

**Effective January 1, 1999**

## **I. PURPOSE**

This Policy Statement establishes The University at Stony Brook's (USB) policies and procedures for the financial management of service centers. It provides guidelines for establishing, costing, pricing and administering Service Centers (SC) and other operations regularly selling goods/services to University departments or activities. SC policies and practices have been established to provide consistent operational practices among the various SC units and to ensure compliance with federal government regulations. This is important because the University at Stony Brook conducts sponsored programs under federal government grants and contracts. SC activities result in direct and indirect charges to sponsored grants and contracts. Therefore, SC policies and practices must reflect government regulatory costing principles such as those contained in the Office of Management Budget (OMB) Circular A-21, "Cost Principles for Colleges and Universities", and those required by the Cost Accounting Standards Board. As a major research University, USB cost accounting must be consistent for all operations. Any exceptions to this policy must be approved by the SC Oversight Committee. Goods/Services may be provided by a department for itself or for other University departments. SCs are established when management determines that a good or service is most effectively provided within the University, although the same good or service may be available commercially. The purpose of SC accounts is to control the cost of providing goods/services within the University. The costs of providing the goods/services shall be distributed through a charge schedule that is uniformly applied to all users.

## **II. REGULATIONS**

Service centers and recharge operations can result in charges, directly or indirectly, to sponsored programs at USB. As a recipient of federal grants and contracts, the University at Stony Brook must comply with cost principles and cost accounting standards promulgated by the federal government.

### *A. OMB Circular A-21:*

The Cost Principles for Universities are set forth in Office of Management and Budget Circular A-21. Section J.44 of OMB Circular A-21 deals specifically with service centers and is explicit in two concepts.

- recipients of federal funds are not to recover more than cost, and
- recipients are not to discriminate in the price of services charged to governmental and non-governmental users.

The principles provide for recognition of the full allocated costs of federal grants and contracts with no provision for profit or other increment above actual incurred, documented costs.

### *B. Cost Accounting Standards:*

Cost accounting standards are designed to achieve uniformity and consistency in the cost accounting practices governing measurement, assignment and allocation of costs to sponsored programs.

The Cost Accounting Standards Board (CASB) requires universities to comply with the four standards below:

- CAS 501 - Consistency in Estimating, Accumulating, and Reporting Costs for Educational Institutions.
- CAS 502 - Consistency in Allocating Costs for the Same Purpose for Educational Institutions
- CAS 505 - Accounting for Unallowable Costs - Educational Institutions
- CAS 506 - Cost Accounting Period - Educational Institutions

### *C. Oversight:*

The federal government monitors the University at Stony Brook's compliance with these regulations through oversight and audits by the Department of Health and Human Services (DHHS) and the Office of the Inspector General (OIG).

## **III. DEFINITIONS**

### *Recharge Activity*

Recharge operations are departmental units which provide goods and/or services, primarily to University departments, for a fee and have total annual direct costs of providing those goods and/or services of less than \$50,000. Billing rates may include direct costs only.

### *Service Center (SC)*

A Service Center is an organizational unit which provides a specific type of good or service to USB departments, rather than to individuals or the general public, and is supported by interdepartmental charges to the user department's operating accounts. The users typically determine the amount of goods/services they obtain. Such a good/service might be purchased from commercial sources, but for reasons of convenience, cost, or control is often provided more effectively through a USB service center. The rates charged by a SC are generally formulated to recover operating costs. SCs provide activities for which a Rate Schedule is required and:

1. are established primarily to provide goods/services to other USB departments, sponsored programs, or activities
2. operate as a discrete unit having control of revenues and expenses
3. are ongoing activities
4. charges all INTERNAL users equally for services at a rate calculated to recover their costs over a fixed period of time
5. sales to external entities, if any, usually are incidental. There are two general categories of Service Centers.

### *Specialized Service Facility (SSF)*

This facility provides the services of a highly complex or specialized facility such as electronic computer centers, animal care facilities, wind tunnels, reactors, mass spectrometers, or MRI facilities.

