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## Service Centers

*Responsible Office: Division of Sponsored Program Administration*

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### 1.0 Purpose

To document the fiscal controls under which internal service centers operate.

### 2.0 Policy

#### 2.1 Overview

It is important that service centers operate in a professional and fiscally prudent manner. Service centers provide a service to the institution that is not readily available outside of the institution, can be provided more cost-effectively internally, or that supports the research function and overall mission of GHSU more efficiently than could an outside vendor. Some examples of service centers include scientific apparatus repair shops, instrument-making shops, mailing services, chemical stores, office-machine repair shops, central stores, and animal care facilities.

Since service center activities can result in charges, directly or indirectly, to federal grants and contracts, the institution must comply with generally acceptable cost accounting standards and the Office of Management and Budget (OMB) Circular A-21. Non-compliance with Federal regulations could require reimbursement of inappropriate charges to the government and/or payment of penalties.

#### 2.2 Types of Charge-Out Entities

**2.2.1 Service Center:** A department or functional unit that performs specific technical or administrative services primarily for the benefit of the internal users, and incidentally to external customers, and that charges users for its services through a charge-out rate. Service centers function as nonprofit businesses, funding operations through fees from users. Also referred to as recharge center.

**2.2.2 Specialized Service Facility:** Service centers with annual operating budgets exceeding \$1,000,000 or that generate significant charges to Federally sponsored agreements either as a direct or indirect cost.

**2.2.3 Auxiliary Enterprise:** An activity that provides goods or services primarily to students, faculty, staff, and others for their own personal use rather than as a service to internal institutional operations. Examples of auxiliary enterprises include residence halls, dining halls, and bookstores. Auxiliary enterprises are not subject to this Policy Statement.

**2.2.4** See additional definitions in Definitions Section at end of policy.

#### 2.3 General Policies:

**2.3.1.** Separate PeopleSoft chartfield combinations using class code 41100 (Department Sales/Services) will be established in the institutional accounting system to record the actual direct operating costs of the service center, internal service center support costs, revenues, billings, collections, and surpluses or deficits.

**2.3.2** Service centers are to operate on a break-even basis. Billing rates will be designed to recover the direct operating costs of providing the services on an annual basis. No costs other than the costs incurred in providing the services are to be included in the billing rates. The costs should exclude unallowable costs and be net of applicable credits. Rates may not be based on what others charge for similar services or what the service center believes users are willing to pay.

**2.3.3** Service centers with direct operating costs exceeding \$100,000 per year are to include internal service center support costs in their billing

rates where feasible.

2.3.4 Specialized service facilities may also include institutional Facilities & Administrative (F & A) costs in their billing rates. Rates that include institutional F & A costs are said to be “fully loaded” because they include their allocable share of operations & maintenance, building & equipment depreciation, and other F&A expenses associated with the service facility. The Division of Sponsored Program Administration should be contacted to assist with the development of fully loaded rates.

2.3.5 Billing rates are to be computed annually prior to the budget process preceding the fiscal year for the rates being calculated. The rates should be based on a reasonable estimate of the costs of providing the services for the year and the projected number of billing units for the year.

2.3.6 The billing unit(s) should logically represent the type of service provided. For example, number of assays processed, number of tests performed, or machine time used are typical billing units. The billing rate computation must be documented.

2.3.7 Computations are to include all costs directly related to the service or end product being provided. These costs may include salaries and fringe benefits of employees working in the service center, supplies and materials, directly related travel, animal and animal care costs, and subcontracts and contracts for outside services, such as equipment maintenance contracts. Exclude all unallowable costs.

2.3.8 All users must be charged for the services they receive and be charged the same rates, with the exception noted in item 9 below, unless a subsidy is provided from another source. When a user is not charged, the chartfield combination providing the subsidy must be charged.

2.3.9 Users external to GHSU may be charged a rate that exceeds costs. External users may not be charged less than internal users. The amounts expected to be received must be included in the rate calculation to reduce the overall rates charged to internal users. For subsidized rates, the external billings should also reduce overall subsidization.

2.3.10 Billing rates are to be reviewed at least annually and adjusted when necessary. Reviews should be performed more frequently for new service centers or when costs/revenues are uncertain. Unless the service center is subsidized, deficits or surpluses should be carried forward as an adjustment to the billing rates of the following year.

