Financial Management of Service Centers Policy

I. Purpose

To establish Brandeis University's policies and procedures for the financial management of service centers.

II. Effective Date

This policy is effective on July 1, 1999. The policy applies to all costs incurred (or sponsored agreement budget periods beginning) on or after that date.

III. Definitions

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.

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.

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; interest associated with equipment acquisitions; etc. Note that for capital expenses (equipment, software and furniture > $500), the depreciation should be charged as a direct expense, not the acquisition cost.

Internal Service Center Support Costs
All costs that can be identified to a service center, but are not specific to a particular product or service offered by the center. For example, the salary and fringe benefits of the service center director are considered internal support costs.

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; 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 institutional 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. Please refer to the University's "Policy on Unallowable Costs" for further information of these costs.

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 $500 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, 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.

**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.

**IV. General Policies**

All service centers are required to comply with the following:

- To segregate costs in an account
- Calculate rates annually
- Charge rate for services as noted / defined below
- Submit a copy of their semi-annual rate analysis to the Office of Cost Analysis in the Controller's Office on (date) (or time after rate defined)

Billing rates should be designed to recover the direct operating costs of providing the services on an annual basis. For service center with direct operating costs in excess of $100,000 annually, the billing rates should also recover institutional indirect costs. 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 the direct operating costs of providing the services for the fiscal year just ending and, where applicable, service center support costs and the number of billing units for the fiscal year, or an estimate of the costs and billing units of the new fiscal 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 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.
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 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 for the completed year, rather than through the carry-forward adjustment process.

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 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.

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. 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 two 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, and (b) internal service center support 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 support 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.

VII. Equipment Purchases

Expenditures for equipment purchases should not to be included in the costs used to establish service center billing rates. The costs should, however, include depreciation of the equipment.

A list of equipment used in service centers, with inventory property control (tag) 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.

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 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, 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.

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 the rates for internal University 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, the Office of
Cost Analysis should be consulted before arrangements for the services are made.

X. Transfer of Funds out of Service Centers

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. The Office of Cost Analysis should be consulted before the transfer is made.

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. 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.).

XII. Subsidized Service Centers

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
and the reason is sufficiently documented.

XIII. Record 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, 1999, the
records supporting the computation must be retained until June 30, 2002.

XIV. Contacts

If you have any questions about this policy, how to treat a specific cost, or need information, please contact
the Associate Controller for Sponsored Programs at x6-4423, the Assistant Controller of Cost Accounting
at x6-4535, or the Internal Auditor at x6-4516.
XV. Technical Assistance

The Office of Cost Analysis (x6-4535) 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.