University departments for review and approval:

- Risk Management
- RAPC
- University Tax Officer
- Property Management Office

Academic centers must renew their approvals every few years by completing a new PRS and proposal. Administrative centers are granted approval until circumstances dictate that an approval renewal is required.

## 2. Rate(s) Charged to External Users

The minimum rate charged to external users includes the rate charged to internal users, plus sales tax, where appropriate as determined by the University Accounting Officer (Controller's Office), plus the appropriate Facilities and Administrative (indirect) cost rate. A service center may charge an external user a premium rate above that charged to internal users for the same type of service if this is included in the center's proposal. Written approval must be obtained from both the University Accounting Officer and RAPC if the decision to charge a premium rate is made after the blanket proposal has been approved. This premium may be used to offset service center costs.

3. Sales Tax

One of several different state and county sales tax rates may apply. Any tax imposed will be a cost passed on to the service center user. Any sales tax collected becomes a University liability. Sales tax is assessed on cost of goods sold, the service center charge (mark-up) and applicable Facilities and Administrative cost. Refer to the Controller's Office site [http://financialgateway.stanford.edu/staff/bankcommerce/quick\\_steps/process\\_receipt\\_cashiers.html](http://financialgateway.stanford.edu/staff/bankcommerce/quick_steps/process_receipt_cashiers.html) Sales and Use Tax or contact the Accounting Officer, Controller's Office for assistance. Sales tax is not applicable if there is no exchange of tangible personal property, i.e. only services are involved. Note that photocopy charges for personal use by students, faculty or staff are subject to sales tax.

4. Facilities and Administrative (Indirect) Cost Rates

Unless waived by the Budget Office in writing, a Facilities and Administrative (F&A) rate is applicable to all sales to external users for both administrative and academic service centers. Administrative service centers shall charge external users an administrative F&A rate. Academic service centers shall charge external users the full organized research F&A rate. Service center managers should contact RAPC if they have questions regarding these rates. Any F&A costs collected are retained by the University as general funds.

5. Accounting Treatment

Service center sales to external users (excluding cash sales) are recorded in receivable accounts (generally in award range ARxxx - AVxxx) or possibly in the SHC or LPCH hospital PTAs, with the income recorded to an external or misc. income revenue object codes. (See Exhibit C)

a. Research Participation Agreements

As discussed in Section B.1.a. above, if a center and an external user collaborate on the intellectual direction, interpretation and/or outcome of the requested service, the activity is subject to the University's RPA policy. Per the RPA policy, each agreement will be assigned an award in range UBxxx. The PTA attribute determination is based on the nature of the agreement's activities (e.g., organized research, sponsored instruction, or other sponsored activities). [Office of Sponsored Research](#) will open the sponsored account (PTA) after the center has obtained the required approvals as specified in the RPA policy. All service center costs associated with the RPA agreement shall be charged to the established RPA sponsored account using the approved billing rate(s). Similar to transactions with other internal sponsored accounts, the revenue is

recorded to an interdepartmental revenue code in the service center account.

The Tax Director has determined that RPA agreements do not fall into the external user category and may be coded as internal income up to 10% of total income, above dollars should be coded as external. The limit on the combined total of both RPA – 10% maximum and external – 15% maximum is a combined total of 25% of total revenue. The RPA policy, procedures and application can be found on the RPA website:

<http://www.stanford.edu/dept/DoR/rph/10-6.html>

And the RPA information can also be found in the Exhibit E-1 section of this manual.

## 6. Invoices

Direct cost transactions less than \$1,000, or less than \$2,500 in annual aggregate single-user transactions, may be treated as cash sales. (See the following section.)

All billings to external users for direct cost transactions greater than \$1,000, or more than \$2,500 in annual aggregate single-user transactions, (except those transactions covered by the RPA policy) shall be sent out as invoices issued by the Receivables Accounting department in the Controller's Office.

Depending on circumstances, a service center may petition General Receivables Accounting in the Controller's Office for relief from this transaction threshold or to establish alternate methods for external user billings. A few service centers have approved alternative billing practices currently in place.