2.3.11 Service centers will operate in accordance with GHSU's fiscal year. Service centers will handle year-end billings consistently each year to assure that twelve months of revenue are associated with twelve months of incurred costs.

2.3.12 Sales of goods or services to entities outside the GHSU Community may raise legal, tax, accounting and community relations issues. Managers of service centers should use extreme caution in making such services available. Concerns about unfair competition can arise if the external user does not pay the full unsubsidized rate. Service Centers should not make direct solicitations of external sales or advertisements to the general public. Any deviation from the above should be discussed in advance with the Office of Legal Affairs.

#### 2.4 Subsidized Service Centers

The institution, a college, or a department may elect to subsidize the operations of a service center, either by intentionally charging billing rates lower than costs or by not making adjustments to future rates for a service center's deficits. Service center deficits caused by intentional subsidies cannot be carried forward as adjustments to future billing rates. It is important that the subsidy be clearly identified during the rate calculation so that the total cost of providing the service is documented and so that the cost of a service can be imputed in those instances when a user is not charged.

#### 2.5 Service Centers That Provide Multiple Services

Where a service center provides different types of services to users, separate billing rates are to be established for each service that represents a significant activity of the service center. Costs, revenues, surpluses and deficits should also be separately identified for each service. The surplus or deficit related to each service should be carried forward as an adjustment to the billing rate for that service in the following year or the next succeeding year. Unless the service center is subsidized (see above), the surplus from one service may be used to offset the deficit from another service if the mix of users and level of services provided to each group of users is approximately the same.

#### 2.6 Records Retention

Financial, statistical and other records related to the operations of a service center including units of service charged out and rate calculations must be retained for seven years from the end of the fiscal year to which the records relate. For example, if a billing rate computation covers the fiscal year ending June 30 2006, the records supporting the computation must be retained until June 30, 2013.

#### 2.7 Technical Assistance

The Division of Sponsored Program Administration and the Office of Controller-Financial Accounting are available to provide technical assistance and advice on the financial management of service centers. This assistance may be requested in connection with the development of billing

rates, cost allocation procedures, recordkeeping, etc.

## 2.8 Review of Service Centers

The Division of Sponsored Program Administration will review service center revenues, expenses and surpluses/deficits annually and will also review rate calculation schedules to verify that rates comply with government requirements related to sponsored activities.

The Division will provide a rate development worksheet to guide rate calculation.

## 3.0 Definitions

**3.1 Applicable Credits:** Transactions that offset or reduce costs, such as purchase discounts, rebates, allowances, refunds, etc. For purposes of charging service center costs to federally sponsored programs (either directly or through the institution's indirect cost rate), applicable credits also include any direct Federal financing of service center assets or operations, for example through center core funding from Program Project awards.

**3.2 Billing Rate:** The amount charged to a user for a unit of service. Billing rates are usually computed by dividing the total annual costs of a service by the total number of billing units expected to be provided to users of the service for the year.

**3.3 Billing Unit:** The unit of service provided by a service center. Examples of billing units include hours of service, animal care days, tests performed, machine time used, etc.

**3.4 Deficit:** The amount by which the costs of providing a service exceed the revenue generated by the service during a fiscal year.

**3.5 Institutional Facilities & Administrative (F & A) Costs:** All costs of administrative and supporting functions of the University. Institutional F & A costs consist of general administration and general expenses, operations and maintenance expenses, administrative and supporting services provided by academic departments, libraries, and special administrative services provided to sponsored programs. F & A costs were previously referred to as "indirect costs."

**3.6 Internal Service Center Support Costs:** All costs that can be specifically identified to a service center, but not with a particular service provided by the center, such as the salary and fringe benefits of the service center director.

**3.7 Surplus:** The amount by which the revenue generated by a service exceeds the costs of providing the service during a fiscal year.

**3.8 Unallowable Costs:** Costs that cannot be charged directly or indirectly to federally-sponsored programs. These costs are specified in Circular A-21. Common examples of unallowable costs include institutional advertising (advertising the service center within the institution is allowable), alcoholic beverages, bad debts, charitable contributions, entertainment, fines and penalties, goods and services for personal use, interest (except interest related to the purchase or construction of buildings and equipment), lobbying, memberships, public relations, and contingency reserves.

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