I. POLICY STATEMENT

This policy covers the operation and conduct of service/recharge centers. These centers are an essential element in the educational and research environment of Icahn School of Medicine at Mount Sinai (ISMMS). Even though there is wide variation in size, complexity and services provided, there are administrative commonalities that need to be maintained. This policy statement addresses those administrative features and is intended to help set forth the framework for the fiscal operation of ISMMS service/recharge centers. Every service/recharge center should have formalized and published billing rate(s) that are available to users upon request. It is the responsibility of the Director or responsible person of the service/recharge center to develop and publish the billing rate for his/her center. Sponsored Project Accounting is assigned the responsibility for assisting service/recharge centers with policy or procedural matters concerning the establishment of the billing rates, since these rates may be used to charge Federally funded sponsored projects.

II. Scope of the Service/Recharge Center Policy and Procedures Manual

This policy and procedures manual provides information and guidance on service/recharge center activities that often result in charges to Federal grants and contracts. For policy and procedures manual purposes “center” will cover both service and recharge centers. As part of receiving federal research funds, ISMMS must currently comply with the Federal Office of Management and Budget (OMB) Circular A-21, Cost Principles for Educational Institutions as it pertains to service/recharge center policies and practices. (OMB Circular A-21, as revised is included in a recently released publication entitled Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards; Rule 2013-30465, which will be effective December 26, 2014.) The Sponsored Projects Accounting Office is responsible for ensuring compliance with these regulations. The government monitors compliance with these regulations through the ISMMS cognizant agency, the Department of Health and Human Services.

The costs of service/recharge center services or products must be charged directly to all users based on actual level of activity and these charges cannot discriminate against Federal users. The center rate(s) must be calculated to recover no more or less than the estimated aggregate cost of the service or product over a fiscal period, meaning to breakeven, unless otherwise agreed upon in advance by the Federal government (the concept of breakeven, which is defined as recovery of not more than cost). Recognizing the difficulty of exactly breaking even, the government allows a reasonable balance to carry forward to the next fiscal period.
The center rate(s) must be reviewed and adjusted annually or more frequently, if necessary, to ensure that the service center account does not have a surplus or deficit estimated to exceed the acceptable level of the fiscal period’s total gross expenses. This should normally be +/- 10% of total gross expenses. More significant variations from actuals may require more frequent adjustments.

Centers may not include, equipment cost or any allocation of facilities and administrative (indirect) costs into their rate(s). Such indirect costs are assessed, if appropriate, to the user incurring the center charges via ISMMS’s facilities and administrative (indirect) cost rate, which is negotiated with the cognizant Federal agency.

III. Purpose of the Service/Recharge Center Policy and Procedures Manual

This policy and procedures manual covers the operation and rate setting of centers and provides information and guidance on the allowability of interdepartmental charging for the centers’ goods and services. The principles set forth in Circular A-21 provide recognition of the full allocated costs of research work under generally accepted accounting principles. No provision for profit or other increment above cost is provided for in charging accounts that will be billed or eventually allocated to the government. Circular A-21 stresses the need for consistency in treatment of costs as pertains to the government.

While the specific term “service center” is not utilized in OMB A-21, section J.47 of Circular A-21, this section discusses specialized service facilities, which provides guidance for the treatment of service/recharge centers. The section is explicit in two concepts:

- Recipients of Federal funds are not to recover more than cost; and
- They are not to discriminate in the price of services charged to government users versus those charged to nongovernment users. The government must be charged a price no higher than offered to nongovernment users.

The concept of nondiscrimination, however, does not preclude the institution from charging external users (users outside of the institution) higher rates for services in order to recover overhead (indirect) costs. The rules set forth in Circular A-21 also allow that breakeven may be achieved over a long-term basis if agreed to by the recipient and the cognizant government agency.

Cost Accounting Standards
Research institutions must comply with the following Federal Cost Accounting Standards (CAS):

- CAS 501-consistency in estimating, accumulating, and reporting costs;
- CAS 502-consistency in allocating costs incurred for the same purpose;
- CAS 505-treatment of unallowable costs; and
- CAS 506-the cost accounting period.

