Service Centers Policy

Policy Number: 600-022
Effective Date: April 3, 2007
Last Updated: April 3, 2007
Issuing Authority: Vice President for Research and Compliance
Responsible Offices: Grant Contract Accounting

Purpose:

Howard University and all related entities, business units, subsidiaries and affiliated organizations including, but not limited to, Howard University Hospital (hereinafter referred to collectively as "Howard University") receives a large amount of sponsored program funding through federal grants, cooperative agreements, and contracts. Funds from these awards are used to purchase products and services provided by Service Centers which must comply with federal regulations. This policy provides a framework for defining Service Centers and ensuring that they operate in a manner consistent with applicable federal guidelines. Adherence to this policy is necessary to prevent cost disallowances and penalties by the federal government and other sponsors.

Policy:

It is the policy of Howard University to have all Service Centers comply with applicable federal guidelines in order to prevent cost disallowances and penalties. *Service Centers are organizational units that provide products and services at a charge to Howard University and, potentially, external users.* The expectation of each Service Center is to offer products and/or services that are unique, convenient, or are not readily available from external sources. Service Centers establish billing rates that cover only the expenses associated with the service or product provided (i.e., the goal for the fiscal year of each Service Center is to break even). Howard University classifies Service Centers into three categories based on the Services Center's annual revenue. These are as follows: Recharge Center with annual revenue of less than $50,000; Service Facility with annual revenue of $50,000 to $499,999; and Specialized Service Facility with annual revenues of $500,000 or greater. For details on the requirements for each of these Services Centers, please refer to the <u>Guidelines and Requirements</u> section below.

Guidelines and Requirements:

Federal requirements for Service Centers include:
- Billing rates must be based upon actual use
- Service Centers must be designed to charge rates that recover no more than the costs of providing their product or service over the long-term (i.e., the goal is not to make a profit)
- Consistent rates must be charged to users (i.e., rates should not be adjusted based on the source of the funding)

A Service Center must operate on a breakeven basis, with the exception of an allowable two-month working capital reserve. If a surplus or deficit accumulates, billing rates are to be adjusted accordingly. If a Service Center has a substantial deficit (over $50,000), the department or unit in which the Service Center resides is required to provide non-federal discretionary money to pay for these costs.

Since Service Center charges are allocated to sponsored programs, all Service Center costs must be allowable, allocable, reasonable, and consistently treated. See the Direct and Indirect Cost Charging Policy for further guidance.

Billing Rates depend on the type of facility and the user (see matrix below). Billing rates for external users of all types of facilities should include both the direct costs of the service center as well as the service center's share of the allocable institutional facilities and administrative (F&A) costs. Billing rates for internal users of Recharge Centers and Service Facilities only include the direct costs of the service center. Billing rates for internal users of Specialized Service Facilities include both the direct costs of the service center as well as the service center's share of F&A costs (similar to the rates set for external users of the same facility).

Type of Facility	Internal User	External User
Recharge Center	Direct costs only	Direct and F&A costs
Service Facility	Direct costs only	Direct and F&A costs
Specialized Service Facility	Direct and F&A costs	Direct and F&A costs

Howard University limits the amount charged to any user to the total cost of the service (whether this is inclusive of direct or both direct and F&A costs). This is consistent with Howard University's Internal Revenue Services status as a not-for-profit institution. At no time is an external customer charged less than the federal government (or less than internal users) for the same service. The federal government is always treated as the most favored customer. Sales tax, when applicable, is charged to all external users who do not provide their tax-exempt certificates.

The requirements for each type of Service Center is provided below:

Recharge Center: A Service Center that has annual revenue of less than $50,000 per fiscal year. (If a Recharge Center's annual revenue reaches $50,000 a Service Facility must be established.) Billing rates are designed to recover direct costs such as salaries and wages, other payroll expenses, supplies and services, and equipment depreciation. Recharge Center requirements are as follows:

1. **Establish billing rates to recover only direct costs (unless user is external to Howard University).**
2. Approval of the Dean of the school/college with financial liability for budget shortfalls and of the Office of Sponsored Programs Manager for the Recharge Center's establishment.
3. A Director with authority over and responsibility for the Recharge Center (see the Roles and Responsibilities section of this policy). This is typically a faculty member, but other personnel can be appointed to handle these administrative responsibilities.
4. Billing rate calculations are based on a reasonable unit of service (i.e., volume, labor, hours).
5. Documentation is required for how the billing rates are calculated.
6. Documentation is required for the units of service provided for each charge.

