University of Connecticut

FINANCIAL MANAGEMENT OF SERVICE CENTERS

Policy CADS-3
Date Issued: June 19, 1998

I. PURPOSE

This Policy Statement establishes the University of Connecticut's policies and procedures for the financial management of Service Centers.

II. DEFINITIONS

Service Center: An activity that performs specific technical or administrative services, primarily for the internal university operations, and charges users for its services.

Auxiliary Enterprise: An activity that provided goods or services primarily to students, faculty, staff and others for their own personal use, rather than as a service to internal University operations. The general public incidentally may be serviced by some auxiliary enterprises. Examples of auxiliary enterprises include residence halls, dining halls, and bookstores. A full list of auxiliary enterprises at the University is in Exhibit B. Auxiliary enterprises are not subject to this Policy Statement.

Direct Operating Costs: All costs that can be directly 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 depreciation; interest associated with equipment acquisitions; etc.

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 the salary and fringe benefits of the center director.

Institutional Indirect Costs: The costs of administrative and supporting functions of the University. Institutional indirect costs consist of general administration and general expenses, such as executive management, payroll, accounting 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 and equipment acquisitions; department administration such as administrative and supporting services costs provided by academic departments; libraries; and special administrative services provided to sponsored projects.

Unallowable Costs: Costs that cannot be charged directly or indirectly to federally-sponsored programs. These costs are specified in Circular A-21 issued by the U.S. Office of Management and Budget. Common examples of unallowable costs include general institutional advertising and public relations, 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). A complete list of unallowable costs is in Exhibit C.

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).

Equipment: An item of tangible personal property having a useful life exceeding one year and an acquisition cost of $1,000 or more. Purchases under this amount are considered consumable supplies.

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.

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. Examples of billing rate computations are in Exhibit D.

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

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

III. GENERAL POLICIES

A. 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.

B. Certain service centers should also include internal service center overhead in their billing rates.

C. Large service centers with annual operating budgets of over $1 million that provide specialized services should also include Institutional Indirect Costs in their billing rates.

D. All service center billing rates used to provide services to outside parties should include direct operating costs, internal service center overhead and institutional indirect costs.

E. 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.

F. The billing unit(s) should logically represent the type of service provided.

G. The billing rate computation should be documented.

H. All users should be charged for the services they receive and be charged at the same rates. (See VIII for service provided to outside parties.)

I. Separate accounts should be established in the University's accounting 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.

J. The billing rates should be reviewed at least annually and adjusted where necessary. Billing rates for new service centers should be reviewed more frequently.

K. 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 actual charges to users for the completed year, rather than through the "carry-forward" adjustment process.

IV. 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 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.

V. 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 will also 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 service centers expecting to have over $1 million in direct operating costs, institutional indirect 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 internal Service Center overhead and institutional indirect 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 indirect costs that is allocable to each specialized service facility.

VI. EQUIPMENT PURCHASES

Expenditures for equipment purchases should not be included in the costs used to establish Service Center billing rates. The costs should, however, include depreciation of the equipment. Including equipment depreciation in the billing rates will generate funds that will enable Service Centers to purchase equipment needed in the future. 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 purchase may be made from the Service Center's equipment replacement reserve account. If the amount in the equipment replacement reserve account is not sufficient to cover the cost of the new equipment, a request for funds to purchase the equipment should be submitted in accordance with normal University procedures.

A list of equipment used in Service Centers, with inventory identification numbers, should be provided at the end of each fiscal year to the Office of Cost Analysis. This information is needed to assure that the equipment is excluded from the depreciation portion of the University's indirect cost rates charged to federally sponsored programs.

VII. STANDARD BILLING RATES

All users within the University should normally be charged the published rates for a Service Center's services. 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 and do not result in recovering more than the costs of providing the services.

VIII. SERVICES PROVIDED TO OUTSIDE PARTIES

If a service center provides services to individuals or organizations outside of the University, the billing rates must include institutional indirect costs even though these costs are not included in the rates for internal University users. (As indicated in section III.B.1., the billing rates for Facilities with over $1 million in direct operating costs include indirect costs for all users.) Additionally, outside users may be charged a surcharge or a higher rate than that charged to internal 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.

Since revenue from outside parties may have Unrelated Business Income Tax (UBIT) implications, these arrangements must be approved by the University's Service Center Committee described in section XIV.

Contracts with outside parties that severely limit or prohibit the University's ability to retain rights to intellectual property and/or allows an outside party's employees to continually occupy space in a University facility, can impact on the status of a tax exempt bond. Contact the Office of Sponsored Programs prior to beginning contract negotiations with any outside party.

IX. TRANSFERS OF FUNDS OUT OF SERVICE CENTERS

Except for transfers to the equipment replacement reserve account discussed in section VI., it is normally not appropriate to transfer funds out of a Service Center account to the University's general funds or other accounts. If a transfer involves funds that have accumulated in a Service Center account because of prior or current year surpluses, an adjustment to user charges to compensate for the surpluses may be necessary. Any transfers (other than those to the equipment replacement reserve account discussed in section VI.) must be approved in advance by the Office of Cost Analysis, in cooperation with the Office of Sponsored Programs.

X. 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. [State Property Control Manual (rev. 7/1/95) requires a perpetual inventory be maintained if stock on hand is over $1,000.] If the value of the inventory is expected to exceed $50,000 at any point in the year, a formal inventory account should be established. If the inventory is not expected to exceed $50,000, internal inventory records may be used in lieu of a formal account. 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.).

