

MASSACHUSETTS INSTITUTE OF TECHNOLOGY

SERVICE CENTER ACCOUNTING AND OPERATING PROCEDURES

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MIT Service Center Accounting and Operating Procedures

A. Establishment of a New Service Center

The establishment of a new Service Center must have the approval of the Head/Director of the requesting department, laboratory or center (DLC). A written request must be submitted to the Office of Cost Analysis for review and approval and must include:

- Service Center Name
- Physical Location (building/room number)
- Description of the goods/services to be provided
- Annual Budget (estimate)
- Annual Usage (estimate)
- Initial User Rate (based on estimates above)
- Details of the calculation of the initial billing rates
- Assessment of the customer base
- Supervisor's Name/Address
- Addressee's Name/Address
- Profit Center/Fund Center Numbers
- Signature/approval of the DLC Head/Director
- Statement of fiscal responsibility (i.e. agreement to cover Service Center deficit)

Cost Analysis will approve the establishment of a new cost collector, provide advice and assistance to the unit in the establishment of the Service Center and provide training on accounting procedures and other issues related to the continuing operation of the Service Center, as needed.

B. Calculation of User Fees/Rates

Billing rates, or user fees, should be calculated to recover no more than the cost of the goods or services provided to users of the Service Center. Since billing rates are calculated based on estimated costs and estimated billable units (i.e. hours, pounds, liters, etc.) it is expected that the revenue generated from billing rates will not be equal to the actual costs incurred. However, the billing rates should be designed to break even over a reasonable period of time. It is important that rates be reviewed frequently, no less than annually, and adjusted as necessary to ensure there is no accumulation of large surplus or deficit balances. When unforeseen circumstances arise that create a large surplus or deficit balance, a rate adjustment must be made promptly to eliminate the surplus or deficit over a reasonable period in order to bring the account balance close to zero within a practical timeframe.

Costs

Recoverable costs include the operating costs of the Service Center that are used in providing goods and services. Indirect costs of operating the Service Center that are paid by MIT and not charged to the Service Center operating account cannot be included in the calculation of billing rates or user fees. Institutional indirect costs

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include; central administrative offices, departmental headquarters cost and the cost of MIT buildings (i.e. building and equipment depreciation, utilities maintenance and custodial costs, etc.). Questions relating to institutional indirect costs should be directed to the Office of Cost Analysis.

Non-recoverable costs that are unallowable according to Federal regulations (“unallowables”), or are not permitted by MIT policy, cannot be recovered through a billing rate or user fee. Some examples of recoverable and non-recoverable costs are;

Recoverable Costs

- Salaries, wages and employee benefits (EB)
- Materials and supplies
- Travel (directly related to the operation of the Service Center)
- Rental or lease costs¹
- Service agreement costs
- Adjustment for prior year(s) surplus or deficit

Non-Recoverable Costs *(should never be charged to Service Center cost collectors)*

- Equipment costs in excess of \$5,000 (Capital Equipment)
- Alcoholic beverages
- Entertainment (including meals with no documented business purpose)
- Advertising and public relations
- Contributions and donations
- Gifts for personal use (mugs, t-shirts, memorabilia, etc.)
- Bad debts
- Internal Interest
- “Reserves” for future expenditures

Billable Units

Once the annual recoverable costs of a Service Center have been estimated, including the adjustment for the prior period(s) over or under-recovery of expenses, these annualized costs are compared to the total estimated billable units for the coming year to compute a billing rate. Total billable units, or total units of output, are the quantity of product generated by the Service Center which is the basis for the calculation of the billing rate. Typical billable units are hours of machine time, hours of labor, number of users, pieces of glassware, or units of measure such as pounds or liters. It is important to recognize that billable units represent the anticipated number of units that will be billed in the coming year, not the highest potential output of the Service Center. For example, a Service Center that bills for hours of labor would not estimate the billable hours for the coming year as 2080 hours (i.e. 52 weeks per year times 40 hours per week). Rather, an estimate of billable hours should take into consideration the estimated time away from work (vacation, sick and personal time), machine downtime and hours for which there are no customers. For example, based on past experience

¹ Agreements covering the lease or rental of space or equipment must be approved in advance by the Office of the Provost and the Office of the Executive Vice President and Treasurer. See part C – Service Center Capital Equipment

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and estimated demand for the coming year, a more realistic estimate of billable labor hours might be 1500 man hours. When estimating billable units it is critical to be realistic and conservative since overestimating the number of billable hours used in the rate calculation will result in a lower rate which will create a deficit (under-recovery of costs). This will make it necessary to significantly increase the rate the following year to recoup the deficit as well as the higher anticipated operating costs for the coming year.