7. Capital equipment depreciation costs, not acquisition costs, are used in the billing rate calculation (see Capital Equipment in the *definitions* section of this policy) and are part of the direct cost charged to the Recharge Center customer.
8. Development and maintenance of a depreciation schedule for all equipment.
9. Classification of space is based on the category of users, (e.g. 80% of the products provided are for sponsored programs and 20% are for other institutional activities).
10. Inventory is taken at least annually (See Service Center Inventory section below).
11. Record retention consistent with this policy and applicable sponsor requirements (See the Record Retention Policy for further guidance).
12. Establishment of rates for external customers (if necessary) that include both direct and F&A costs (See the Billing Rate section below).

Service Facility: A Service Center that has annual revenue between $50,000 and $499,999 per fiscal year. Billing rates are determined using the same methods as recharge centers. Service Facility requirements are as follows:

1. All Recharge Center requirements.
2. Approval of the Dean of the school/college responsible for any budget shortfalls; and approval of the AVPSP and the Chief Financial Officer (CFO) for the establishment of a Service Facility.
3. Submission of an annual rate proposal to Grant Contract Accounting (GCA).
4. Submission of an annual budget proposal to GCA.

Specialized Service Facility: A Service Center that has annual revenue of $500,000 or greater per fiscal year. In addition to the costs included in the Service Facility rates above, Specialized Service Facility billing rates reflect the applicable portion of the institutional F&A costs. Specialized Service Facility requirements are as follows:

1. Recharge Center Requirements numbers 2 – 11.
2. Service Facility Requirements numbers 2 – 4.
3. **The establishment of billing rates to recover BOTH direct costs and the allocable share of F&A costs.**
4. **Space for purposes of the F&A cost proposal is coded 100% to other institutional activities (space costs cannot be recovered because they are charged as direct costs)**

Definitions and Functional Descriptions:

Auxiliary Enterprise: An auxiliary enterprise is a separately organized unit or activity specifically established to sell products and/or services on a continuing basis to investigators, staff, or the general public primarily for personal use. Only an incidental amount of the revenue is from recharge transactions (e.g., cafeterias or parking services). Auxiliary enterprises are not covered by this policy.

Billing and Payment Management: Each Service Center is responsible for establishing internal billing policies and procedures. Billing is completed in a timely manner, usually on a monthly basis. Delinquent billing of sponsored programs may result in invoices not being paid (e.g., if a sponsored program has ended, etc.) and a loss in revenue for the Service Center.

Billing Rate: The billing rate for each Service Center is the amount charged to users for the product or service. The Office of the Controller approves the annual billing rates for Service Facilities and Specialized Service Facilities. The billing rate for Recharge Centers requires the approval of the Dean of the school/college with financial liability for budget shortfalls and of the Office of Sponsored Programs Manager. The billing rate for recharge centers does not require annual approval, but should be adjusted as necessary to operate on a breakeven basis.

Breakeven Operations: Annual revenue equals annual expenses (excluding capital expenses) at the end of the fiscal year. Service Centers must operate on a breakeven basis, with the exception of an allowable two-month working capital reserve. If a surplus or deficit accumulates, billing rates are to be adjusted accordingly.

Capital Equipment: Howard University defines capital equipment as items with a useful life of at least 3 years and an acquisition cost of $3,000 or more. Capital equipment costs are recovered by including equipment depreciation in the billing rate. However, equipment not purchased by the service center (e.g., equipment purchased from a sponsored program) should be excluded from the rate. A separate account will be established for Service Centers and Specialized Service Facilities for capital equipment. Each service center is responsible for:

- Inventory and tracking of equipment
- Calculating equipment depreciation expenses and including these costs in the service center rate calculation

Closures: Service Centers with limited or no activity over an extended period are subject to closure.

Depreciation Schedule: Equipment depreciation costs are calculated based on the acquisition cost of the equipment divided by its estimated useful life. Useful lives must be consistent with those used in the PeopleSoft Fixed Assets module for other Howard University equipment. A depreciation schedule should list all of the capital equipment purchased by the Service Center and calculate the depreciation expense associated with each year of the expected life of the equipment. Example: A piece of equipment purchased for $100,000 with a useful life of 5 years – the depreciation expense for this equipment would be $20,000 over each of the 5 years.