Each of these standards is implicit in this policy.
Government Oversight

The Federal government monitors the school’s compliance with these regulations through its cost and audit cognizant agencies. Examples of compliance issues raised by these government officials in the past include the rate setting methodology and treatment of unallowable expenditures including interest, replacement of equipment, and use of reserves. The school’s exposure from noncompliance with Federal regulations could involve reimbursement to the government, as well as adverse publicity which could harm future award applications.

IV. Who Should Read and Understand this Policy and Procedures Manual

1. All persons governed by this policy
2. Principal Investigators who use service/recharge centers
3. Departmental Administrators and other departmental staff
4. Grants and Contracts Office Staff
5. Sponsored Projects Accounting Staff

V. Definitions and Treatment of Service/Recharge Centers at ISMMS

Service Centers

A service center is defined as an operating unit created for the primary purpose of providing a service, a group of services, or products to users principally within the school community. All service centers are subject to the terms and conditions of Circular A-21. Each facility is funded by charging users for actual usage of services at a non-discriminatory rate based upon direct operating costs, normally excluding service center equipment depreciation and interest. Please check with the Sponsored Projects Accounting office before including depreciation, interest, and equipment and other service contract charges in the development of center rates. No indirect costs, other than staff benefits for the direct salaries of those performing the service, are included in service center rates and costs must be recovered (within limitations) over a fiscal period.

The following are some general guidelines for establishing a service center at ISMMS. These are not intended to be all inclusive:

- The volume of service is expected to increase

- Multiple client groups and sources of funds within the school are served

- Both salary and expenses would be charged to users through use of a schedule of rates for products or services
Recharge Centers
Recharge centers are a single function activity which provides a service or benefit to various users (the services are not institution-wide). As an example, where a photocopier is shared by three offices each using a different account number to operate the copier. The cost for each copy will be accumulated and charged back to the user department and credited to the recharge account. These centers are normally not significant operations and normally service a few users.

Annual Service/Recharge Center Rates
The center should develop, on an annual basis, or more frequently, a schedule of rates and charges for all users of the center’s goods and/or services. This schedule should include rates for all users within the institution and for external users.

External users are to be charged at rates at least equal to or higher than the rates charged to internal non-sponsored users, unless known to be charging federally sponsored funds (i.e., other research institutions). Any subsidies or other special arrangements (which should be minimized) with end users must be disclosed to ensure that the centers are in compliance with Federal regulations.

VI. Procedures for Developing a Service/Recharge Billing Rate

Budgeting
A center should have a budget, including a rate schedule before it can begin operations. Each year thereafter, a budget and rate schedule should be developed before rates can be used in the new fiscal period. The service center budget should be developed on an annual basis which corresponds to ISMMS’s calendar year budget. A center should not normally operate during a period for which it does not have budget or rate structure.

The center’s budget should include:
- Projected Expenditures
- Projected Revenue Recovery
- Projected Cash Revenue from External Sources

Budget Cost Components

Direct Personnel
An appropriate portion of the salaries and wages of all personnel directly related to the service center’s activities (e.g., lab technicians or machine operators) should be included in the rate calculation and charged to the center’s operating account. The portion of such an individual’s salary which should be charged to the service center account is that percentage which represents the proportion of effort applied to this activity versus the individual’s other activities.
Administrative Staff
The appropriate portion of the salaries and wages of administrative staff supporting a service center, even if it is only for a portion of their time, should also be charged to the center's operating account and should, therefore, be included in the rate calculation. This category does not include support which is only general administrative support (e.g., the effort of the Sponsored Projects Accounting staff in reviewing proposed rate changes). However, it does include effort applied in direct management of the center operations (e.g., the maintenance of the center's billing system). The portion of such an individual's salary which should be charged to the center account is that percentage which represents the proportion of effort applied to this activity versus the individual's other activities.

