
FINANCIAL MANAGEMENT OF SERVICE CENTERS

Category: Financial

Responsible Office: Financial Management

Responsible Executive: Vice President for Finance and Administration

Date Established: 7/1999

Date Last Updated: 7/18/2017

Summary

This policy provides guidelines for the financial management of service centers including:

- accurate cost allocation
- consistent billing practices that document costs, charges, and billing rates
- compliance with federal government cost principles
- adequate internal controls

Policy

POLICY STATEMENT

The University at Buffalo (UB, university) allows service centers to recover the cost of providing goods or services by charging customers for actual goods or services provided, utilizing service center billing rates established in accordance with this policy. Pre-billing in advance of providing the goods or services is not allowable per federal guidelines. Established service center billing rates should be reviewed regularly, at least annually, by the service center manager and all changes in billing rates must be approved by:

- Financial Management
- University Controller, where applicable
- Unit Business Officer (UBO)
- Service center manager
- Department head or chair
- Provost designee

Rate Development Principles

The *service center billing rate* is the cost per unit of measure (UOM) used to recover the costs of the service center:

$$\text{Budgeted Costs/Budgeted Unit of Measure (UOM)} = \text{Service Center Billing Rate}$$

Budgeted costs are based on prior year costs or an estimate of the upcoming year's costs. The UOM is the volume of work expected to be performed (e.g., labor hours, machine hours, CPU time, or other reasonable measurement). New service center billing rates should be based on a reasonable estimate of the costs to provide the services for the year and the projected volume for the year.

Service center billing rates should be calculated in each service center based on the university's fiscal year.

For each type of service recharged to users, the department must maintain documentation of appropriate approvals and details of how the rate has been determined.

Service center billing rates should be calculated with guidance from Financial Management. Actual costs and service center billing rates should be reviewed for reasonableness by the service center manager at least annually and adjusted when necessary. Documentation supporting new service center billing rate calculations and required adjustments to existing rates must be submitted to Financial Management for review and approval. Complete the *Service Center Questionnaire* included with the *Fee Approval Request Form*.

If a service center provides multiple services and uses separate billing rates, all of the costs related to each service must be separately identified through a cost allocation process. Cost allocations should reflect the relative benefits each activity received from the cost. Categories of cost to be allocated include:

- direct costs (i.e., if an individual is involved with multiple services, a distribution of his/her salary among the services can be accomplished by using the proportional amount of time the individual spends on each service)
- partial costs (i.e., costs related to the operations of a service center and partially to other activities of a department)
- overhead (i.e., internal service center overhead allocated on the basis of space utilized)

Per the Office of Management and Budget [Uniform Guidance, Subpart E, §200.468\(b\)\(2\)](#), service centers are required to review their rates no less than biennially.

Service Center Accounts

A separate account should be established to record only service center receipts and expenditures to provide transparency and an audit trail for tracking and performance.

Income Fund Reimbursable (IFR) accounts should be established to record service center activity. Establishing a Research Foundation (RF), and/or University at Buffalo Foundation (UBF) account to record service center activity requires prior approval from Financial Management and the University Controller.

Service Center Users

Internal Users

Internal users include academic, research, administrative, and auxiliary units whose originating source of funds is within or flows through the university. This includes state, RF, UBF, and Faculty Student Association (FSA) funds.

External Users

External users are individuals or organizations whose originating source of funds is outside the university. External users include faculty and staff acting in a personal capacity. Affiliated hospitals and other universities are external users unless the university has subcontracted with them as part of a grant or contract, in which case they are an internal user.

Rate Components

All of the costs that contribute to the goods or services provided must be used in the development of service center billing rates and should reside in a service center account. The following cost components are commonly included in service center billing rates:

Salaries and Wages (Personal Service Regular (PSR))

Direct Labor

The salaries and wages of all personnel directly related to a service center activity (e.g., lab technicians, machine operators) should be included in the rate calculation and charged to the service center operating account. If an individual works on more than one activity, the costs associated with that individual should be allocated to the activities based on the proportional benefit with the total benefit not to exceed 100 percent of an individual's time. This proportion may be determined by an effort or time study or based on a good faith estimate by service center management with an annual review for reasonableness.

Administrative Staff

The salaries and wages of administrative staff in direct support or management of a service center may be included in the rate calculation and charged to the service center operating account as long as the administrative staff cost is not included in the university's indirect (facilities and administrative (F&A)) rate charged to the federal government. Administration costs benefiting more than one service center activity should be allocated to the benefiting services on a reasonable basis.