C. Service Center Capital Equipment

Capital equipment (> \$5,000) cannot be purchased using a Service Center internal order. Capital equipment is unallowable because this type of equipment represents a cost from which the Service Center will derive “benefit” over multiple periods. It is not appropriate to charge current users with costs associated with future periods.

Furthermore, Service Center rates cannot be structured to build “reserves” for anticipated equipment replacements. As noted above, it is not appropriate to charge current users with costs associated with future periods.

Therefore, Service Centers have limited options for acquisition of new or replacement capital equipment:

- ◆ Funds to replace existing equipment may be requested from the Service Center Equipment Replacement Fund managed by the Office of the Vice President for Research
- ◆ Acquisitions of equipment which cannot be funded through the Service Center Equipment Replacement Fund (above) may be funded with school or DLC discretionary funds
- ◆ Some DLCs may wish to explore the possibility of donor provided equipment (gifts) to fill specific Service Center needs
- ◆ It is possible, under some circumstances, for schools or DLCs to obtain internal loans through the Treasurer’s Office or Provost’s Office
- ◆ Due to short obsolescence cycles, it may, at times be appropriate to lease rather than purchase Service Center equipment

Note: Use of internal loans may involve the payment of internal interest which cannot be charged to a Service Center and passed to users through a Service Center rate.

Note: Requests for both equipment loans and equipment leases will be considered on a case-by-case basis. Additional information regarding such requests can be found in Part L --- Forms/Assistance

D. Outside Users

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The intention of MIT in operating Service Centers is to facilitate MIT research. However, some Service Centers may, occasionally, offer their services to users outside the MIT community. Service Center managers are encouraged to charge outside users a surcharge equal to the current MIT F&A rate. Use of Service Centers by non-MIT users raises a number of questions related to competition, taxes, and the Institute's mission. Should use of any Service Center by other than MIT personnel become more than "incidental" the Office of Cost Analysis must be consulted.

E. Billing

Proper accounting procedures contribute to the successful operation of a Service Center. Lack of accurate data regarding costs, revenues, and billable units will make it difficult to effectively manage the Service Center and to monitor the operating results.

Service Center activities are recorded in "deferred charge" cost collectors (11xxxxx or 12xxxxx ranges of accounts) in MIT's accounting system. These cost collectors do not close at fiscal year-end but rather carry forward their balances from year-to-year. Once established, Service Center management is responsible for managing the cost collector and adhering to Service Center accounting and operating policies and procedures.

It is critical that there be a matching of revenues and expenses. To accomplish this all expenses and all revenues of the Service Center must be recorded in the same cost collector.

MIT's Office of Cost Analysis is responsible for monitoring, on an aggregate basis, the operation of the Institute's Service Centers. In order to accomplish this, it is necessary that accounting practices be consistent between Centers. Therefore, all Service Center Supervisors/Addressees are asked to "book" Service Center billings in the following manner.

| <u>Service Center Billing Entry</u> | | | | |
|--|-------------------------|---------------------------|-------------------------------------|----------------------|
| | <u>Cost</u> | | | <u>Amount</u> |
| | <u>Collector</u> | <u>G/L Account</u> | | |
| <i>Debit User</i> | <i>6XXXXXX</i> | <i>421500</i> | <i>Service Facilities</i> | <i>3,000</i> |
| <i>Debit User</i> | <i>6XXXXXX</i> | <i>421500</i> | <i>Service Facilities</i> | <i>1,000</i> |
| <i>Credit Service Center</i> | <i>1XXXXXX</i> | <i>801046*</i> | <i>Internal Billings - Services</i> | <i>(4,000)</i> |

* use G/L account 801018 "Income - Outside Services" for billing outside users

Use of G/L accounts other than those above must be approved, in advance, by the Office of Cost Analysis.

F. Annual Review of Rate Calculations

User fees for all Service Centers must be reviewed annually and revised where necessary. Rate calculations for Service Centers with annual expenses in excess of \$100,000 must be submitted annually to the Office of Cost Analysis on or before May 1 of each year for approval. Approved rates will be the billing rates for the next fiscal year.

Service Centers must submit a proposed line-item budget. Budgeted expenses should be listed by GL account group (e.g., Salaries and Wages, Benefits, Supplies, etc.) for ease of review. Estimated revenues must be documented as proposed user fee(s) multiplied by the estimated units of output. Estimated revenues should equal budgeted expense plus or minus operating surpluses/deficits from prior years.