Fringe Benefits
Service centers will be allocated fringe benefit costs of all personnel directly charged to the service center operating account. The fringe benefit cost should be used in the calculation of the service center charge-out rate. Contact the Sponsored Projects Accounting office for rate information.

Supplies and Expenses
Materials and Supplies:
The costs of materials and supplies needed to operate the service center should be included in the rate calculation. Volume discounts may make it prudent to order large quantities of supplies at times. Over-accumulation of inventory should be avoided. Usually, a service center will base its operations on an inventory (e.g., a chemical stockroom) or will maintain an inventory of parts and supplies used in providing the service (e.g., a machine shop). Service centers maintaining inventories for these purposes may not treat unused inventory costs as a current operating expense in computing billing rates.

Other Costs:
Other costs associated with the operation of service centers which may be included in service center rates are:

- equipment rental agreements;
- special conferences related specifically to the service center or
- professional services
- Service contracts

These costs should be properly identified screened for unallowable costs. As noted above for capital equipment depreciation, as well as the above mentioned costs, care must be exercised to confirm that these costs are not being recovered through the application of the facilities and administrative (indirect) cost rate. Depreciation and equipment maintenance charges are normally recovered through the application of the facilities and administrative (indirect) cost rate. Please check with the Sponsored Projects Accounting Department to confirm that these costs have not been included in the facilities and administrative cost rate calculation.
Capital Equipment and Depreciation
The costs of capital equipment acquisitions may not be included in the calculation of service center rates. Capital equipment is defined as an item of cost of at least $500 per item and has a minimum useful life of one year. Purchases not meeting these criteria are not considered “equipment”. Software purchased at the time a computer system is purchased can be capitalized as part of the system. The depreciation of the capital item is normally recovered through the application of the facilities and administrative (indirect) cost rate, which is the usual practice at ISMMS.

Federally-funded Equipment
Depreciation of equipment purchased by the Federal government, whether or not title has reverted back to the school, cannot be included in user rates. Federal funding of equipment is identified by its payment from a Federal grant account. Depreciation of equipment used as cost share cannot be included in user rates.

Rate Development
A center rate is the cost per unit of output used to recover the expenses of the center. Center rates are normally calculated for a fiscal year, in certain cases the center representative may find it prudent to make adjustments during the year to accommodate changing circumstances and to assure break-even results. When a center is established in mid-year, rates may be set for longer than twelve months so that the end of the first break-even period coincides with a fiscal year-end. The methods and formulae for calculating user rates vary depending on the types of services offered by the center. An example calculating user rates providing general guidance is as follows:

\[
\text{Budgeted Expenses +/- Prior Year Under/Over Recoveries (+/- 10\%)} \\
\text{Budgeted Level of Activity (Usage Base)}
\]

The budgeted level of activity (usage base) or denominator in the above formula is the volume of work expected to be performed as expressed in units (e.g., labor hours, machine hours, CPU time or any other reasonable measurement that is a driver of the overall expense). The calculated rate using the budgeted activity is then applied to the actual level of this activity when charging users.

For example, a computer costs approximately $100,000 each year to operate (allowable costs) and has an estimated use or activity level of 1,500 hours during that year. This would result in a rate of $100,000/1,500 hrs. = $66.67 per hour. If a researcher uses the computer for four hours for a sponsored project, then his or her award should be charged 4 x $66.67 or $266.68.

The billing rate is established by dividing the appropriate costs by a usage base. There are two methods most commonly used to determine usage base:

1. Consumption and Output Usage Base
   2. Cost of Sale Usage Base.
Selection of an appropriate usage base is essential to ensuring the most accurate application of the service center’s costs to its users.

1. **The Consumption and Output Usage Base Method.** Costs are distributed on the basis of a unit of measurement, i.e., hours, pounds, gallons, etc. The base should be one which incurs expenses in proportion to the unit of measurement. If consumption measurements cannot be reasonably obtained, output may be calculated on a per unit cost, where the total cost of the center is divided by the total anticipated number of units produced per year. Refer to Exhibit I for an example of the consumption bases (billable hours) and the output bases (number of boxes).