Fringe Benefits

Fringe benefits related to State IFR, RF, or UBF salaries charged to the service center operating account should be included in the service center billing rate calculation. Because the university does not pay fringe benefits for salaries funded by state operating accounts, fringe benefits for these salaries may not be included in the service center billing rate calculation.

Materials and Supplies

The cost of materials and supplies needed to operate a service center should be included in the rate calculation and charged to the service center operating account.

If a service center sells products from an inventory or maintains an inventory of parts and supplies used in providing its services, inventory records must be maintained.

Inventory

A physical inventory is required at least annually at the end of the fiscal year and reconciled to the inventory records by completing an inventory settlement. A physical inventory may be taken more frequently (i.e., quarterly) to improve accuracy. Transactions should not occur during the physical inventory, which may require a temporary closure of the facility.

Inventory valuations may be based on any generally recognized inventory valuation method (e.g., first-in-first-out, average cost) as long as consistency in the method is maintained. The service center must exclude costs attributable to inventory growth in calculating billing rates.

Equipment With a Purchase Price Equal To or Greater Than \$5,000

Equipment with a purchase price equal to or greater than \$5,000 cannot be entirely included as a cost in the year purchased when calculating service center billing rates. The cost of the equipment must be included in the service center billing rate as depreciation, using the straight-line method. Straight line depreciation is calculated by dividing the original purchase cost of the equipment by its useful life. This ensures that users pay only for equipment cost associated with the usage in a given year.

Equipment Replacement Reserve – It is recommended that the funds recovered by depreciation included in the service center billing rate be set aside in a separate account as an equipment replacement reserve to fund the purchase of new equipment. At the request of the service center manager, Financial Management will establish an account to accumulate depreciation dollars. If additional funds are necessary to cover the cost of replacement equipment, other sources may be used. Surplus balances in the service center operating account must be used as carry forward adjustments and may not be used to purchase equipment.

Equipment purchased with federal funds – Depreciation of equipment purchased by federally sponsored programs, whether or not title has reverted to the university, cannot be included in the service center billing rates. Where the university has agreed to cost-share a piece of equipment on a federal award, depreciation of the university-funded portion is not allowable in the service center billing rates.

Equipment included in the university's indirect (F&A) rate – The federal government cannot be charged for the depreciation of a piece of equipment both through a service center billing rate and through the university's indirect (F&A) rate. Financial Management will review equipment items included in the service center billing rate to confirm that the equipment is excluded from the university's indirect (F&A) rate charged to federally sponsored programs.

Equipment With a Purchase Price Less Than \$5,000

Equipment with a purchase price less than \$5,000 is treated as an equipment expense.

| Equipment Purchase Price | Expense Time Period |
|---------------------------------|--|
| \$1 to \$999 | Expense the total cost in the year purchased |
| \$1,000 to \$4,999 | Expense the cost over a three year period |

Conference Expenses

Allowable conference expenses include facility rental, speaker fees, meal costs, and local transportation.

Other Expenses

Other expenses that may be included in the service center billing rate include:

- rental and service contracts
- equipment operating leases
- software and equipment maintenance
- memberships, subscriptions, and professional services
- reasonable travel expenses related to service center operations

Unallowable Costs

The OMB Uniform Guidance includes a list of considerations for selected items of cost. The list is not all-inclusive and failure to mention a particular item of cost is not intended to imply that it is either allowable or unallowable. Unallowable costs must be excluded from service center billing rates. The following list contains some of the costs that have been specifically identified in [OMB's Uniform Guidance](#) as **unallowable**:

- §200.421 Advertising costs that are not for (1) the recruitment of personnel required by the award; (2) the procurement of goods and services required to perform the award; and (3) the disposal of scrap or surplus materials acquired in the performance of the award.
- §200.421 Advertising and public relations costs (1) of meetings, conventions, convocations, or other events related to other activities of the University; (2) of promotional items and memorabilia; and (3) designed solely to promote the University.
- §200.423 Alcoholic beverages.
- §200.424 Alumni activities
- §200.426 Bad debts.
- §200.430 Compensation for personal services (1) that is not reasonable for the services rendered and (2) does not conform to the established written policy of the University, consistently applied to all activities.
- §200.431 Compensation for automobile costs that relate to personal use by employees (including transportation to and from work), regardless of whether the cost is reported as taxable income to the employees.
- §200.432 Conferences that (1) do not have the primary purpose of disseminating technical information beyond the University and (2) are not reasonable for successful performance of the award. Conferences can also mean meetings, retreats, seminars, symposiums, and workshops.
- §200.434 Contributions and donations made by the University to other entities, including cash, property, and services.
- §200.438 Entertainment costs, including amusement, diversion, and social activities and any associated costs that don't have a programmatic purpose and/or are not authorized by the awarding agency.
- §200.445 Goods or services for personal use by employees.

