Service Centers

No. 3250

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Affected Parties:
Faculty
Staff

1.0 Purpose

This policy defines the purpose of a service center, ensures compliance with federal government regulations, establishes criteria for distinguishing between the types of service centers, and provides for consistent operational practices among service center units. Non-compliance could result in government-imposed fines or disallowed costs. In addition, non-compliance could harm the university's reputation and reflect negatively on future grant proposals.

2.0 Policy

Service centers offer goods or services that are unique, convenient, or not readily available through external sources to university departments, sponsored programs, and occasionally customers outside the university. Goods or services offered should be consistent with the university's mission and within the scope of the college or vice-presidential area overseeing the service center's activities. Service centers do not include the auxiliary enterprises which provide goods and services to faculty, staff, and students. Additional information about offering goods and services for sale to customers outside the university is available in Policy 3005, University-Related Business and Commercial Activities.

As a recipient of federal funding, the university must comply with the Office of Management and Budget 2 CFR Part 200 (commonly referred to as Uniform Guidance—Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards but hereinafter referred to as "2 CFR Part 200"), which requires service centers recover no more than the aggregate allowable costs of their operations through charges to users based on usage. In general, service center rates must be based on actual costs, applied consistently, and based on the actual unit of the service (e.g., per test, hour, item, class, etc.). All service center charges to federally funded awards are subject to the cost principles and cost accounting standards outlined in 2 CFR Part 200 and Policy 3240, Costing Principles for Sponsored Projects.

The university identifies service centers as a recharge activity or specialized service facility based on the following criteria.

Recharge Activity: a service center that provides goods or services with an annual operating budget of less than $1,000,000, or is not fully self-supporting. Recharge activities include specialized computer labs, testing equipment, electron microscopes, etc.

Specialized Service Facility: a large service center that (a) provides specialized services involving the use of highly complex or specialized facilities, (b) is fully self-supporting, (c) has an annual operating budget of $1,000,000 or more, and (d) must also include the facility's allocable share of university facilities and administrative (F&A) costs in the billing rates.

All rates to be consistently charged to sponsored projects must be approved by the Controller's Office.

The term "service center" includes recharge activities and specialized service facilities throughout this policy unless differentiated.

This policy only applies to rates generated to recover the costs included in the service center. It does not apply to occasional department reimbursement (transfer) of costs.

3.0 Procedures

3.1 Establishment of New Service Center

Units wanting to create a service center should present a clear and compelling argument for implementation, have department head approval, and should include the items below with the proposal submission to the Controller's Office:

- Description of goods or services and how they relate to the instructional, research or public service mission of the university.
- Demonstration of the need and benefit for providing goods and services in a new service center rather than through an external vendor or existing university services.
- List of other providers of the same goods or services and comparable pricing information for all external rates requested.
- Description of potential customers and the volume of sales anticipated for internal customers and external customers.
- List of assets, including asset property tag (PTAG) numbers, to be used in the service center.
- Projection of first year budget and break-even analysis.
- Anticipated start date.
- Service center name and physical location.
- Name and contact information of service center manager.
- Departmental overhead or Educational and General (E&G) fund number(s) to cover cost deficits if necessary.

The Controller's Office will decide if the request is appropriate and sufficiently documented. Considerations include: support of the university's mission, the availability of similar services/goods (particularly on campus), the ability to account for total costs for each service with no cross-subsidization between groups and various services that cannot be combined if the user groups for each service is different, and the conformance with 2 CFR Part 200, and the university's Cost Accounting Disclosure Statement. If the Controller's Office approves establishing a service center, the department head and senior manager will receive a Memorandum of Understanding (MOU) outlining the responsibilities of both parties. The department head and senior manager must sign the MOU and return it to the Controller's Office, who will release the service center rate agreement that includes the approved rates and Banner fund number(s) for recording the service center's activity.

3.2 Service Center Billing Rates

3.2.1 Establishing and Refreshing Rates

Service center managers assist with the computation of billing rates with guidance from the Controller's Office. Rates should reflect a reasonable estimate of the direct operating costs for twelve-months (less any anticipated university subsidy) and the projected number of billing units for the same period. The billing units(s) should logically represent the type of service/good provided.

Service center managers must submit documentation of the department head's approval before rate letters can be issued. The rates are designed to recover the annual direct operating costs necessary to provide the service/good less any anticipated subsidies, must exclude unallowable expenses, and must be net of applicable credits. For specialized service facilities, the computation of the billing rates must also include the facility's allocable share of university F&A costs.

Service centers can carry forward a reasonable amount of deficit or surplus, to be determined by the Cost Accounting section of the Controller's Office, as an adjustment to the billing rates of the following year or the next succeeding year. For deficits not included in subsequent service center rates, departments must provide the Controller's Office with a plan for covering these expenses with internal university resources. Upon Controller's Office approval, departments can act to remove the deficit according to the agreed upon plan. By periodically reevaluating estimates (e.g., expected volume of services) in the annual rate calculation, service centers can proactively minimize shortages and overages.

3.2.2 Timeline for Reviewing Rates

Although service center department heads and senior managers may require more frequent reviews, the minimum timeframes for reviewing service center rates are as follows.