Discounts: Under certain circumstances, discounts are provided as long as they do not discriminate between users and the service center continues to operate on a breakeven basis. Service Center discounts provided to customers are explained in the annual rate proposal and are approved by GCA. Example discount options are:

- Market-based - lower billing rates may be necessary in order to keep rates competitive with providers outside of Howard University. A Service Center may adjust one or more of its rates to a level that is consistent with the market. This may require the Service Center to be subsidized. However, rates for Howard University users cannot recover more than the operating expenses of the Service Center even if the market rates are higher. Also, subsidy must be tracked and ensured it is not recovered through F&A rate.
- Volume - providing discounts for large quantities of a product or service to a customer at a lower cost due to economies of scale. These discounts must be offered equally to all customers.

- Time-of-day - Service Centers that experience a large volume of use during certain hours of the day may encourage customers to request services during off-peak hours by providing them lower rates. This may improve performance during peak hours and reduce the cost for additional labor and equipment.
- User subsidy - Service Centers that receive a subsidy to benefit a specific group of users may charge those users a lower rate based on the subsidy amount. This must be documented in the rate support proposal and approved by GCA (See Subsidized Costs).

Dissimilar Services: Dissimilar services provided by the same department must be established as separate service center entities with individual accounts and budgets.

External Users: Service Center accounts and/or services purchased by a non-Howard University individual or entity. Charges for the use of Recharge Centers, Service Facilities and Specialized Services Facilities by external users should include the applicable share of F&A costs (see Billing Rate).

Use of Howard University resources by external entities shall in no way interfere with sponsored programs and/or other sponsored program activities and shall be consistent with the mission of Howard University. All external agreements must include a statement agreeing to indemnify and hold Howard University harmless against any claims or damages resulting from the use of the resource.

Internal Users: Service Center accounts and/or services purchased by a department or individuals within Howard University. Sales are typically processed as recharge transactions.

Over/Under Recovery: A Service Center should not operate for extended periods of time with either a deficit or surplus. In the event of a deficit, it may be necessary to increase the user fee rate to recover the deficit within the next annual operating cycle, or to cover the deficit from departmental discretionary funds (see Subsidized Costs). The department should provide funds if the operating deficit is so significant that billing rates could not be adjusted within reasonable levels for recovery from users within the next annual operating cycle (e.g., the rate would have to be set so high that potential users would not be willing to utilize the service). In the event of a surplus, the user fee should be adjusted downward as a method to return surplus to users. Surpluses 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. Surpluses should not be transferred out of service center accounts to subsidize any department or other operations. However, excess amounts may be returned to an account that has provided a subsidy, subject to a limit equal to the amount of the subsidy that has been clearly documented. Building a surplus in Service Center accounts could result in violations of the guidelines outlined in federal regulations.

Recharge Transaction: The transfer of funds from one Howard University department to the Service Center account in exchange for the service or product it provided.

Record Retention: Service Centers must keep records of rate calculations, billings, revenue, collections, units of service provided and operating expenses for a period of three (3) years from the end of the fiscal year in which information was used.

Residual Funds: Excess revenue may not be transferred to an unrelated account to pay for budget shortfalls. Rates should be adjusted downward to return the revenue to customers.

Service Center: A service center is a department, or organizational unit within a department, which sells products or services within Howard University for a fee. A service center's predominant revenue source is from interdepartmental billings, known as recharge transactions. There are three types of Service Centers at Howard University: Recharge Centers, Service Facility, and Specialized Service Facility.

Service Center Inventory: If a Service Center sells products and has a significant amount of stock on hand, it must maintain inventory records. A physical inventory should be completed no less than annually to validate inventory records. When preparing the annual budget, inventory valuations may be based on any generally recognized inventory valuation method (i.e., first in first out (FIFO), last in first out (LIFO) or average cost).

Subsidized Costs: A subsidy is financial support from any department or unit outside the Service Center account. Subsidies are permitted to pay for general or specifically identified expenses, or to reduce the price of specific products or services produced by the service center. Since subsidies can result in a loss of funds to Howard University, they should be provided only when there is sound programmatic rationale and with the approval of the Controller.

Howard University or a department may elect to subsidize a Service Center either by charging billing rates less than the actual cost or by not making adjustments to future billing rates for a deficit. **However, Service Center deficits caused by intentional subsidies cannot be carried forward as adjustments to future billing rates**. Any subsidies should be identified as a separate item in the billing rate proposal submitted annually to GCA (See the Developing a Service Center Billing Rate section below).

When developing the billing rate, Service Centers can treat subsidies in the following ways: 1) A committed subsidy can be included in the rate if the department chooses to calculate rates lower than the actual costs, or 2) it can be excluded from the rate calculation and used to cover a deficit balance.

