

Procedures for Service Centers

Guidelines of Service Centers

OVERVIEW

Service Centers are entities within the University established for the specific purpose of providing product(s) or service(s) to other areas within Rice University and to external users.

- A Service Center must satisfy government costing requirements, by charging rates for goods and services based on actual usage and actual costs incurred. Hence, rates should be developed to ensure that revenues closely match expenditures. Rates should be calculated to recover allowable costs (Office of Management and Budget, Uniform Guidance: Cost Principles, Audit, and Administrative Requirements for Federal Awards).

Center Administrators should be familiar with the Service Center Policy and associated procedures. If a non-auxiliary department collects payment for a product or service, it is subject to [Rice Policy 836](#), Service Center Policy. The following principles apply to all Centers based on guidance provided from the Office of Management and Budget:

- Rates must be calculated based on actual cost incurred by the Center on a fiscal year basis taking into account the prior year over or under recovery.
- The internal rates for the goods or services should always at a minimum recover direct costs. External rates should also recover Facilities and Administrative costs (indirect costs).
- Users or customers should primarily be internal to Rice.
- All internal users must be charged the same rate for similar services and charged based on use.
- External users are allowable if their activity is aligned with the university's mission (see External User terminology below).
- External users are charged rates that include the direct and facilities and administrative (F&A) costs and to the extent possible any additional revenue to the extent the market allows.
- Departments selling to both external customers and Federal grants cannot charge Federal grants more than external customers fees must be billed regularly (preferably monthly and no less than quarterly).
- Rates are to be developed with the intent of the Service Center breaking even over a twelve-month period to avoid generating a continuing surplus or deficit.
- Rates should be reviewed (within the service center) and adjusted every 12 months to ensure that the rates target the actual costs +/- 15%.
- A 15% variance from break even (based on operating expenditures) is permissible.
- Service Centers may not bill the end user/consumer for future products or services.
- Equipment purchases may not be charged to a Center Operating Fund; equipment may be purchased on associated depreciation fund (*Depreciation Fund: Page 3*).

TERMINOLOGY

Internal Users – Internal users are departments and employees within Rice University who purchase goods or services on behalf of the University.

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External Users – External users are non-university entities that purchase the Center’s goods or services. Agencies, corporations and other universities are considered external users. External users should be strategic partners of the university. When a Service Center performs work with an external user, the Cost Accounting group, in Research & Cost Accounting (RCA) must be contacted prior to the commencement of business. The Cost Accounting group will help with the following:

- **What Rate to Charge:** External users must be charged the fully calculated rate plus sales taxes and F&A where appropriate (RCA will help determine the appropriate rate to charge). In those instances where sales tax and F&A are charged the Controller’s Office will periodically deduct these amounts from the Center’s operating revenues.
- **Helping Centers understand the impact of increased volume of external users on their Center structure as well as the requirements of collection of sales tax.**

Service Center - A Service Center is an entity whose primary purpose is to provide ongoing products or services to internal users in support of the University’s mission. Service Centers charge a fee at a rate per use or by unit. Some Service Centers are very straight-forward in terms of their operation. Their primary purpose is to typically pass on a single cost through a recharge mechanism according to usage. These costs typically do not include salaries, support costs, or equipment depreciation. An example of this type of service Center is one where the costs being charged are for a maintenance agreement that are allocated by usage.

Other Service Centers have operations that are more complex and have fees that are based on costs that may include support costs, such as salaries and benefits of those working on the product or service, materials and supplies, and equipment depreciation (for equipment not purchased with Federal funds). Examples of these more complex Service Centers at Rice are the Shared Equipment Authority, Confocal Microscope Service Center and the Animal Resource Facility.

Specialized Service Facility (SSF) - A SSF is a highly complex or specialized facility (such as a wind tunnel or a reactor) organized to provide goods and/or services to other organizational units and charge for those goods and/or services. The end user typically determines the level of goods and/or services that is provided. SSFs normally have annual expenditures of at least \$1 million or charges to Federal funds of at least \$250,000.