New Service Centers: upon establishing a service center, the Controller's Office reviews and approves the rates. After six months of operation, a service center is responsible for providing the Controller's Office with the service center's financial activity for analyzing the rate and adjusting as necessary.

Established Service Centers: service center management must: (a) review the adequacy of billing rates no less often than annually, (b) submit full rate proposals no less often than biennially, (c) submit full rate proposals if the service center's methodology for calculating rate(s) significantly changes, the service center's cost base changes in size or structure, a significant surplus/deficit occurs, or adding/discontinuing services/goods.

3.2.3 Segregated Accounting

The Controller's Office provides service centers with specific Banner funds to capture service center activity within the university's accounting system. Service center employees must use the assigned fund(s) to capture direct operating costs to be recovered through use of the approved rate for the service/good, recoveries, any resulting surplus or deficit, and the reserves for replacing equipment. In addition, service center management is responsible for maintaining documentation to support the costs of the service center and maintaining a cumulative usage log for each service/good sold. Using these logs, service center employees document the unit usage, bill customers, and estimate volumes for future rate calculations.

3.2.4 Service Centers Providing Multiple Services

Cost allocations are necessary if a cost partially relates to the operations of a service center and partially to other activities of a department/organizational unit. Depending on the specific circumstances involved, there may be two categories of costs to allocate: (1) costs directly related to providing the services, such as the salaries of staff performing multiple services, and (2) indirect expenses such as depreciation, or in the case of specialized service facilities university F&A costs.

Allocated costs must be made on an equitable basis reflecting the relative benefits each activity receives, such as the distribution of salary among the services proportionate to the time spent on each service.

Other cost allocation techniques may be used, such as the proportional amount of direct costs associated with each service, space utilized, etc. Contact the Controller's Office, which is responsible for determining the F&A costs allocable to each specialized service facility, with questions concerning appropriate cost allocation procedures.

3.2.5 Equipment Purchases

Service center billing rates should not include expenditures for equipment purchases; however, the billing rate can include depreciation of the equipment used in the service center. Including equipment depreciation in the billing rates will generate funds that will enable service centers to purchase equipment or other items needed for the service center in the future. The recoveries associated with equipment depreciation must be set aside in an equipment replacement reserve fund. Recovering depreciation for equipment purchased with federal funding is not allowed.

3.2.6 Variable Billing Rates

All users with internal funding must be charged the same service center base rate. This requirement does not apply to differential pricing related to the timeliness, quantity, or quality of services. Differential pricing based on time-of-day, volume discounts, turn-around time, etc., are allowable, provided there is a sound management basis that does not shift costs to other customers and does not recover more than the costs of providing the services. Sponsored projects are charged F&A costs through the monthly overhead allocation process. In all cases, federal customers must receive the most favorable rate for goods or services provided.

3.2.7 Services Provided to External Parties

If a service center provides services to external individuals or organizations outside of sponsored programs, the billing rates and any pass-through charges must include university F&A costs, even though these costs are not included in the base rates for users with university funding. Faculty and staff working on private consulting do not receive discounted rates and must be charged the full external rate including F&A costs. As indicated above, the billing rates for specialized service facilities include university F&A costs for all users.

Any amounts charged to external parties in excess of the regular internal university billing rates must be excluded from the computation of a service center's surpluses and deficits for purposes of making carry-forward adjustments to future billing rates.

Where applicable, sales tax applies to goods sold to external parties. Since recoveries from outside parties may have unrelated business income tax (UBIT) implications, the Controller's Office must approve these arrangements in advance.

3.3 Service Center Billing

Service center billings must reflect actual usage and the corresponding approved internal or external billing rates.

Internal billings must occur after the receipt or delivery of goods and services. Service centers are responsible for invoicing goods and services at least once a month. Failure to invoice a sponsored project before the period of performance ends jeopardizes the ability to collect and may result in the service center absorbing the unfunded expenses with departmental funds.

Internal customers, including instructional departments, shall be billed using the billing process established in HokieMart or an alternative approved by the Controller's Office. External customers must be billed through the university's central accounts receivable system in the Bursar's Office (see Policy 3605, Accounts Receivable). Service centers are responsible for maintaining external customer orders and documentation for three years after receipt of payment.

3.4 Review of Service Centers

Periodically the Controller's Office will review the financial operations of service centers. These reviews will focus on calculating billing rates, addressing surpluses and deficits, and the adequacy of supporting documentation.

The Cost Accounting section of the Controller’s Office participates in the workflow for generating service center billings. The purpose is to ensure the invoice uses the approved rates, and if not, the billing routes back to the service center for correction and resubmission.

The Controller’s Office will notify departments if service centers are inactive for a continuous period of two years and act to close the service center as appropriate. These actions may include transferring balances in the service center funds to the fund identified in the service center MOU or fund identified by the department.

3.5 Service Center Balance Transfers

It is usually not appropriate to transfer balances from a service center to other university funds. However, on occasion, this is necessary, and requires Controller’s Office advance approval. Charge rates should be constructed to support posting the equipment reserve component to the designated equipment reserve fund as part of the original transaction.