#### *Service Facility*

Provides services of a less specialized nature than SSF's, such as motor pools, stockrooms, educational facilities and biotechnical services (such as graphics, printing, and equipment rental), etc.

#### *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. All direct costs must be budgeted and charged directly to 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 (if over \$10,000 and preapproved), 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 service 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; administrative and supporting services provided by academic departments; libraries; and special administrative services provided to sponsored projects.

#### *Unallowable Costs*

Costs that can not be charged directly or indirectly to sponsored programs. These costs are specified in Circular A-21 issued by the Federal 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. A typical list of unallowable costs is in Exhibit A.

#### *Applicable Credit*

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 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.

#### *Useful Life*

The estimated time period over which capital equipment and buildings will provide useful service.

#### *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.

#### *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**

Recharge Centers are established for the purpose of providing goods and services to University customers. The Centers are expected to offer goods or services that are unique, convenient or not readily available from external sources. The sale of goods and/or services must be consistent with the University's mission and the normal activities of the college/department associated with the organization.

*A. Recharge Activities*

1. Billing rates should be designed to recover the direct operating costs of providing the services on an annual basis. All direct costs of recharge activity operations, actually incurred and documented, must be charged to the recharge activity account and included in the billing rates. 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.
2. Billing rates should be computed no less than bi-annually. The rates should be based on a reasonable estimate of the direct operating costs of providing the services for the period and the projected number of billing units for the period.
3. The billing unit(s) should logically represent the type of service provided.
4. The billing rate computation should be documented.
5. All users should be charged for the services they receive and all internal users should be charged at the same rates. Federal grants and contracts cannot be charged a higher rate for goods and/or services than any other internal or external users. No discounts or free service may be given to any user unless the value of such services is imputed in the rate calculation (see section VIII variable billing rates). External users may be charged a higher rate than internal users.
6. Records must 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.
7. The account status and billing rates should be reviewed no less than bi-annually and adjusted where necessary. A complete rate review and re-computation shall be conducted no less than bi-annually.
8. Actual costs and revenues should be compared at the end of the period. Deficits or surpluses should be calculated as an adjustment to the billing rates of the following year.

*B. Service Centers - Service Facilities and Specialized Service Facilities*

1. Billing rates should be designed to recover the direct operating costs of providing the services and internal service center overhead, on an annual basis. All direct costs of service center operations, actually incurred and documented, must be charged to the service center account and included in the billing rates. 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.
2. Billing rates should be computed bi-annually. 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 one year period.
3. The billing unit(s) should logically represent the type of service provided.
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5. All users should be charged for the services they receive and all internal users should be charged at the same rates. Federal grants and contracts cannot be charged a higher rate for goods and/or

services than any other internal or external users. No discounts or free service may be given to any user unless the value of such services is imputed in the rate calculation (see section VIII variable billing rates). External users may be charged a higher rate than internal users.

6. 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.
7. The account status and billing rates should be reviewed no less than annually and adjusted where necessary. A complete rate review and re-computation shall be conducted no less than biannually.
8. Actual costs and revenues should be compared at the end of the period. Deficits or surpluses should be carried forward as an adjustment to the billing rates of the following year.

## **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 within 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 period. 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 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. 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 indirect costs, such as the proportional amount of direct costs associated with each service, etc. Questions concerning appropriate cost allocation procedures should be directed to the Accounting Office.

## **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. Including equipment depreciation in the billing rates allows for recovery of the purchase cost of the equipment. A

list of equipment used in service centers, with inventory identification numbers, should be provided at the end of each fiscal year to the Accounting Office. 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 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. 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.

### **X. TRANSFERS 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 activity, an adjustment to user charges to compensate for the surpluses may be necessary. Any transfers must be approved in advance by the Office of Grants Management. In the case of surpluses due to premiums charged to external users, these funds, once identified, may be transferred out to other accounts.

### **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 should be based on the first-in-first-out inventory valuation method.

### **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. Subsidies involving service facilities and specialized service facilities must be reviewed by the University's Service Center Committee and approved by senior management.