Auxiliary Enterprise – The primary user is the external customer. The costs of an Auxiliary enterprise include direct operating expenditures and allocable general administrative expenditures and facility-related costs. Auxiliary activities are expected to generate the bulk of their income from outside the University (from charges which are not made to other university funds) and to be self-supporting. Auxiliary enterprises may generate a profit. Billings to other University units should be incidental to the Auxiliary unit’s main business activities. *If billings within the University are significant, a Service Center must be set up for that portion of the auxiliary's activities.* Examples of Rice Auxiliary Enterprises are Parking, Transportation, and Housing and Dining. An auxiliary must collect sales tax for taxable items and should recover appropriate administrative and facilities costs through their rate structure.

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OPERATION OF SERVICE CENTERS

OPERATING FUNDS

An operating fund will be established for the accumulation of direct costs and the recovery of revenues. All operating revenues and expenditures of the Center should be charged to this single fund. Costs related to Service Centers should not be co-mingled with expenditures that are unrelated to the Center.

The operating fund will have a program code of CTR and will be set up as a Designated (D) fund. The Cost Accounting group will coordinate the setup with Current Funds and provide this information to the administrator of the Center.

DEPRECIATION FUNDS

The depreciation expenditure for equipment used in the operation of a Service Center may be incorporated into the rate being charged to users. This only applies for equipment purchased with **non-Federal** funds. Center administrators should contact the Cost Accounting group to setup a depreciation fund if they:

- Have equipment they have already purchased or foresee future equipment purchases.
- Expect to recover all or part of depreciation
- Have software they wish to amortize (Contact Property Accounting for useful life information)

The Cost Accounting group will coordinate the Depreciation Fund setup with Current Funds and provide this information to the Center administrator.

FUND BALANCE

As a general guideline, the Service Center may maintain working capital of up to two months; as a result, total accumulated surpluses should fall within 15% of operating expenditures.

RATE CALCULATION

Rates should be calculated to match revenues with expenditures (breakeven). Departments may choose to subsidize the rates in order to charge users a smaller fee (see subsidies section below), however all users must be charged the full approved rates. See Rate and Budget tool.

EXPENDITURES AND ALLOCATIONS

Allowable expenditures to include when calculating the appropriate rate:

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- **Salaries and Benefits** – The cost of personnel directly related to producing the Center activity. If an individual works on more than one activity within the Center, expenditures should be allocated proportionally to each activity. If there are administrative staff dedicated to supporting or managing the Center and there are administrative tasks that benefit more than one Center activity, expenditures should be allocated proportionally to each activity. However, the cost of departmental administrative staff that administer the Center as well as perform other departmental duties should generally not be included in the rate calculation unless a substantial amount of time is spent on the Center.
- **Materials and Supplies** – Costs of materials and supplies necessary to operate a Center, but only the materials and supplies consumed.
- **Capital Equipment Depreciation Expenditures** – Capital equipment includes items purchased with a cost of \$5,000 or more and a useful life of more than one year. Federal guidelines allow the rate to recover the depreciation expense of equipment not purchased with Federal funds. Depreciation expense is calculated as the historical cost of that equipment over its useful life. Useful life information can be obtained by contacting Property Accounting.
- **Miscellaneous Expenditures** – Rental and service contracts, equipment operating leases, and professional services utilized by the Center should be included in the rate calculation.
- **Prior Year Surpluses/Deficits** – Although not an expenditure, prior year surpluses and deficits are factored in the rate being established. Prior year accumulated surpluses (in excess of 15% of revenues) should be shown as a reduction of expenditures; whereas prior year accumulated deficits will add to the amount of expenditures being allocated.

Expenditures that may **not** be included in the rate calculation:

- **Unallowable Expenditures** – The expenditures that have been designated as expressly unallowable by the Federal government may not be included in the calculation of rates for services since those services may be charged to a government grant or contract. (See Appendix 1, Definitions, for examples)
- **Cost Sharing** – Any expenditure formally committed as cost sharing (mandatory or voluntary) to any Federal sponsored project cannot be recovered through the rate.

REVENUES

Fees must be billed regularly (preferably monthly and no less than quarterly). Payments from external users must be deposited to the Service Center operating fund within one day of receipt by the Service Center. For internal users, each Center must prepare timely interdepartmental transfer uploads (training available from the Controller's Office) and obtain proper authorization from the department or user being charged.