XI. SUBSIDIZED SERVICE CENTERS

In some instances, the University, or a school or department, may elect to subsidize the operations of a Service Center. The Service Center may waive or reduce its published rate for services to internal users; however, the amount of waivers or rate reductions granted is limited to the amount of the subsidy the Service Center receives from all sources. Service Center deficits caused by subsidies cannot be carried forward. 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 facilities charging both direct and internal service center overhead and facilities with over $1 million in direct operating costs must be approved by the University's Service Center Committee described in section XIV.

XII. RECORDS RETENTION

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, 1997, the records supporting the computation must be retained until June 30, 2000.

XIII. ESTABLISHMENT OF NEW SERVICE CENTERS

The establishment of new service centers must be approved by the dean and department head of the school or department where the center will be located and the Center for Cost Analysis. The establishment of new service centers with expected direct operating costs exceeding $50,000 must be approved by the University's Service Center Committee described in section XIV. The requests for approval must contain the following information:

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

XIV. 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 will also consider and approve or disapprove establishment of all service centers with annual direct operating costs of over $50,000. The Committee will be responsible for review and approval of:

1. Establishment of new service centers with expected annual direct operating costs exceeding $50,000;
2. Arrangements to provide services to outside parties;
3. Subsidies to facilities charging both direct and internal service center overhead and facilities with over $1 million in direct operating costs; and
4. Address exceptional situations.

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.

XV. 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, equipment depreciation, record keeping, etc.

EXHIBIT A CLASSIFICATION OF SERVICE CENTERS:

- **Direct Cost only**

- **Direct costs plus internal service center overhead**
- Direct costs plus internal service center overhead plus institutional indirect costs

EXHIBIT B AUXILIARY ENTERPRISES

EXHIBIT C UNALLOWABLE COSTS

EXHIBIT D EXAMPLES OF BILLING RATE COMPUTATIONS

EXHIBIT A

CLASSIFICATION OF ACTIVITIES:
Below are listed some representative examples of Service Centers:

Direct Costs Only:

Departmental Copying Services
Science Illustrator — Biology

Direct Costs and Internal Service Center Overhead:

Connecticut Veterinary Diagnostic Laboratory
Center for Survey Research and Analysis
Center for Marital and Family Therapy

Direct Costs, Internal Service Center Overhead, and Institutional Indirect Costs:

Animal Care Per Diem Charges
Environmental Research Institute
Institute of Materials Science

Note: With the exception of facilities over $1 million, the classification of service centers are for discussion purposes only, nor are all listed. Additionally, categorization of "Essential Services" central facilities in one of the Service Centers categories does not conflict with the Resource Allocation Committee's recommendations; but should prompt a discussion and resolution of what constitutes a "charge-back system that is appropriate to the resources consumed," as stated in the Resource Allocation Committee's report. This issue should be referred to the University Service Center Committee for discussion and resolution.

EXHIBIT B

AUXILIARY ENTERPRISES:

Athletics
Dining Services
Health Services
Jonathan's
Jorgensen Auditorium
Rental Properties
Residential Life
Student Activities and Union Programs

EXHIBIT C

UNALLOWABLE COSTS:

This is a quick reference; Section J of OMB Circular A-21 should be consulted for more details.

Institutional Advertising (Promotional) & Public Relations

Alcoholic Beverages	Alumnae Activities
Bad Debt	Contingency provisions
Commencement & Convocation	Donations/Contributions
Entertainment	Fines & Penalties
Goods & Services for Personal Use	Lobbying
Losses on Sponsored Programs	Organized Fund Raising
Memberships in Civic & Social Organizations	Travel — First Class Air Fare

Selling & Marketing of Any Product Outside of the University

EXHIBIT D

EXAMPLES OF BILLING RATE COMPUTATIONS:

Direct Costs Only — Departmental Copier:

	Total Cost
Copier Supplies	$600
Copier Maintenance	$600
Depreciation/Lease Rental	$1,800
Total Annual Direct Operating Costs	$3,000
Total Annual Copies Made	$30,000
User Rate ($3,000/30,000)	$.10

Direct Costs plus Internal Service Center Overhead — Multi-Services:

	Total Cost	Service A	Service B
Direct Labor (Salary + Fringe)	$500,000	$200,000	$300,000
Contractuals/Supplies	$400,000	$280,000	$120,000
Depreciation/Lease Rental	$350,000	$192,500	$157,500
Total Annual Direct Operating Costs	$1,250,000	$672,500	$577,500
Internal Service Center Overhead	$216,000	$115,200	$100,800
Total Annual Operating Costs	$1,466,000	$787,700	$678,300
Total Number of Annual Service Units		$46,334	$8,212
User Rates		$17.00	$82.60

Direct Costs plus Internal Service Center Overhead plus Institutional Indirect costs — Multi-Services:

	Total Cost	Service A	Service B
Direct Labor (Salary + Fringe)	$1,000,000	$750,000	$250,000
Contractuals/Supplies	$200,000	$75,000	$125,000
Depreciation/Lease Rental	$150,000	$100,000	$50,000
Total Annual Direct Operating Costs	$1,350,000	$925,000	$425,000
Internal Service Center Overhead	$50,000	$35,000	$15,000
Institutional Indirect Costs	$375,000	$258,000	$117,000
Total Annual Operating Costs	$1,775,000	$1,218,000	$557,000
Total Number of Annual Service Units		$30,000	$10,000
User Rates		$40.60	$55.70

University of Connecticut

FINANCIAL MANAGEMENT OF SERVICE CENTERS

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Date Approved: ______________________________

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(Signature)

_____________Mark Emmert___________________

(Print or Type Name)

Chancellor and Provost for University Affairs

(Title)