### **XIII. 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.

### **XIV. ESTABLISHMENT OF NEW SERVICE CENTERS**

The establishment of new recharge or service center activities must be approved by the dean of the school and chair of the department where the center will be located. The Dean must, on an annual basis, agree to cover from IDC allocations any losses or operating deficits incurred by the Service Center. The establishment of new service facilities or specialized service facilities must be approved by the University's Service Center Oversight Committee. 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 business plan for operating the Service Center which explains how billing and collection activities will be conducted.

### **XV. TECHNICAL ASSISTANCE**

The Office of Grants Management and the Accounting Department are 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**

#### ***A-21 UNALLOWABLE COSTS***



Costs that are specifically designated as unallowable costs by OMB Circular A-21 include:

- advertising expenses except for employee and subject recruitment
- alcoholic beverages
- alumni activities
- automobiles for personal use
- bad debts
- commencement and convocation costs
- contingency provision costs
- certain defense and prosecution of criminal and civil proceedings
- donations and contributions
- entertainment and social activities
- fines and penalties
- goods and services for personal use
- housing and personal living expenses for officers of the institution
- insurance against defective work
- interest, fund raising and investment costs (excluding third party interest expense)
- lobbying costs
- malpractice insurance that does not involve human subjects
- membership in any civic or community organization, country club, social or dining club
- proposal costs (costs of preparing bids or proposals on potential federally sponsored projects, including the development of data to support the institution's proposal)
- public relations costs
- selling and marketing costs
- severance costs incurred in excess of the institutions normal policy
- student activity costs
- travel airfare costs in excess of standard coach fees

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### *Applicable Credit*

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).

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### *Surplus*

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

### *Deficit*

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

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*B. Service Centers - Service Facilities and Specialized Service Facilities*

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6. 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.
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**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 within 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 period. 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 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. 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 indirect costs, such as the proportional amount of direct costs associated with each service, etc. Questions concerning appropriate cost allocation procedures should be directed to the Accounting Office.

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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 allows for recovery of the purchase cost of the equipment. A list of equipment used in service centers, with inventory identification numbers, should be provided at the end of each fiscal year to the Accounting Office. 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 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. 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.

#### **X. TRANSFERS 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 activity, an adjustment to user charges to compensate for the surpluses may be necessary. Any transfers must be approved in advance by the Office of Grants Management. In the case of surpluses due to premiums charged to external users, these funds, once identified, may be transferred out to other accounts.

#### **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 should be based on the first-in-first-out inventory valuation method.

#### **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. Subsidies involving service facilities and specialized service facilities must be reviewed by the University's Service Center Committee and approved by senior management.

#### **XIII. 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.

#### **XIV. ESTABLISHMENT OF NEW SERVICE CENTERS**



The establishment of new recharge or service center activities must be approved by the dean of the school and chair of the department where the center will be located. The Dean must, on an annual basis, agree to cover from IDC allocations any losses or operating deficits incurred by the Service Center. The establishment of new service facilities or specialized service facilities must be approved by the University's Service Center Oversight Committee. 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 business plan for operating the Service Center which explains how billing and collection activities will be conducted.

## **XV. TECHNICAL ASSISTANCE**

The Office of Grants Management and the Accounting Department are 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**

### *A-21 UNALLOWABLE COSTS*

Costs that are specifically designated as unallowable costs by OMB Circular A-21 include:

- advertising expenses except for employee and subject recruitment
- alcoholic beverages
- alumni activities
- automobiles for personal use
- bad debts
- commencement and convocation costs
- contingency provision costs
- certain defense and prosecution of criminal and civil proceedings
- donations and contributions
- entertainment and social activities
- fines and penalties
- goods and services for personal use
- housing and personal living expenses for officers of the institution
- insurance against defective work
- interest, fund raising and investment costs (excluding third party interest expense)
- lobbying costs

- malpractice insurance that does not involve human subjects
- membership in any civic or community organization, country club, social or dining club
- proposal costs (costs of preparing bids or proposals on potential federally sponsored projects, including the development of data to support the institution's proposal)
- public relations costs
- selling and marketing costs
- severance costs incurred in excess of the institutions normal policy
- student activity costs
- travel airfare costs in excess of standard coach fees