- Internal revenue accounts (account codes 58xxx) must be used by the Center to record the revenue received from internal users. (Example: 58100 Internal Sales (Labor, S&E))
- External sales accounts (account codes 57xxx) must be used for revenues from external users.

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Centers are responsible for maintaining and retaining supporting documentation and confirming that amounts are recorded appropriately in the financial system. (Examples: 57220 Sales External Other Non-taxable, 57240 Sales External Subject to Sales Tax)

PRICING

All University users should be charged according to their actual usage with no differences in rate between internal users. If a subsidy is offered, it must be identified in advance, be given from an entity other than the Center, and be separately budgeted.

When a Center provides different types of services to different users, separate billing rates should be established for each service that represents a significant activity within the Center. Sometimes a Center provides more than one service, and may accumulate a surplus on some services, while recognizing a loss on others. Combining the results of various services should be acceptable, as long as the users of each service are not substantially different. (Otherwise, the higher prices charged to one set of users are subsidizing losses that might otherwise be passed to another group.)

Subsidies provided by central, school or departmental funds may be counted as revenue to the Center and hence lower the rate to be charged to all users as defined by the unit providing the subsidy. These subsidies must be separately budgeted and transferred to the Service Center. To subsidize specific groups of users (for example, a department assisting its own faculty or the university supporting all users), invoices reflecting the regular charge for service should be sent out, but can be split between the actual user and the subsidizing organization.

Subsidies should be clearly identified in the Center's budget as a source of income. Non-cash support, such as personnel providing service to the Center who are funded by another university funding source not associated (non CTR program code) with the Center, do not count as revenue to the Center or rate reductions.

REVIEW OF RATES

All Centers should review their business model annually to determine the next fiscal year's rate. Each year, the model should be updated to include all anticipated costs and the over-/underage in the operating fund. Service Centers with revenues greater than \$50,000 must also be reviewed and approved annually by the Cost Accounting group in RCA in consultation with the Budget Office. The Cost Accounting group may, at their discretion, request a review of any Center, regardless of amount of revenue.

ACCOUNTING AND RECORD-KEEPING

Separate funds or organizations should be established in the University's accounting system to record the actual direct operating costs of the Center, overhead where applicable, revenues from billings, and surpluses/deficits. Documentation to support billings and rate calculations, as well as documentation supporting the billing methodology, should also be maintained. It is the Center's responsibility to maintain detailed records of all charges and answer inquiries in reference to those charges.

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All Centers are subject to review by internal auditors. They may also be subject to review by external auditors as many such operations provide services to recipients of Federal or State grants and contracts. Amounts charged to the Service Center that are not in compliance with this policy will be the responsibility of the organization associated with the Service Center.

CLOSING A SERVICE/ SERVICE CENTER

Centers may be closed due to a variety of circumstances; indicating a decline in demand for the service or product, cost benefit analysis, inability to provide the service at an affordable price, etc. RCA will coordinate the orderly closing of the Service Center. RCA will communicate with the Vice President of Finance and or the Vice Provost for Research as appropriate and other offices to prepare for the closing. This may include, but is not limited to, developing a plan to complete any work in process, status of personnel, and disposition of capital equipment, supplies and other assets of the Center.

A financial status report of the Center will be prepared to determine if there is a deficit or surplus at closing. Outstanding financial obligations and accounts receivable, among other items, will be reviewed and analyzed. If there is a deficit, the account must be brought to zero to be closed within the University's financial system. If there is a surplus, there will be an analysis performed and a plan prepared of how the surplus will be distributed. This distribution plan will depend upon materiality and if university subsidies contributed to the surplus.

