



Service Centers

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1.0 Purpose

Service centers are established for the purpose of providing goods and services to university departments and only incidentally to customers outside the university (See [Policy 3005, University-Related Business and Commercial Activities](#), for additional information about offering goods and services for sale to customers outside the university). The centers are expected to offer goods or services that are unique, convenient, or not readily available from external sources. Service centers range in size and complexity from small recharge activities that are established to provide services to customers within a college or department, to large service facilities with a university-wide mission. Service centers do not include the auxiliary enterprises that are established to provide goods and services to faculty, staff, and students.

2.0 Policy

The university will establish a service center for the sale of goods or services consistent with the university's mission and within the normal activities of the college or vice presidential area providing oversight of the center's activities. All costs associated with the operation of the center must be recorded in the funds established for the center. The rates to be charged by the center are computed by the center's manager and approved by the Controller's Office. The billing rates are to be set so that the center will break even over a period of one year. The prior year's surplus or deficit must be included in the rates for the following year or the next succeeding year.

3.0 Procedures

There are three types of service centers: recharge activities, service facilities, and specialized service facilities.

Recharge Activity: A service center with annual direct operating costs of less than \$100,000. Recharge activities include specialized computer labs, testing equipment, electron microscopes, etc.

Specialized Service Facility: A large service center that (a) provides specialized services involving the use of highly complex or specialized facilities to a select group of users rather than overall university operations, and (b) has combined annual direct operating costs and internal overhead costs of \$1,000,000 or more.

Service Facility: All service centers that do not fall within the definition of recharge activity or specialized service facility. Examples of service facilities are the Motor Pool and Printing Services. Occasional reimbursement (transfer) of costs within a department does not constitute a service center and is not covered by this policy. **All charges made to sponsored projects, however, must use a rate approved by the Controller's Office.**



Recharge Activities:

Billing rates must be designed to recover the direct operating costs of providing the services on an annual basis. No costs other than the costs incurred in providing the services shall be included in the billing rates. The costs must exclude unallowable costs and be net of applicable credits.

Billing rates must be computed annually. The rates should be based on a reasonable estimate of the direct operating costs of providing the services for the year and the projected number of billing units for the year.

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

The billing rate computation should be documented in accordance with instructions provided by the Controller's Office.

All users must be charged for the services they receive using the internal or external billing rates. External customers shall be billed through the university's central accounts receivable system in the Bursar's Office (see [University Policy 3605, Accounts Receivable](#)). Internal customers, including instructional departments, shall be billed using the standard Interdepartmental Service Request (ISR) form or an alternative approved by the Controller's Office.

Separate funds must be established in the university's accounting system to record the actual direct operating costs of the service, recoveries, any surplus or deficit, and the reserves for replacement of equipment. Documentation to support the costs of the service center and the units of services provided shall be maintained by the service center along with information on customers, billings, and collections.

The billing rates for new recharge activities should be reviewed by the Controller's Office after the first six months of operation and adjusted where necessary.

Actual costs and recoveries must be compared at the end of each fiscal year or annual review cycle. Deficits or surpluses must be carried forward as an adjustment to the billing rates of the following year or the next succeeding year. The assumptions used in calculating the rates, such as expected volume of services to be provided, must be reevaluated and adjustments made to the rate structure each year in order to minimize surpluses or deficits.

Service Facilities and Specialized Service Facilities:

Billing rates must be designed to recover the direct operating costs of providing the services and the center's overhead on an annual basis. No costs other than the costs incurred in providing the services shall be included in the billing rates. The costs must exclude unallowable costs and be net of applicable credits. For specialized service facilities, the computation of the billing rates must also include the facility's allocable share of university facilities and administrative (F & A) costs.

Billing rates must be computed annually at the start of each fiscal year or annual review cycle. The rates must 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 year.

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

The billing rate computation must be documented in accordance with instructions supplied by the Controller's Office.

All users must be charged for the services they receive using the internal or external billing rates. External customers shall be billed through the university's central accounts receivable system in the Bursar's Office (see [University Policy 3605, Accounts Receivable](#)). Internal customers, including instructional departments, shall be billed using the standard Interdepartmental Service Request (ISR) form or an alternative approved by the Controller's Office.



Separate funds must be established in the university's accounting system to record the actual direct operating costs of the service, recoveries, any surplus or deficit, and the reserves for replacement of equipment. Documentation to support the costs of the service center and the units of services provided shall be maintained by the service center along with information on customers, billings, and collections.

The billing rates established for new service facilities and specialized service facilities should be reviewed by the Controller's Office and adjusted after the first six months of operation.

Actual costs and recoveries must be compared at the end of each fiscal year. Deficits or surpluses must be carried forward as an adjustment to the billing rates of the following year or the next succeeding year. The assumptions used in calculating the rates, such as expected volume of services to be provided, must be re-evaluated and adjustments made to the rate structure each year in order to minimize surpluses or deficits.

Service centers that provide multiple services:

Where a service center provides significantly different types of service to users, separate billing rates should be established for each service representing a significant activity of the service center. The costs, recoveries, 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.

Cost allocation:

Where separate billing rates are used for significantly different services provided by a service center, the costs related to each service must be separately identified through a cost allocation process. Cost allocations will also be needed where a cost partially relates to the operations of a service center and partially to other activities of a department or other organizational unit.