G. Balance Liquidation Plans

At the end of each fiscal year, a Service Center carrying forward a cumulative balance beyond the tolerable threshold of the greater of 1) 15% of its annual expenses or 2) \$2,500 must provide the Office of Cost Analysis with a Balance Liquidation Plan. This Balance Liquidation Plan will outline how the Service Center will liquidate the balance within the next two years. The Office of Cost Analysis will monitor compliance with the plan.

H. Final Resolution of Balance Liquidation

Service Center managers have two years from the time the excess balance is reported and the initial Balance Liquidation Plan is submitted, to adjust the balance. At the end of the two-year compliance period, excess balances (balances above threshold) will be liquidated by the Office of Cost Analysis by funding the excess from a DLC account (deficit) or returning the overcharge to sponsors through the F&A process (surplus).

I. Mid-Year Rate Change

All Service Center managers should continually monitor performance of their Service Centers against the budget used to develop the current billing rates. Should current performance indicate, that a significant under/over billing may occur, resulting in a cumulative balance, at the end of the fiscal year, in excess of the tolerable threshold, a mid-year rate change would be appropriate. Service Center rates requiring annual review/approval by the Office of Cost Analysis (annual expenditures in excess of \$100,000) should not be changed without submission of a request for a mid-year rate change and appropriate supporting documentation being forwarded to the Office of Cost Analysis for review and approval.

J. Closing an Inactive Service Center

Should it become necessary to close a Service Center, the Office of Cost Analysis must be notified by memo/email. In order for the Service Center cost collector to be closed, there can be no open Purchase Order commitments and the Net Cumulative Balance of the cost collector must equal zero.

If operation of a Service Center has ceased and it is to be closed, but the Net Cumulative Balance does not equal zero, the balance must be brought to zero as part of the closing process.

Deficit Balance

A deficit indicates an under-billing of costs. The DLC responsible for the operation of the

-Service Center must fund the deficit with DLC funds.

Surplus Balance

A surplus indicates an over-billing of costs. The DLC responsible for operation of the Service Center must perform an analysis of the Center's users to determine the extent to which Federally funded MIT research projects were charged. A journal voucher will then be executed by the Office of Cost Analysis to transfer the portion refundable to the government into a cost collector which returns the overcharge to the government through the F&A process. If it is determined that a full analysis would not be cost effective, the entire surplus will be liquidated.

K. Education and Training

Cost Analysis provides assistance and advice to DLCs with Service Centers on an ad hoc basis or through training courses. Training is available on an "on demand" basis by contacting the Office of Cost Analysis and Cost Analysis staff are available to consult with Service Center managers in person or by telephone at any time. Questions on the operation of Service Centers, the MIT Service Center Policy/Procedures, or available training should be directed to the Office of Cost Analysis.

L. Forms/Assistance

Request for Service Center Equipment Replacement

To request equipment replacement funds, forward a request form to the Office of the Vice President for Research and copy Sarah Brady in the Office of Cost Analysis

<http://osp.mit.edu/policies/service-center-equipment-replacement-form>

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Request for an advance of internal funds or a lease of capital equipment

To request authorization to lease or an advance of internal funds to acquire service center equipment, a formal request must be forwarded to the Office of the Executive Vice President and Treasurer and the Office of the Vice President for Research with a copy to Sarah Brady in the Office of Cost Analysis. The request must be signed by the appropriate Dean and Department Head or Lab or Center Director, clearly describe the equipment, the need it will fill, and the reason why a loan or lease is necessary and appropriate. The request must include a statement of fiscal responsibility guaranteeing payment/repayment. Additionally, the request must include:

Profit Center #

Service Center Name

Service Center Cost Object #

Discretionary Funds Cost Object # (for interest payments, if necessary)

Note: Should requests be approved, separate equipment rates will need to be developed and billed using unique GL accounts such that no F&A is applied to equipment costs.

Contacts:

Policy, Rate & Compliance Issues

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|------------------|--------------------------|--|--------------|
| Sarah Brady | Manager of Cost Analysis | sarahb@mit.edu | 617-452-3297 |
| Tiffany Melendez | Cost Analyst | tmelende@mit.edu | 617-253-1441 |

Property & Equipment Issues

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|----------------|--------------------------------|--|--------------|
| Kevin Milligan | Associate Director of Property | kmillign@mit.edu | 617-258-8449 |
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