2. **Cost of Sale Usage Base** is used for centers which are more products-than service-oriented. A good example would be a chemical stockroom. Since the cost is known for each product for sale, an appropriate allocation based on total operating costs can be established to recoup the operating costs associated with the disbursements of the products. The allocation is added to the cost of the product and the resulting price is what the service center should charge. Refer to Exhibit II for an example of a service center budget with rates established using the sale usage base.

Billing rates for service centers are to be calculated to recover total direct operating costs. Facilities and administrative (indirect) costs should not be included in the calculation. These costs will be recovered in part through the school’s application of its negotiated facilities and administrative (indirect) cost rate.

**VII. Recovery Requirements**

This section sets forth guidance governing centers to ensure compliance with Federal cost principles. As noted above, Circular A-21 contains the cost principles used to determine amounts that may be recovered from Federal grants and contracts. The principles of Circular A-21, with regard to rates based on cost and nondiscriminatory pricing, apply to the determination of center rates used for billings at the institution. (As noted in Section II, Scope of the Service/Recharge Center Policies and Procedures Manual, beginning December 26, 2014, applicable guidance will be included in the OMB issued final rule 2013-30465 entitled Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards.)
Nondiscriminatory Rates
Rates charged to internal users must be nondiscriminatory for federal awards, and all internal users should be billed for services received. "Nondiscriminatory" means that a service center will charge all federal users at the same rate for the same level of services or products purchased in the same circumstances. Therefore, rates should not discriminate against federal users within the school community. The use of special rates, such as for high volume work and less demanding non-scientific applications are allowed; but they must be equally available to all users who meet the criteria. Further, these rates should be outlined and published along with the general rates.

Subsidies
Subsidies may be furnished to, for example all Federal awards and sub awards may be provided a subsidy. If a subsidy is furnished criteria for implementation are outlined below. Subsidies must follow these criteria:
- All costs must be included when developing rates
- Must be documented
- For subsidy of the entire service center and/or machine/product:
  - Include subsidy in the rate calculation
  - Transfer the subsidy into the service center account

Entire Customer Base
The service center would develop the budget accounting for direct operating allowable costs. The total estimated costs would then be reduced by the agreed upon subsidy amount. The adjusted total costs (total estimated cost – subsidy) would be used to develop the rate (the numerator) for all customers. The subsidy must be transferred into the service center account. The entire customer base (total estimated cost – subsidy) is the method recommended and most frequently used by the school’s service centers.

Individual Customer Group
The service center would develop the budget, accounting for direct allowable costs. The rate is then developed based on the total costs (numerator). The subsidy amount is recorded on the invoice and then applied to each individual/group that is eligible for the subsidy. The subsidy must be transferred into the service/recharge center account.

Invoicing and Invoicing Period
In charging out services to users, the invoice should include, to the extent possible, descriptive information that is sufficient to permit the reviewer of the charge to determine whether the charge is consistent with the goods and/or services provided. Invoicing should be done as close to the provision of service as possible, monthly invoicing and processing of charges is recommended.
Services should not be billed until the service has been rendered; that is, prepayments are not appropriate. Each center must operate in accordance with the school's fiscal year, which is January 1 through December 31. Centers should handle year-end billings consistently to ensure that twelve months of cost recovery are associated with twelve months of incurred cost. This provides a more accurate breakeven calculation at year-end.

**Breakeven Concept**

Center rates are generally calculated based on budgeted projections of operating expenses and projected volume of the services or products to be provided. The goal of the center is to calculate a rate which will ensure that revenues reasonably offset expenses. "Operating at breakeven" means there is no significant profit or loss as a result of charging users for the services provided in any particular period, and no profit or loss over the long run.

If a service center ends a given fiscal year with an operating surplus a threshold of a 60 day working capital allowance can be used as guidance of how much may be carried-forward into the calculation of the next year’s rate. The amount above the 60 day working capital allowance would be factored into the calculation for the next fiscal year.

