Financial Management of Service Centers

Policy Type: Administrative  
Responsible Office: Cost Analysis, University Controller’s Office  
Initial Policy Approved: Not available  
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Policy Statement and Purpose

This Policy Statement establishes Virginia Commonwealth University’s policy and procedures for the financial management of service centers.

Noncompliance with this policy may result in disciplinary action up to and including termination. VCU supports an environment free from retaliation. Retaliation against any employee who brings forth a good faith concern, asks a clarifying question, or participates in an investigation is prohibited.

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Who Should Know This Policy

All University academic departments are responsible for knowing this policy and familiarizing themselves with its contents and provisions.

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, 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, dining halls, and bookstores. **Auxiliary enterprises are not subject to this Policy Statement.**

**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.

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

**Direct Operating Costs**
All costs that can be specifically identified with a service provided by a service center. These costs include the salaries, wages and fringe benefits of University faculty and staff directly involved in providing the service; materials and supplies; purchased services; travel expenses; equipment rental or interest associated with equipment acquisitions, etc.

**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.

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

**Institutional Facilities and Administrative Costs (F&A Costs)**
The costs of administrative and supporting functions of the University. Institutional F&A costs consist of general administration and general expenses, such as executive management, payroll, financial reporting 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 projects.
Recharge Activity
A service center with annual direct operating costs of less than $50,000. Examples of recharge activities include VCU Microscopy Facility, Flow Cytometry Core, and Nuclear Magnetic Resonance Center.

Service Center
An activity that performs specific technical or administrative services primarily for the internal operations of the University and charges users for its services. There are three types of service centers – recharge activities, service facilities, and specialized service facilities.

Service Facility
Definition: All service centers that do not fall within the definition of a recharge activity or a specialized service facility. Examples of service facilities include Bioanalytical Laboratory Service Center and Genomics Core.

Specialized Service Facility
A large service center that provides specialized services to a select group of users rather than overall University operations, and has combined annual direct operating costs and internal overhead costs of $1,000,000 or more. The Division of Animal Resources is a specialized service facility.

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 2 CFR 200, Uniform Guidance, issued by the U.S. Office of Management and Budget. 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.

Contacts
The Office of Cost Analysis officially interprets this policy. The Office of Cost Analysis is responsible for obtaining approval for any revisions as required by the policy Creating and Maintaining Policies and Procedures through the appropriate governance structures. Please direct policy questions to The Office of Cost Analysis.

Policy Specifics and Procedures

1. Service Centers:
   o Recharge Activities:
     • Billing rates should 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 should be included in the billing rates. The costs should exclude unallowable costs and be net of applicable credits.
• Billing rates should be computed annually at the start of each University fiscal year. The rates should be based on a reasonable estimate of the direct operating 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 should be documented.
• All users should be charged for the services they receive and be charged at the same rates.
• Records should be maintained to document the actual direct operating costs of providing the service, revenues, units of service provided, billings, collections, and the annual surplus or deficit.
• The billing rates should be reviewed at least every six months and adjusted where necessary.
• Actual costs and revenues should be compared at the end of each University fiscal year. Deficits or surpluses should be incorporated into the billing rates of the following year or the next succeeding year. Where feasible, the adjustments may be made by increasing or decreasing the actual charges to users for the completed year.

○ Service Facilities and Specialized Service Facilities:
  • Billing rates should be designed to recover the direct operating costs of providing the services and internal service center overhead on an annual basis. No costs other than the costs incurred in providing the services should be included in the billing rates. The costs should exclude unallowable costs and be net of applicable credits. For specialized service facilities excluding the Animal Research Facilities, the computation of the billing rates should also include the facility’s allocable share of institutional F&A costs.
  • Billing rates should be computed annually at the start of each University fiscal year. 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 should be documented.
  • All users should be charged for the services they receive and be charged at the same rates.
  • Separate indexes should be established in the University’s Banner system to record the actual direct operating costs of the service center, internal service center overhead, revenues, billings, collections, and surpluses or deficits. Documentation to support the costs of the service center and records of units of service should also be maintained.
  • The billing rates should be reviewed at least every six months and adjusted where necessary.
  • Actual costs and revenues should be compared at the end of each University fiscal year. Deficits or surpluses should be incorporated into 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 for the completed year.
2. **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 also should 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. The surplus from one service may be used to offset the deficit from another service only if the mix of users and level of services provided to each group of users is approximately the same.