Working Capital: The operating expenses required by the Service Center to provide products and services. If a Service Center has a surplus of greater than two months working capital, billing rates will need to be adjusted to return the surplus to users. Two months of working capital is calculated by determining the average annual operating expenses (excluding capital equipment and unallowable expenses) of the last three years multiplied by .1667 (60 days divided by 360 days).

Business Process Description:

Establishing a New Service Center

To establish a service center the following forms need to be completed:

1. Establishing a Service Center – Service Center Form 1 (CURRENTLY BEING DRAFTED)
2. Annual Service Center Rate – Service Center Form 2 (CURRENTLY BEING DRAFTED)
3. Annual Service Center Budget – Service Center Form 3 (CURRENTLY BEING DRAFTED)

When the forms are completed and approved by the Dean of the school/college (either by signing the forms or through email) they are submitted by email to the Manager of GCA. The Manager of GCA reviews the information submitted and submits the completed packet to the necessary persons for their approval: AVPSP for Service Facilities, AVPSP and CFO for Specialized Service Facilities.

When a request is approved, GCA establishes two accounts in the university accounting system:

- General – Operating expenses and revenue are charged to this account.
- Capital Equipment – All service center accounts will have a corresponding account to capture acquisition costs for capital equipment. Equipment depreciation costs are transferred from this account to the General account as the depreciation is realized based on the annual budget. At the end of each year, a "true-up entry" is completed to capture depreciation for any equipment purchased during the year.

Annual Process for Existing Service Centers

Existing service centers with $50,000 or more in revenue (Service Facilities and Specialized Service Facilities as defined above) must complete the following forms on an annual basis:

1. Annual Service Center Rate – Service Center Form 2 (CURRENTLY BEING DRAFTED)
2. Annual Service Center Budget – Service Center Form 3 (CURRENTLY BEING DRAFTED)

The Dean of the college/school and the AVPSP must approve these completed forms on an annual basis for each Service Facility and Specialized Service Facility. Any Service Center with a deficit of greater than $25,000 in the previous annual budget period, requires the approval of the AVPSP and the Dean of the college/school. If there is a total deficit of equal to or greater than $50,000, approval of the CFO is also required.

Roles and Responsibilities:

Academic Department

- **Department Chair/Dean:** For each Service Center affiliated with a department, the affiliated Department Head/Chair must approve the establishment of new Service Centers and the continued operation of existing Service Centers. The Department Chair/Dean also must approve the Service Center's budget each year and cover any deficit or disallowance created by Service Centers under his/her direction.

Grant Contract Accounting (GCA):

- **GCA:** GCA is responsible for reviewing requests to establish new Service Centers. GCA also reviews the Service Center's annual budgets and billing rates to monitor rates for determining if total billings for services are reasonable compared to the cost of operation. GCA periodically monitors Service Center accounts for consistency with sponsor and Howard University guidelines. GCA is also a resource to the Service Center's Director and other Service Center staff in providing policy clarification (when needed).

Service Centers Policy

Office of the Vice President for Research & Compliance

- **Office of Sponsored Programs (OSP Manager):** The OSP Manager approves the establishment of all new Service Facilities and Specialized Service Facilities.

Service Centers

- **Directors:** Each service center is required by Howard University to have a Director. The Director is responsible for the following tasks: managing the daily operations of the Service Center; providing competitive rates and service while maintaining break-even margins and necessary account balances; preparing the annual budget and billing rate analysis for the Service Center; maintaining detailed records supporting charges to internal and external users; processing charges for services provided to Howard University customers and billing for services provided to external customers; and maintaining and managing the Service Center equipment inventory and depreciation schedule.

Office of the Senior Vice President, Chief Financial Officer and Treasurer

- **Controller:** Approves the annual billing rates for the Service Facilities and the Specialized Service Facilities.
- **Chief Financial Officer:** Approves the establishment of Service Facilities and Specialized Service Facilities.

Related Policies and Procedures:

- Direct and Indirect Cost Charging Policy
- Personnel Issues Policy
- Cost Transfers Policy
- Record Retention Policy
- Residual Funds Policy

Forms and Links:

- Cost Transfer form
- OVPRC Website http://ovprc.howard.edu
- OMB Circular A-110, *"Uniform Administrative Requirements for Grants and Agreements with Higher Education, Hospitals, and Other Non-Profit Organizations"*
- OMB Memorandum M-01-06 (January 5, 2001), *"Clarification of OMB A-21 Treatment of Voluntary Uncommitted Cost Sharing and Tuition Remission Costs"*
- NIH Grants Policy Statement http://grants.nih.gov/grants/policy/nihgps_2003/index.htm