Depending on the specific circumstances involved, there may be three categories of cost that need to be allocated: (a) costs that are directly related to providing the services, such as the salaries of staff performing multiple services, (b) internal service center overhead, and (c) in the case of specialized service facilities, university F & A costs (overhead).

When cost allocations are necessary, they must be made on an equitable basis reflecting 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 university facilities and administrative (F & A) 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 Controller's Office. The Controller's Office is also responsible for determining the amount of university facilities and administrative (F & A) costs that is allocable to each specialized service facility

Equipment purchases:

Expenditures for equipment purchases shall not be included in the costs used to establish service center billing rates; however, the billing rate should include depreciation of the equipment used in the center. Including equipment depreciation in the billing rates will generate funds that will enable service centers to purchase equipment needed in the future. The funds represented by the equipment depreciation must be set aside in an equipment replacement reserve fund.



Variable billing rates:

All users within the university must normally be charged the same rates for a service center's services. This requirement does not apply to alternative pricing structures related to the timeliness, quantity or quality of services. Pricing structures based on time-of-day, volume discounts, turn-around time, etc. are acceptable, provided they have a sound management basis, do not shift costs to other customers, and/or do not result in recovering more than the costs of providing the services.

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 shall include university facilities and administrative (F & A) costs even though these costs are not included in the rates for internal university users. (As indicated above, the billing rates for specialized service facilities include university facilities and administrative (F & A) costs for all 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 must 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 recoveries from outside parties may have unrelated business income tax (UBIT) implications, these arrangements must be approved in advance by the Controller's Office.

Transfers of funds out of service centers:

Except for transfers to the equipment replacement reserve fund it is normally not appropriate to transfer funds out of a service center fund to the university's general funds or other funds. Any transfers (other than those to the equipment replacement reserve fund) must be approved in advance by the Controller's Office.

Inventory funds 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 total inventory purchases exceed \$100,000 during the year, or if the year-end value of the inventory is expected to exceed \$100,000, a formal inventory fund shall be established by contacting the Manager of Financial Reporting in the Controller's Office. If the inventory is not expected to exceed \$100,000, internal inventory records may be used in lieu of a formal fund. A physical inventory shall be taken at least annually at the end of the fiscal year and the inventory reconciled to the inventory records. Inventory valuations must be based on a generally recognized inventory valuation method (e.g., first-in-first-out, last-in-first-out, average cost, etc.).

Records retention:

Financial, statistical and other records related to the operations of a service center shall 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, 2004, the records supporting the computation must be retained until June 30, 2007.

Establishment of new service centers:

A written request to establish a service center must be submitted to the Controller's Office along with written approval by the Department Head, College Dean, or Vice President having oversight of the proposed service center. At a minimum, the request shall include the following information:

- Description of the goods or services to be provided to customers.
- A listing of other internal and external providers of the same goods or services.



- A listing of potential customers and the volume of sales anticipated for internal customers and external customers.
- The estimated annual expenses for the service center.
- Anticipated starting date.
- An overhead or E & G fund must be identified to be charged for any remaining deficit should the service center be closed.

When the request to establish a service center is received in the Controller's Office the manager of the center will be contacted and asked to provide additional information about the proposed activity. The Controller's Office staff will work with the manager to complete a review of the proposed service center and the proposed rates. Approved rates along with the fund(s) to be used to record the center's activity will be provided by the Controller's Office.

Review of service centers:

The Controller's Office will make periodic reviews of the financial operations of service centers. These reviews will focus on the development of billing rates, the handling of surpluses and deficits, and the adequacy of the service center's record keeping procedures. Service centers that have been inactive for a continuous period of two years will be closed by the Controller's Office, after notification to the responsible department. Balances in the service center funds will be transferred to the fund identified in the service center memorandum of understanding or fund identified by the department.

4.0 Definitions

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 or depreciation; interest associated with equipment acquisitions; etc.

Internal Service Center Overhead: All costs that can be specifically identified to a service center, but not with a particular service provided by the center, such as the salary and fringe benefits of the service center director.

University Facilities and Administrative (F&A) Costs: The costs of administrative and supporting functions of the university.

University F&A costs (overhead) 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 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 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.

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



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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 \$2,000 or more. Purchases under this amount are considered consumable supplies.

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

Billing Rate: The amount charged to a user for a unit of service. Billing rates are usually computed by dividing the total annual costs of a service by the total number of billing units expected to be provided to users of the service for the year. Examples of billing rate computations are in Exhibit A (available from the Controller's Office)

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

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

University F & A costs: Facilities and Administrative (F & A) costs; formerly known as overhead or indirect costs.

5.0 References

Office of Management and Budget (OMB) Circular A-21, "Cost Principles for Educational Institutions"

Policy 3005, "University-Related Business and Commercial Activities"

www.policies.vt.edu/3005.pdf

Policy 3605, "Accounts Receivable"

www.policies.vt.edu/3605.pdf

6.0 Approval and Revisions

Approved January 21, 1998 by Vice President for Finance and Treasurer, Raymond D. Smoot, Jr.

- Revision 1
Incorporates changes resulting from conversion to banner finance system and minor revisions to OMB Circular A-21.

Approved February 15, 2005 by the Vice President for Budget and Financial Management, M. Dwight Shelton, Jr.