Receivables Accounting will establish a unique receivable PTA in the award range ARxxx - AVxxx for each outside user. However, under certain circumstances (such as having many low-volume outside users), one receivable account in this range may be established for all external sales with approval from Receivables Accounting and RAPC.

The amounts to be billed are entered by service centers via their allocation journals which charge the receivable PTA and credit the service center account. The Receivables Accounting department then submits the bill to the outside user and processes payment once it is received. Accounts Receivable will attempt to collect any unpaid amounts. However, unpaid amounts ultimately become the responsibility of the service center's parent department. Uncollected amounts will be transferred to the center's guarantee account (academic centers) or to an unrestricted account (administrative centers). Uncollected amounts cannot be charged back to the service center account.

Accounts Receivable assigns specific receivable PTA to each external user so that consolidated statements and invoices can be prepared on a monthly basis. The journals completed prior to each month-end accounting close are itemized in each service center's monthly statements and on-line files, just as they are for internal billings.

#### 7. Cash Sales

Service center cash sales represent University income and must be properly credited to an income object code. Direct cost transactions less than \$1,000, or less than \$2,500 in annual aggregate single-user transactions, may be treated as cash sales. Cash receipts should be deposited at the University Cashier Office in a timely manner. Cash sales for tangible personal property are subject to the sales tax and F&A policies discussed in B.2. through B.4. above. If the cash sale is for services only, sales tax is not applicable. Departmental service centers that have recurring cash sales may want to include a cash sale rate in their annual rate proposal. Contact RAPC when assistance is needed to determine the appropriate F&A rate, and the University Tax Officer (Controller's Office) to determine whether sales tax should be charged, and the appropriate rate.

## C. Completion of External Users Request Forms

### 1. Administrative Service Centers

External use of administrative service centers should be approved by the Provost in writing. The service center should submit the following to the Provost for each external user request.

- Type of service to be provided, including as much detail as possible regarding the unique nature of the service.
- Reason(s) why Stanford should provide the service/product to the potential external user.
- Anticipated users of the service.
- Names of any external businesses or entities that provide similar services. (Stanford may not compete with external providers of similar services).
- Anticipated amount of external income at the service center's approved, nondiscriminatory rates; and any additional income expected for providing the service.
- The location where the service is to be performed (for property tax considerations).

The Provost will review the request with regard to the following, seeking assistance from Legal Counsel, the Controller's Office, RAPC, and other offices as necessary:

- intellectual property rights
- faculty conflict of interest
- whether this is a one time request or a request to provide a continuing service to an outside user
- academic benefits
- unrelated business income tax applicability
- unfair pricing practices
- liability

- appropriateness of indirect cost recovery<sup>15</sup>
- appropriateness of sales tax

If granted, a copy of the written approval will be provided to the service center and to RAPC. The service center must retain this documentation for as long as the service is provided to the outside user. When the service to that specific outside user ends, the service center should follow the instructions outlined in Section V.J. as to records retention.

## 2. Academic Service Centers

The University has a Research Participation Agreement (RPA) policy. This policy defines the procedures for the establishment of agreements to make Stanford personnel, academic facilities and/ or laboratory equipment available to non-Stanford entities. The RPA policy is applicable for all academic service center sales to external entities (except for entities and individuals specifically mentioned in Section VIII. B. above).

The RPA policy is included in the [Research Participation Handbook](#), Document 10.6. A copy of the policy and implementation guidelines is included in Exhibit E. Check the website for any current updates: [http://www.stanford.edu/dept/DoR/rph/rpa\\_imp.html](http://www.stanford.edu/dept/DoR/rph/rpa_imp.html)

In general, the policy requires that academic service centers prepare a proposal and RPA routing sheet. The proposal is reviewed by the Department Administrator and Dean who must sign the routing sheet to indicate their approval for the proposed agreement. The proposal and routing sheet is then sent to the Office of Risk Management, CMA, PMO, the University Accounting Officer, and OSR for review and approval. Blanket approvals may be granted for up to ten individual RPA agreements. More detailed instructions regarding the RPA implementation process and required accounting treatment are included in the RPA Implementation Guidelines (included in Exhibit E-1).