- §200.454 Membership in any country club or social or dining club or organization, as well as membership in any organization whose primary purpose is lobbying.
- §200.459 Professional and consultant services rendered by persons who are officers of the University.
- §200.466 Scholarships and student aid costs, in lieu of wages, that (1) are not for necessary activities of the award; (2) are not in accordance with established policies of the University; (3) are not consistently provided in a like manner to students in return for similar work conducted in other University activities; (4) are not for students enrolled in an advanced degree program that is related to the award; (5) are not reasonable compensation for the work performed; (6) are not conditioned explicitly upon performance of the necessary work; and (7) occur when it is not the University's practice to similarly compensate students under awards as well as other activities.
- §200.467 Selling and marketing costs of any products and services of the University, without prior approval of the awarding agency.
- §200.469 Student activity costs incurred for intramural activities, student publications, and student clubs, unless specifically provided for in the award.
- §200.474 Travel costs for lodging and subsistence (1) that are not reasonable and consistent with the University's established travel policy and (2) are for dependents, unless the travel is for a duration of six months or more and have been approved by the awarding agency.
- §200.474 Travel costs for commercial air travel that are in excess of the basic least expensive unrestricted class offered, except when such accommodations would require circuitous routing, travel during unreasonable hours, excessively prolonged travel, additional costs that would offset savings, or are not reasonably adequate for the traveler's medical needs.

Variable Billing Rates

Internal university users should be charged the same rate for services provided. Alternate pricing structures (e.g., based on time-of-day, volume discounts, turn-around time) are acceptable, provided that they have a sound management basis, do not discriminate among users, and do not result in recovering more than the cost of providing the services.

If some users are not charged or are charged at reduced rates for the services, the non-subsidized or standard rate must be imputed in calculating the service center's annual surplus or deficit. This is necessary to avoid having some users pay higher rates to compensate for reduced rates charged to other users.

Rates for External Users

The federal government does not object to charging external users a rate higher than the rate charged to internal users. However, revenues and costs associated with external users should be tracked separately to avoid the perception of overcharging.

Rates charged to external users may include:

- full direct costs of the service center operation including direct costs not charged to internal users
- indirect (F&A) costs of the service center operation
- General University Service Fee (GUSF)
- sales tax, where applicable.

External rates should not be significantly different than the prevailing rate for identical services provided by commercial organizations in the area.

Revenue from external users may have Unrelated Business Income Tax (UBIT) implications.

Surplus and Deficit (Break-Even Concept)

All service centers must develop service center billing rates so that revenues offset costs over a reasonable period of time. The service center surplus or deficit for a given fiscal year generally should be carried forward as an adjustment to the service center billing rates for the following year or the next succeeding year.

Adjustments to service center billing rates for the completed fiscal year should be made only when material and reasonable.

During the rate development process, Financial Management will provide an annualized break-even pro-forma and will assist with reviewing the break-even analysis annually.

Amounts charged to external users in excess of the internal service center billing rate should be excluded when calculating the service center surplus or deficit.

Subsidized Users

Service centers must bill all customers for all services provided.

The service center may choose to provide a service to an internal group of users at no charge or at a lower rate than other users, however, the service center billing rate must be calculated for all internal users based on total service center expenses and total units of output.

The cost of the services used by the subsidized user group must be recorded to ensure that they are not inappropriately charged to other users.

The service center must ensure that the rate charged to this user group is consistent with that charged to others, including accounts ultimately charged to federal awards.

Subsidies to Service Centers

The university may choose to subsidize the operations of a service center. When billing rates are lower than cost, the resulting deficit cannot be carried forward as an adjustment to future billing rates.

Billing/Invoicing

Invoices must be based upon documented and properly approved rates.

All invoicing should be processed on a timely basis (i.e., within one month from the time of service) and with approved service center billing rates.