3.6 Inventory Records and Values

Operations that hold significant inventory for sale must maintain inventory records. Service centers shall contact the Manager of Financial Reporting in the Controller’s Office to establish a Banner inventory fund if the cumulative inventory purchases exceed $100,000 during the year or if the year-end value of the inventory will exceed $100,000. Inventory values less than $100,000 require inventory records instead of a formal fund. At a minimum, service centers shall perform a physical inventory at the end of the fiscal year, which reconciles inventory records. Stock must be valued using generally accepted accounting principles (e.g., first-in-first-out, last-in-first-out, average cost, etc.).

3.7 Records Retention

The service center shall retain financial, statistical, and other records related to the operations of a service center for three years from the end of the fiscal year to which the records relate. Records supporting billing rate computations must be retained for three years from the end of the fiscal year covered by the calculations. External customer orders and documentation for service center billings must be retained for three years after receipt of payment.

4.0 Definitions

ANNUAL REVIEW PERIOD is defined as the start of each fiscal year or based on the service center's annual review cycle.

APPLICABLE CREDITS are 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, 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 ENTERPRISES are self-supporting entities that exist to furnish goods and services primarily to students, faculty or staff, and that charge a fee directly related to, although not necessarily equal to, the cost of goods or services. The general public may also be served incidentally by an auxiliary enterprise (e.g., housing, food services, and parking).

BILLABLE UNIT is the measurement used to identify the specific goods and/or services provided by a service center. Examples of billing units include labor hours, unit of measures such as milligram or liter, number of samples, animal care days, tests performed, machine hours or any other unit of measurement appropriate to the type of activity.

BILLING RATE is 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 less any anticipated subsidy by the total number of billing units expected to be provided to users of the service for the year. Examples of billing rate computations can be provided by the Controller's Office.

COST ACCOUNTING DISCLOSURE STATEMENT is a requirement of 2 CFR 200.419 for an institution of higher education receiving an aggregate total of $50 million or more in Federal awards in a fiscal year and discloses the cost accounting practices of the university for measuring, assigning, and allocating costs to ensure greater efficiency, effectiveness, and accountability for receiving federal awards.

DEFICIT occurs when the costs of providing a good or service exceed the recoveries generated during a fiscal year or 12-month period used to evaluate and adjust the rate structure.

DIRECT OPERATING COSTS include the identified salaries, wages and fringe benefits of university faculty and staff involved in providing the service; materials and supplies; purchased services; travel expenses; equipment rental or depreciation; etc. to be recovered through the established rates.

EQUIPMENT includes all items of tangible property having a useful life exceeding one year and an acquisition cost of $2,000 or more (Policy 3950, Fixed Asset Accounting). Purchases under this amount are considered consumable supplies.

EXTERNAL CUSTOMER is any customer using funds outside the university chart of accounts.

INTERNAL CUSTOMER is any customer who pays using a fund housed within the university chart of accounts, including sponsored programs.

INTERNAL SERVICE CENTER OVERHEAD consists of all costs that can be specifically identified to a service center, but not with a particular service provided by the service center, such as the salary and fringe benefits of the service center director.

SURPLUS occurs when the recoveries generated exceed the costs of providing the good or service during a fiscal year or 12-month period used to evaluate and adjust the rate structure.

UNALLOWABLE COSTS are costs that cannot be charged directly or indirectly to federally-sponsored programs. These costs are specified in 2 CFR 200 Subpart E. Common examples of unallowable costs include advertising, 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), selling and marketing expenses.

UNIVERSITY FACILITIES AND ADMINISTRATIVE (F&A) COSTS generally support costs that cannot be identified readily and specifically with a particular sponsored project (e.g., administrative salaries, utility costs, custodial expenses, etc.). F&A costs are known by many different names, such as indirect costs, overhead costs or simply administrative costs.

5.0 References

Policy 3005, University-Related Business and Commercial Activities
https://policies.vt.edu/assets/3005.pdf

2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards
https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200

Policy 3240, Costing Principles for Sponsored Projects
https://policies.vt.edu/assets/3240.pdf

Cost Accounting Disclosure Statement: CASB DS-2
https://www.controller.vt.edu/resources/costaccounting.html

Policy 3605 Accounts Receivable
https://policies.vt.edu/assets/3605.pdf

Policy 3950, Fixed Asset Accounting
https://policies.vt.edu/assets/3950.pdf

6.0 Approval and Revisions

Approved January 21, 1998 by Vice President for Finance and Treasurer, Raymond D. Smoot, Jr.

- Revision 1
  Incorporates changes resulting from conversion to banner finance system and minor revisions to OMB Circular A-21.

  Approved February 15, 2005 by the Vice President for Budget and Financial Management, M. Dwight Shelton, Jr.

- Revision 2
  Policy underwent a complete revision and expansion in all significant areas to clarify changes in billing practices and update references. Removed Service Facility definition and reference as these activities do not fall under the full scope of an established service center and are not covered by this policy.

  Approved October 10, 2022 by the Vice President for Finance, Kenneth E. Miller.