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ROLES & RESPONSIBILITIES		
Academic Service Centers	Non-Academic Service Centers	Responsibilities
Service Center Owner/Manager	Service Center Owner/Manager	<ul style="list-style-type: none"> • Ensure that expenditures are appropriate and properly coded. • Ensure that revenues are booked properly, and include F&A charges and/or Texas State Sales Tax as appropriate. • Invoice users frequently (preferably monthly) so that Service Center balances can be accurately assessed. • Prepare financial plans at least annually to ensure that expenditures and revenues are in balance. • If gross revenues exceed \$50,000/year, present an annual formal planning document and rate calculation for approval by Research and Cost Accounting. • All other Service Centers should perform an annual review of revenues and expenditures, adjusting the service center rates so that projected revenues for the next fiscal period fall with the 15% margin of break-even operation.
Department Administrators (with Service Center Oversight)	(Not Applicable)	<ul style="list-style-type: none"> • Monitor the operations of departmental Service Centers to ensure compliance with Federal regulations and Rice policy. • Act as liaison between departmental service Center and Research and Cost Accounting.
Department Chairs (with Service Center Oversight)	(Not Applicable)	<ul style="list-style-type: none"> • Resolve Service Center issues that may arise regarding compliance with the policy and procedures.

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Academic Service Centers	Non-Academic Service Centers	Responsibilities
Vice Provost (with Service Center Oversight)	Vice Provost (with Service Center Oversight)	<ul style="list-style-type: none"> • Monitor the operations of Service Centers under its purview to ensure compliance with Federal regulations and Rice policy. • Assist Department Chairs in resolving service Center issues that may arise in their departments regarding compliance with the policy and procedures.
Vice President of Finance	Vice President of Finance	<ul style="list-style-type: none"> • Resolve issues that may arise regarding compliance with the policy and procedures. • Ensure that the University policy and procedures on Service Centers are current and approve any changes. • Ensure that financial reporting issues resulting from service Center operations are appropriately addressed.
Current Funds Accounting	Current Funds Accounting	<ul style="list-style-type: none"> • When notified by Cost Accounting, set up Designated Funds for Service Center operations and collection of depreciation.

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Academic Service Centers	Non-Academic Service Centers	Responsibilities
Research and Cost Accounting	Research and Cost Accounting	<ul style="list-style-type: none"> • Consult with appropriate manager and department administrator when a department has a current or proposed situation that could lead to the establishment of a Service Center, advising them of the Service Center policy and procedures. If a decision is made to go forward with establishing a Service Center, provide formal training to all staff and faculty in the department who will be involved in the administration of the Service Center. • Assist Service Center Managers/Department Administrators in establishing and reviewing Service Centers. • Monitor the operations of Service Centers to ensure compliance with Federal regulations and Rice policy and procedures. • Review Service Center rates annually when gross revenues exceed \$50,000, performing periodic reviews of those Service Centers with gross revenues under \$50,000. • Review and approve Service Center billings journals as appropriate. • Raise issues of non-compliance with appropriate parties and identify solutions. • Hold regular training on Service Center policies and procedures, providing training for any new departmental administrators who will have Service Center responsibilities. • Ensure that Service Centers are handled appropriately in F&A cost proposals.

APPENDIX 1 – 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 institutions indirect cost rate), 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.).
- **Billing Rate:** The amount charged to a user for a unit of product or 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 product or service provided by a service Center. Examples of billing units include hours of service, tests performed, machine time used, amount of chemical purchased, etc.
- **Deficit:** The amount that the costs of providing a service exceed the revenue generated by the service and any subsidy during a fiscal year.
- **Direct Costs:** All costs that can be specifically identified with a service provided by a service Center. These costs include: the salaries and fringe benefits of University faculty and staff directly involved in providing the service; materials and supplies; purchased services; travel expenditures; equipment rental or depreciation; interest associated with equipment acquisitions.
- **Equipment:** An item of tangible personal property having a useful life exceeding one year and an acquisition cost of \$5,000 or more. Purchases under this amount are considered consumable supplies.
- **External Users:** External Users are non-University entities that are purchasers of goods and/or services. External Users include faculty, staff, or students who purchase the goods and/or services in a personal capacity. Agencies, corporations, universities and hospitals are also considered external users.
- **Institutional Facilities & Administrative (F&A) Costs:** Institutional F&A costs consist of general administration and general expenditures such as executive management, accounting, payroll and personnel administration; operations and maintenance expenditures, 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 and libraries.
- **Center Support Costs:** All costs that can be specifically identified to a Center, but not with a particular service provided by the Center, such as the salary and fringe benefits of the service Center director.