An invoice must not be issued until the service has been rendered or the materials provided (pre-billing is not allowed).

Invoices should include the following information:

- Name and account number of the service center
- Invoice number or another unique identifier
- Date of service or sale
- Nature of the services rendered or number of units sold (must match approved price list)
- Related unit charged and extension to show total cost per line of time

Revenue Collection

The service center is responsible for monitoring collections on accounts receivable.

| Acceptable Payments | |
|---------------------|--|
| User | Payment Type |
| Internal User | Interdepartmental Invoice (IDI) Purchase Order (eReq) Revenue Transfer Campus Cash |
| External User | Wire Transfer/ACH Electronic payment (ePay, UBF Checkout) Paper Check Credit card (requires prior approval) |

Service centers receiving payments should ensure that the appropriate segregation of duties is maintained to safeguard the funds and the university's reputation as required by the [Safeguarding Cash and Cash Equivalents Policy](#). For instance, a person who receives payments should not also deposit payments or reconcile the account.

When staffing resources make segregation of duties difficult, compensating controls should be implemented to provide the appropriate checks and balances to detect errors, deter fraud, and prevent concealment of irregularities. Examples of compensating controls are found in the [Safeguarding Cash and Cash Equivalents Policy](#).

Record Retention

Rate development documentation must be maintained by the service center manager to document the actual costs of providing the service, units of service provided, billings, collections, and the annual surplus or deficit.

In accordance with OMB's Uniform Guidance, original rate development documents must be retained for three years from the end of the fiscal year covered by the calculations. These documents are subject to external audit (e.g., federal, state, RF, other sponsors) and internal review.

BACKGROUND

Service centers are established to provide specific technical or administrative services or goods that support the internal operating activities of the university. Service centers must provide services that are consistent with the university's mission and the activities of the unit.

The cost of services provided by a service center must be charged directly to all users based upon actual use through a schedule of rates that recover costs. Service center billing rates should not differentiate among internal users (including federally sponsored activities) and must not exceed the actual cost of providing the goods or services.

Educational institutions must follow the requirements of the federal Office of Management and Budget (OMB) [*Part 200-Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*](#) when developing service center billing rates and charging sponsored program accounts.

APPLICABILITY

This policy applies to service center activities conducted through university accounts including State, RF, and UBF.

DEFINITIONS

Conference – A meeting, retreat, seminar, symposium, workshop, or event whose primary purpose is the dissemination of technical information and is necessary and reasonable for successful performance.

Billing Unit - The unit of service provided by a service center. Examples of billing units include hours of service, animal care days, number of tests performed or machine time used.

Deficit - The amount determined when the service center costs exceed revenues for a given fiscal year.

Depreciation - An allocation of the cost of equipment over its useful life. Straight-line depreciation is used for service centers and is calculated by dividing the original cost of the equipment by the number of years of useful life.

Direct Operating Costs - Costs that can be specifically identified with a service including 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, depreciation, and interest associated with equipment acquisitions.

Equipment - An item of tangible personal property having a useful life exceeding one year.

Equipment Reserve - The amount of funds accumulated and set aside to cover the cost of purchasing replacement equipment for the service center.

External User - Individuals or organizations whose originating source of funds is outside the university. External users include faculty and staff acting in a personal capacity. Affiliated hospitals and other universities are external users unless the university has subcontracted with them as part of a grant or contract, in which case they are an internal user.

Fiscal Year - The 12 month period used for accounting purposes; the university's fiscal year is July 1 to June 30.

General University Service Fee (GUSF) - Fee charged against external revenue. The service fee is a flat rate charged across all entities on funds generated through the use of university faculty or staff time and/or use of university facilities.

Indirect (Facilities and Administrative (F&A)) Costs - The costs of administrative and support functions of the university including general administration and general expense, operations and maintenance, building and equipment depreciation, library expenses, and interest.

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 director.

Internal User - An academic, research, administrative, or auxiliary unit whose originating source of funds is within or flows through the university. This includes State, RF, UBF, and Faculty Student Association (FSA) funds.

Office of Management and Budget (OMB) - The part of the executive branch of the federal government that assists the President in the development and implementation of budget, program, management, and regulatory policies.

Service Center - An organization that provides a specific technical or administrative service that supports the internal operating activities of the university. Examples include but are not limited to lab analysis services, print and mail services, instrumentation shops, and animal care services. A service center recovers the cost of its operations through charges to users.