**Long-Term Breakeven Agreements**

In unique situations, when a service center requires a multiple-year period in which to recover or spread out operating costs, a long-term breakeven agreement may be negotiated. This usually occurs when operations require large initial capital equipment and building costs. However, such agreements must be negotiated by Senior Vice President Finance with the cognizant Federal agency.

**Unallowable Costs**

Unallowable costs may not be budgeted or expensed on center accounts and may not be included in the user rate calculations when prohibited by Circular A-21. Such expenses (e.g., alcohol, entertainment, unallowable travel) must be excluded from the rate calculation. Refer to Section J of Circular A-21 for a list of unallowable expenses. Beginning December 26, 2014 refer to General Provisions for Selected Items of Cost, paragraphs 200.420 – 200.475, included in the Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards.

**VIII. Responsibilities**

Ultimate responsibility for the service/recharge centers rests with the department and/or the shared research facility director appointed by the Dean. The designated administrative representative monitors the operation and takes corrective actions as needed. The representative has an obligation to ensure that:

- a schedule of rates for service centers is prepared;
- the service center’s financial results with respect to "breakeven" are reviewed at year-end, and future rates are adjusted for over-recoveries or under-recoveries as appropriate;
the approved rate schedule is applied in accordance with CAS to all users;

- ensure that the department chair and or administrator is kept informed of service center matters; and

- billings are timely and adequately documented, and receivables are controlled and reconciled;

- All service center revenue must be credited to the same fund(s) account(s) that generated the center expenses.

IX. Monitoring Procedures

Periodic Review of Rates
Service center director (or) his/her representatives should evaluate their center’s financial results on a monthly basis and adjust rates, as appropriate. A comprehensive review will be conducted during the school’s annual budget process for major service centers and also by center leadership at year end.

Billing Internal and External Users
Since the billing system must follow guidelines of the Federal government Circular A-21, proper documentation of costs is required to continue receiving Federal support. Documentation should be recorded and retained to support labor, materials, supplies and amount of usage. All documents used to charge either internal or external users must contain both the level of activity and rate charged to ensure that only approved rates are used and that computations are made correctly. It should be noted that Service/Recharge Center must maintain documentation to support the labor component of the rate. Moreover, billing is not to be done in advance of the actual occurrence of the expense.

- Internal Users

An internal user is defined as department or other entity within the institution. All federal users must be charged the same rate or set of rates for the same services. For example, individuals whose research is sponsored cannot be charged at a higher rate than those whose research is not sponsored. They must not be billed outside the accounting system. Moreover, billings should be done as soon possible after the occurrence of the expense. It may be prudent to bill customers on a monthly basis.
• External Users

Service centers are established primarily to meet the programmatic needs of the institution community. Permitting the use of facilities and services by parties not otherwise affiliated with the school as employees or students or by faculty and students for non-school activities jeopardizes the school’s tax-exempt status, may create warranty and liabilities and may promote unfair pricing practices in relation to the local business community. There may be, however, situations where the uniqueness of a service or other factors may justify a service center’s product or service availability to non-school users. Particularly where the outside user is another not-for-profit entity with a similar mission to that of the schools.

Operating Accounts

Service center operations are classified as organized activities and their operating accounts should include both revenue and expenditure activity. It should be noted that revenue received from services provided must be credited to the same fund(s) account(s) that generated the charges. Failure to properly credit these funds, could cause duplicated recovery, when the facilities and administrative (indirect) cost rate is applied to awards. It is the responsibility of the department to ensure that funds from external billings are collected and that the receivables are controlled and reconciled.