Please contact RAPC as soon as a center anticipates submitting an RPA proposal and submit the list of capital assets' SU property tag numbers for review by PMO.

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<sup>15</sup> The Provost may, in rare cases, waive application of F&A costs to external users, where this is deemed to be appropriate and in the best interests of the University.

## **IX. SERVICE CENTERS AND F&A (INDIRECT) COST SUBMISSIONS TO THE GOVERNMENT**

### **A. Service Center Charges and Costs**

The treatment of service center costs by CMA for purposes of indirect cost submissions is summarized below. It is provided as a framework as to how service center operations affect the calculation of F&A (indirect) cost rates at Stanford. If clarification is needed, please contact CMA.

- All service center charges become a part of the purchasing account's (the user's) Modified Total Direct Cost (MTDC) base for Facilities & Administrative (F&A) [also known as indirect cost (IDC)] calculation purposes, except for Specialized Service Facility (SSF) centers. For example, a service center charge to a Instruction PTA becomes a part of the Instruction and Departmental Research (I&DR) MTDC base, or the Departmental Administration (DA) cost pool. A service center charge to a Sponsored PTA becomes a part of the Organized Research MTDC base. Thus, service center charges draw their share of F&A as a part of the cost objective to which their service was rendered.
- A Specialized Service Facility's, the VSC, charges are excluded from MTDC, because its charges already include F&A (indirect) cost allocations.
- Service center net balances at year-end (the amount carried forward into their next year's rates) are ignored in the F&A Cost Study and Proposal processes.
- A General Funds' subsidy of an administrative service center's greater than 5% loss is included in the other Institutional Activity (OIA) MTDC base in that year's F&A Cost Study.
- Operating subsidies of academic service centers are transferred to the OIA base.
- All service center equipment, including equipment used by the service center but not depreciated to the service center (subsidized), is removed from the equipment F&A pool (as identified in Sunflower).
- Indirect costs included in administrative service center billings to external users are offset against indirect cost pool expenses in the Cost Study.
- Academic external billings are recorded in either designated accounts or sponsored accounts. Designated accounts are included in the OIA MTDC base. Sponsored accounts are included in the appropriate MTDC base, based on the account function code.

- The Government is credited in the F&A Cost Study for unallowable costs included in service center rates charged by academic and administrative service centers to non-sponsored PTAs.
- The Government portion of any accumulated deficit or surplus remaining at the end of a service center's Long Term Agreement period is adjusted in the F&A Cost Study. This amount is determined from the annual LTA service center reports. (Or the service center's balance may be rolled forward, if within compliance or if the LTA is extended or renegotiated.)

## **B. Coding of Service Center Space**

Coding of service center space should follow the guidelines in the Space Inventory Instructions for the current fiscal year. The Space Inventory Instructions can be found on the CMA website. [Space Inventory](#)

Depending upon who its main users are, academic service center space will usually be coded to Instruction, Departmental Research, Organized Research, or occasionally, Departmental Administration. In order to determine the appropriate Space Inventory function code and its percentage of use, service centers must perform the following steps.

- 1) Identify the room(s) where the service center activity occurs.
- 2) Calculate the total square footage (ASF) occupied by the service center.
- 3) If the total from step 2 is less than 2,000 ASF, you may code the room(s) identified in step 1 100% Departmental Administrative [A(100)].
- 4) If the total from step 2 is greater than 2,000 ASF, an analysis of the service center's revenues must be performed. The percentage of revenues by activity, e.g., Instruction, Organized Research, Non-Stanford entity, of the total revenue will determine the percentage of use by Function Code for the space occupied.

Administrative service center space is coded to either G&A or O&M, depending upon the service center's organizational affiliation. There is a separate category of space coding for Specialized Service Facility service centers. Service center managers should contact the CMA Space Analyst for assistance regarding the coding of service center space.