Service Center Billing Rate - The amount charged to a user for a unit of service calculated by dividing the total annual costs of the service center by the total number of billing units expected to be provided to users of the service for the year. See the Billing Rate Development Worksheet.

Service Center Management - Faculty/staff within a department that manage the financial and/or day-to-day operations of a service center, including the items listed in the responsibility portion of this policy (this does not include staff from the Financial Services Office).

Subsidies - Additional funding provided by a department that assists in covering the costs of a service center.

Subsidized Users - Users of a service center that are either charged at a lower rate or not charged at all.

Supplies - Personal property that is expendable and cannot be classified as equipment with a useful life of less than a year.

Surplus - The amount determined when the service center revenues exceed costs for a given fiscal year.

Unallowable Costs - Costs that cannot be charged directly or indirectly to federally sponsored programs.

Uniform Guidance - Document issued by the Office of Management and Budget that establishes uniform administrative requirements, cost principles, and audit requirements for federal awards to non-federal entities.

Unit of Measure (UOM) – Quantity at which the product or service will be billed.

Unrelated Business Income Tax (UBIT) - Taxes that result from income produced by the sale of goods or services to external users not substantially related to the university's tax-exempt purpose.

Useful Life - The period of time over which a piece of equipment is expected to provide service.

RESPONSIBILITY

Departmental Service Center Management

- Provide Financial Management with all necessary information to calculate service center rates.
- Assist Financial Management with preparing the annual break-even review.
- Review actual costs and billing rates for reasonableness at least annually and adjust when necessary.
- Submit documentation supporting new billing rate calculations and adjustments to existing rates to Financial Management for review using the *Billing Rate Development Worksheet*.
- Request a separate account in the university's accounting systems to record the actual direct operating costs of the service center, internal service center overhead, revenues, billings, collections, and surpluses or deficits.
- Maintain records to document the actual costs of providing the service, units of service provided, revenues, billings, collections, and the annual surplus or deficit.
- Perform an annual physical inventory and reconcile to the inventory records.
- Prepare and issue invoices for actual services provided. Charging users in advance is not allowable per federal regulations.

Financial Management

- Provide guidance in the calculation of service center billing rates.
- Provide guidance in the calculation of project break-even (pro forma) and perform annual reviews of break-even.
- Review and recommend approval of new rates and changes to existing rates for service centers.
- Forward a copy of all approved rates to Resource Planning for final provost designee approval.

- Perform periodic reviews of service center financial management to ensure consistency with this policy and federal guidelines.
- Review all equipment included in the service center billing rate to ensure that the equipment is excluded from the university's indirect (F&A) cost rate charged to federally sponsored projects.
- Establish a separate equipment depreciation account and annually transfer the appropriate amount of depreciation dollars to the reserve account, as requested.

University Controller, Unit Business Officer, Resource Planning, Provost Designee

- Review and approve service center billing rates, as appropriate.

Contact Information

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Related Information

University Documents:

[Develop and Manage Non-Sponsored Fees](#)

[General University Service Fee Policy](#)

[Managing University Equipment Policy](#)

[Safeguarding Cash and Cash Equivalents Policy](#)

Forms:

[Fee Approval Request Form](#)

Related Links:

[Office of Management and Budget's Uniform Guidance](#)

[United States Government Publishing Office - Cost Accounting Standards for Educational Institutions](#)

Revision History

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|-------------|---|
| July 2017 | Full review. Updated the policy to provide additional guidance and clarification. |
| July 2015 | Updated OMB Circular A-21 and A-110 references to reflect OMB Uniform Guidance references and requirements; the OMB Uniform Guidance has replaced these circulars. |
| March 2014 | Updates include: <ul style="list-style-type: none">- Removal of mandatory biennial (every two years) submission of the Billing Rate Worksheet.- Updated email addresses and office names. |
| August 2012 | Updates include: <ul style="list-style-type: none">- Addition of clause stating pre-billing in advance of a service is allowable.- Mandatory biennial (every two years) submission of the Billing Rate Development Worksheet.- Required Academic Planning and Budget (APB) review of all rates after Financial Services approval. |
| May 2011 | Updated the policy statement to include 'actual services provided' as a criteria for invoicing and to include a definition of Service Center Management. |

Presidential Approval

Satish K. Tripathi, President

Date