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- **RCA:** The Office of Research and Cost Accounting within the Controller's Office.
- **Service Center:** A Service Center is an entity whose primary purpose is to provide ongoing products or services to users in support of the University's mission. Service Centers charge a fee at a rate per use or by unit. Some service Centers are very straight forward in terms of their operation. Their primary purpose is to typically pass on a single cost through a recharge mechanism according to usage. These costs do not typically include salaries, support costs, or equipment depreciation. An example of this type of service Center is one where the costs being charged are for a maintenance agreement and are allocated by usage. Other Service Centers have operations that are more complex and have fees that are based support costs, such as salaries and benefits of those working on the product or service, materials and supplies, and equipment depreciation. Examples of these more complex Service Centers at Rice are the Shared Equipment Authority, Confocal Microscope Service Center and the Animal Resource Facility.
- **Specialized Service Facility (SSF):** A SSF is a highly complex or specialized facility (such as a wind tunnel or a reactor) organized to provide goods and/or services to other organizational units and charge for those goods and/or services. The end user typically determines the level of goods and/or services that is provided. SSFs normally have annual expenditures of at least \$1 million or charges to Federal funds of at least \$250,000.
- **Surplus:** The amount that the revenue generated by a service exceeds 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 the Office of Management and Budget, Uniform Guidance: Cost Principles, Audit, and Administrative Requirements for Federal Awards). 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).

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APPENDIX 2 – COSTING PRINCIPLE GUIDANCE

OMB Uniform Guidance: “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards)

Section 200.468 Specialized Service Facilities

“b. The costs of such services, when material, must be charged directly to applicable awards based on actual usage of the services on the basis of a schedule of rates or established methodology that

(1) Does not discriminate against federally-supported activities of the institution, including usage by the institution for internal purposes, and

(2) Is designed to recover only the aggregate costs of the services. The costs of each service shall consist normally of both its direct costs and its allocable share of all F&A costs. Rates shall be adjusted at least biennially, and shall take into consideration over/under applied costs of the previous period(s).”

APPENDIX 3 – UNRELATED BUSINESS INCOME TAXES (“UBIT”)

The 15% UBIT limitation can be calculated using billed hours, billed units or revenue. The following categories of external users are excluded from the 15% limitation as their activity is deemed in support of the University’s mission of education, research and public service:

- Other institutions of Higher Education
- Students, faculty and staff funded by universities or colleges who use the service Center to support their research, teaching or public service commitments.
- Educational Outreach by External Users
- High school, junior high and community college students supported by programs designed to enhance education
- Support may be provided by government or non-government sources such as Federal agencies, State of Texas, local school districts, non-profit foundations and corporations.

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APPENDIX 4 – SERVICE CENTER CHECKLIST

- Read the Service Center Policy and procedures. Contact the Cost Accounting group in Research and Cost Accounting (RCA) with any questions you have regarding the requirements and process for establishing and operating a service/recharge Center.

- Perform Need Assessment:
 - Is there a need for my service/product?
 - Is this a one-time service or ongoing business service?

 - Is there an external vendor readily available to provide this service?

 - Who are my customers? (Internal to Rice, External to Rice)

 - What is the unit of measure I can use to charge using distinct units? (e.g.: number of papers, liters of fluid, hours of labor, etc.)

- Estimate Internal Users % _____

What is the primary purpose of this Service Center?

- The primary purpose of this Service Center is to pass on a single cost through a recharge mechanism according to usage. These costs do not typically include salaries, support costs, or equipment depreciation. An example of this type of Service Center is one where the costs being charged are for a maintenance agreement and are allocated by usage.

- The primary purpose of this Service Center is to provide multiple services or products to users on an ongoing basis in support of the university's mission with more complex operations that typically include salaries, support costs, or equipment depreciation. Examples of Rice Service Centers are the Shared Equipment Authority, Confocal Microscope Service Center and the Animal Research Facility.

Once all the above items have been completed, please sign off and email a copy to Research Cost Accounting.

Signed: _____