3. **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. Cost allocations also will be needed where a cost partially relates to the operations of a service center and partially to other activities of a department or other organizational unit.
   - Depending on the specific circumstances involved, there may be three categories of cost that need to be allocated: (a) costs that are directly related to providing the services, such as the salaries of staff performing multiple services, (b) internal service center overhead, and (c) in the case of specialized service facilities, institutional F&A costs.
   - 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 or 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. Questions concerning appropriate cost allocation procedures should be directed to the Office of Cost Analysis. The Office of Cost Analysis is also responsible for determining the amount of institutional F&A costs that is allocable to each specialized service facility.

4. **Equipment Purchases:**
   - Expenditures for equipment purchases and equipment depreciation should not be included in the costs used to establish service center billing rates. The depreciation on equipment is included in the institutional F&A costs.

5. **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 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 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, turnaround time, etc., are acceptable, provided that they have a sound management basis and do not result in recovering more than the costs of providing the services.
6. Services Provided to Outside Parties:
   o If a recharge activity or service facility provides services to individuals or organizations outside of the University, the billing rates may include institutional indirect costs even though these costs are not included in the rates for internal University users. (As indicated in section 1. Service Centers: Service Facilities and Specialized Service Facilities, the billing rates for specialized service facilities include indirect costs for all users.) Where applicable, sales tax must also be charged to outside parties. 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.
   o Since revenue from outside parties may have Unrelated Business Income Tax (UBIT) implications, these arrangements must be approved by the Dean and the appropriate committee assigned to develop the rates and reviewed by the Office of Cost Analysis.

7. Transfers of Funds Out of Service Centers:
   o It is normally not appropriate to transfer funds out of a service center index to the University’s general funds or other indexes. If a transfer involves funds that have accumulated in a service center index because of prior or current year surpluses, an adjustment to user charges to compensate for the surpluses may be necessary. Any transfers must be approved in advance by the Dean and reviewed by the Office of Cost Analysis.

8. Inventory Accounts for Products Held for Sale:
   o If a service center sells products and has a significant amount of stock on hand, inventory records must be maintained. If the value of the inventory is expected to exceed $50,000 at any point in the year, a formal inventory index should be established. If the inventory is not expected to exceed $50,000, internal inventory records may be used in lieu of a formal index. 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-first-out, average cost, etc.).

9. Subsidized Service Centers:
   o In some instances, the University or a school or department may elect to subsidize the operations of a service center, either by charging billing rates that are intended to be 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. Since subsidies can result in a loss of funds to the University, they should be provided only when there is a sound programmatic reason. Subsidies involving service facilities and specialized service facilities must be approved by the Dean of the school or the Vice President.

10. Records Retention:
    o Financial, statistical and other records related to the operations of a service center must be retained 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 computations. For example, if a billing rate
computation covers the University fiscal year ending June 30, 2015, the records supporting the computation must be retained until June 30, 2018.

11. Establishment of New Service Centers:
   - The establishment of new service centers must be approved by the Dean or Department Head of the school or department where the center will be located. A new service center index is established by completing a request for a new Banner Index and sending the request to the Office of Financial Reporting. The following information should be attached to this request:
     - 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.

12. Review of Service Centers:
   - The University has established a Service Center Committee (Cost Analysis) to oversee implementation of this policy and to consider future changes to the policy. The Committee is composed of representatives from schools and central University administration. The Committee will be responsible for review and making recommendations for exceptions and changes to the policy and arrangements to provide services to outside parties.
   - The Office of Cost Analysis will make periodic reviews of 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. Any major problems or disagreements that arise in these reviews will be referred to the Service Center Committee for resolution.
   - Every odd fiscal year (i.e., FY15, FY17), the Office of Cost Analysis will send established and potential service centers a questionnaire inquiring about the center’s general function, current rate schedule, indexes set up in the University’s Banner system, etc.

13. Technical Assistance
   - The Office of Cost Analysis is 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, record keeping, etc.

Forms

The following form is associated with this policy and procedures.

1. Service Center Questionnaire [http://www.controller.vcu.edu/cost/exhibiteques.pdf](http://www.controller.vcu.edu/cost/exhibiteques.pdf)
Related Documents

There are no related documents associated with this policy and procedures.

Revision History

This policy supersedes the following archived policies:

Approved Revision Date – August 5, 2015, Financial Management of Service Centers

FAQs

There are no FAQs associated with this policy and procedures.