

# University of South Alabama

## Policy on Service Centers

### I. Purpose

This policy establishes the University of South Alabama (University) policies and procedures for the financial management of service centers.

### II. Definition of Service Center

An activity that performs specific technical or administrative services primarily for the internal operations and charges users for its services through a charge-out rate(s).

### III. Other Definitions

- **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 Facilities and Administrative (F&A) cost rates), applicable credits also include any direct federal financing of service center assets or operations (e.g., the direct funding of service center equipment by a federal program.).
- **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 university operations. Examples of auxiliary enterprises include residence halls, food service, and bookstores.
- **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.
- **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.
- **Direct Operating Costs:** All costs that can be specifically identified with a service center. These costs include the salaries and fringe benefits; materials and supplies; purchased services; travel expenses; equipment rental or depreciation; interest associated with equipment acquisitions; etc. These costs do not include institutional facilities and administrative costs.
- **Equipment:** An item of tangible personal property having a useful life exceeding two years and an acquisition cost of \$5000 or more. Purchases under these guidelines are considered consumable supplies.

# University of South Alabama

## Policy on Service Centers

- **Institutional Facilities & Administrative (F&A) Costs:** Are costs that cannot be readily and specifically identified with a specific project, program or activity but which provide an overall benefit to the University and sponsored agreements. Institutional F&A costs consist of general administration and general expenses such as executive management, accounting, payroll and personnel administration; operations and maintenance expenses, such as utilities, building maintenance and custodial services; building depreciation and interest associated with the financing of buildings; administrative and supporting services provided by academic departments; libraries; and special administrative services provided to sponsored programs. F&A costs were previously called “indirect costs.”
- **Surplus/Deficit:** The amount that the revenue generated by a service is over/under the costs of providing the service during a fiscal year.
- **Unallowable Costs:** Costs that cannot be charged directly or indirectly to federally-sponsored programs. These costs are specified in Office of Management and Budget Circular A-21 (A-21). Common examples of unallowable costs include alcoholic beverages, bad debts, charitable contributions, entertainment, fines and penalties, and goods and services for personal use.

#### IV. General Policies

Billing rates should be designed to recover not more than the cost of the services over a long-term period. Accordingly, it is not necessary that the rates charged for services be equal to the cost of providing those services during any one fiscal year as long as the rates are reviewed periodically for consistency with the long-term plan and adjusted if necessary. Only costs incurred in providing the services should be included in the billing rates. These costs should exclude unallowable costs as prescribed in A-21 and be net of applicable credits.

Service Centers have three categories. The categories are based on annual direct operating costs of the service center. The categories are:

1. Major Service Centers are generally operations with direct operating costs that exceed \$1,000,000 per year. Billing rates should include their direct operating costs and their allocable fair share of F&A costs.
2. Minor Service Centers are generally operations with direct operating costs that exceed \$100,000 but are less than \$1,000,000 per year. Billing rates should include their direct operating costs only. The Institutional F&A costs associated with Minor Service Centers should be recovered through the F&A rate process.

# **University of South Alabama**

## **Policy on Service Centers**

3. Recharge Accounts are generally operations with direct operating costs less than \$100,000 per year. The difference between billed costs and actual costs can be recovered through the F&A rate process. Billing rates should include their direct operating costs only.
- Billing for Major and Minor Service Centers rates should be computed annually. 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.
  - The billing unit(s) should logically represent the type of service provided.
  - The billing rate computation must be documented.
  - All University users must be charged for the services they receive and be charged the same rates.
  - Outside parties (other than University) can be charged a rate that exceeds costs.
  - Separate account(s) should be established in the University's 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. Records documenting the units of service provided should also be maintained.
  - The billing rates should be reviewed at least annually and adjusted when necessary. The reviews should be performed more frequently for new service centers or when the costs/revenues are uncertain.
  - Actual costs and revenues should be compared at the end of each University fiscal year. Deficits or surpluses should be carried forward as an adjustment to the billing rates of the following year or the next succeeding year. Where feasible, the adjustments may be made by increasing or decreasing the charges made to users.

### **V. Service Centers That Provide Multiple Services**

Where a service center provides different types of services to users, separate billing rates should be established for each service that represents a significant activity of the service center. The 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 future years.