Over- or Under-Recovery of Costs at Fiscal Year End

Although a service center targets breakeven, it is not always possible to be exactly at zero. In the case of an over-recovery (surplus), if the amount is less than or equal to 60 days of working capital, the service center may retain the amount in the service center operating account. Any amount greater than 60 days of working capital must be factored into the rate calculation for the following fiscal year.
ICAHN SCHOOL OF MEDICINE AT MOUNT SINAI

Exhibit 1 Example of a Consumption and Output Usage Base Method and Rate Calculation

Operating Expenses

<table>
<thead>
<tr>
<th>Expense by Type</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries &amp; wages</td>
<td>450,000*</td>
</tr>
<tr>
<td>Fringe benefits (@ 29%)</td>
<td>130,500</td>
</tr>
<tr>
<td>Supplies</td>
<td>25,000</td>
</tr>
<tr>
<td>Materials</td>
<td>60,000</td>
</tr>
<tr>
<td>Telephone</td>
<td>20,000</td>
</tr>
<tr>
<td>Consultant</td>
<td>20,000</td>
</tr>
<tr>
<td>Prior Year (Surplus)/Deficit</td>
<td>(35,000)</td>
</tr>
<tr>
<td>Not applicable when setting rates in first year.</td>
<td></td>
</tr>
<tr>
<td>Total Expenses</td>
<td>670,500</td>
</tr>
</tbody>
</table>

*Note: When computing salaries and fringe benefits, only account for the percentage of time that the individual(s) spend(s) on the service provided. Apply that percentage to the yearly salary amount and add fringe benefits at the approved rate. Add supplies, materials etc. related to the specific service, to arrive at total expenses for that service. A calculation is required for each service provided. Keep the appropriate records to document the percentages of time applicable to each service provided.

Consumption Rate

Example 1 - Hours

Example for individuals 75% dedicated to the service provided:

1. Available hours/person/year = 37.5 hours/week x 1 person x 52 weeks = 1,950 hours
2. Less:
   - PTO (217.5) hours
   - Holidays (60) hours
3. Billable hours/person/year = 1,672.5

Billable hours/person/year = 1,672.5 x required 8 people = 13,380 Total Billable Hours X 75% for service provided = 10,035

<table>
<thead>
<tr>
<th>Total Expense</th>
<th>$670,500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Billable Hours</td>
<td>10,035</td>
</tr>
<tr>
<td></td>
<td>= $66.82/hour</td>
</tr>
</tbody>
</table>

Example 2 – Boxes

(1) Total Boxes Produced = 500

<table>
<thead>
<tr>
<th>Total Expense</th>
<th>$670,500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Boxes Produced</td>
<td>500</td>
</tr>
<tr>
<td></td>
<td>= $1,341/box</td>
</tr>
</tbody>
</table>
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Exhibit II Example of Cost of Sale Usage Base and Rate Calculation

Operating Expenses

<table>
<thead>
<tr>
<th>Expense by Type</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries &amp; wages</td>
<td>30,000</td>
</tr>
<tr>
<td>Fringe benefits (@ 29%)</td>
<td>8,700</td>
</tr>
<tr>
<td>Office Supplies</td>
<td>1,000</td>
</tr>
<tr>
<td>Other (Identify)</td>
<td>3,200</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>42,900</td>
</tr>
</tbody>
</table>

Note: When computing salaries, wages and fringe benefits, only account for the percentage of time that the individual(s) spend(s) in service to the service center. Apply the percentage of time that the individual is dedicated to the service center to arrive at the appropriate salary, wage allocation. Keep the appropriate records for documentation of the percentages used.

Costs of goods to be purchased or drawn from inventory for use in the fiscal year

<table>
<thead>
<tr>
<th>Goods/Products by Type</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemicals</td>
<td>140,000</td>
</tr>
<tr>
<td>Glassware</td>
<td>60,000</td>
</tr>
<tr>
<td>Total Estimated Purchases</td>
<td>200,000</td>
</tr>
</tbody>
</table>

Operating Allocation (%)

\[
\text{Operating Expenses} = \frac{42,900}{200,000} = 21.5\%
\]

Application

1 pint of acid with a purchase price $10.00 given to user

Service center should charge user:

\[
$12.15; \text{ where:}
\]

(A) Cost of Sale = $10.00
(B) Operating Allocation % = 21.5%
(C) Customer Charge = $10.00 + $2.15 \ (A\times B) = $12.15