# University of South Alabama

## Policy on Service Centers

### **VI. Cost Allocation**

Where separate billing rates are used for different services provided by a service center, the costs related to each service must be separately identified through a cost allocation process. When cost allocations are necessary, they should be made on an equitable basis that reflects the relative benefits each activity receives from the cost. For example, if an individual provides multiple services, an equitable distribution of his/her salary among the services can usually be accomplished by using the proportional amount of time the individual spends on each service. Other cost allocation techniques may be used for service center overhead and institutional F&A costs such as the proportional amount of direct costs associated with each service, space utilized, etc.

### **VII. Equipment Purchases**

Expenditures for equipment purchases cannot be included in the costs used to establish service center billing rates. The rates, however, should include depreciation of the equipment. Including equipment depreciation in the billing rates will generate funds that will enable service centers to purchase equipment. The funds represented by the depreciation should be set-aside in an equipment replacement reserve account. When a service center needs to purchase a new item of equipment, the equipment should be purchased from this equipment replacement reserve account. If the amount in the equipment replacement reserve account is not sufficient to cover the cost of the new equipment, other (non-service center) funds must be used.

### **VIII. Variable Billing Rates**

All users within the University should normally be charged the same rates for a service center's services. If some users are not charged for the services or are charged at reduced rates, the full amount of the revenue related to their use of the services must be imputed in computing the service center's annual surplus or deficit. This is necessary to avoid having some users (particularly federal) pay higher rates to make up for the reduced rates charged to other users. This requirement does not apply to alternative pricing structures related to the timeliness or quality of services. Pricing structures based on time-of-day, volume discounts, turn-around time, etc. are acceptable, provided that they have a sound management basis. Such pricing cannot recover more than the costs of providing the services, and must not discriminate against any class of users, e.g. federal vs. nonfederal programs, student vs. faculty, etc.

# University of South Alabama

## Policy on Service Centers

### **IX. Services Provided to Outside Parties**

If a service center provides services to individuals or organizations outside of the University, the billing rates charged to these users may be higher than those charged to internal users but not lower. Any amounts charged to outside parties in excess of the regular internal University billing rates should be excluded from the computation of a service center's surpluses and deficits for purposes of making carry-forward adjustments to future billing rates. These amounts may be used as a source of funds for equipment purchases or replacement. Revenue from outside parties may have Unrelated Business Income Tax (UBIT) implications.

### **X. Transfers of Funds Out of Service Centers**

It is not normally appropriate to transfer funds out of a service account into the University's general fund or other accounts. Transfers can only be made for the amount of accumulated depreciation or for the amounts charged to outside users in excess of the normal internal billing rates.

### **XI. Inventory Accounts For Products Held For Sale**

If a service center sells products and has a significant amount of stock on hand, inventory records must be maintained. A physical inventory should be taken at least annually at the end of the fiscal year and be reconciled to the inventory records. Inventory valuations may be based on any generally recognized inventory valuation method (e.g., first-in-first-out, last-in-last-out, average cost, etc.) The mark-up on inventory, if any, can only include operating costs. A profit margin cannot be included.

### **XII. Subsidized Service Centers**

In some instances, the University, 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. Since subsidies can result in a loss of funds to the University, they should be provided only when there is a sound programmatic reason.

### **XIII. Records Retention**

Financial, rate setting, statistical and other records related to the operations of a service center, including records supporting billing rate computations, must be retained by the individual service center in compliance with the University's retention policy.

# University of South Alabama

## Policy on Service Centers

### **XIV. Establishment of New Service Centers**

The chair of the department and the dean of the college or equivalents where the center will be located must approve the establishment of new service centers. New service centers must also register with the University's Service Center Committee. The registration must contain the following information:

- A description of the services to be provided and the users of the services.
- The reasons why the services can best be provided by an internal service center, rather than by an external service provider.
- A projection of the costs and utilization of the services.
- A billing rate calculation and, where possible, a comparison of the internal rates with the rates charged by external service providers.

### **XV. Review of Service Centers**

The University has established a Service Center Committee to oversee implementation of this policy and to consider future changes to the policy. The Committee is composed of appropriately representative committee of each school and central University administration. The Committee will be responsible for review and approval of:

- Exceptions and changes to the policy.
- Registration of new service centers.
- Maintenance of complete listing of University service centers.

The Office of Internal Audit will periodically review the financial operations of service centers. These reviews will focus on the development of billing rates, the handling of surpluses and deficits, and the adequacy of the service center's record keeping procedures.

### **XVI. Contacts for the Service Center Committee**

Contacts for the Service Center Committee should be directed to the University Business Office.