Service Center Policy

I. POLICY STATEMENT

This policy provides a framework for the fiscal operations of Auburn University's (the University) service centers that will assure their compliance with sound government regulations and accounting principles.

II. POLICY PRINCIPLES

Compliance with sound government regulations and accounting principles are essential elements in supporting the educational and research mission of the University. Although there is a wide variation in size, complexity, and services provided by service centers, they should maintain consistent administrative practices.

Service center activities can result in charges, directly or indirectly, to Federal grants and contracts at the University. The University must comply with the United States Government's Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions, and Cost Accounting Standards*. The government monitors Auburn's compliance with these regulations through the Department of Health and Human Services'(DHHS) auditors, the Office of Inspector General (OIG) and its negotiators from the Division of Cost Allocation (DCA). The University's annual A-133 Audit of Institutions of Higher Education, performed by external auditors, is forwarded to the OMB and all Federal Agencies providing funds to the University. Non-compliance with Federal regulations could involve reimbursement to the government as well as adverse publicity which could harm future award applications.

III. EFFECTIVE DATE

Effective October 1, 1996. Revised October 1, 2011.

IV. APPLICABILITY

This policy applies to all responsible parties engaging in the practice of providing a service, services, or products to users within the University community for a fee.

V. POLICY MANAGMENT

Responsible Office: Business Office
Responsible Executive: Associate VP for Business and Finance
Responsible Officer: Controller

VI. DEFINITIONS

Service Center: An operating unit providing a service, a group of services, or products to users principally within the University community for a fee, with annual expenditures of $50,000.

Recharge Units: An operating unit provided a service, a group of services, or products to users principally within the University community for a fee, with annual expenditures less than $50,000. Recharge unit activities are covered by the separate **Recharge Account Policy** and the Service Center Policy is not intended to apply to recharge units. However, cost accounting principles applicable to service centers also apply to recharge units.

Specialized Service Facilities: As defined in OMB Circular A-21, Section J.44, "a highly complex or specialized facilities, the rates of which should include their appropriate share of indirect costs. Specialized Service Facilities meet all of the following criteria:

1) The facility incurs substantial annual expenditures and charge-out volume, approximately $1 million or greater, or has significant charges to federal funds.
2) Treatment of its indirect cost within the service center rate rather than as part of the overhead pool, would "materially" affect the University-wide overhead rate.
3) Its services should not be easily available from external vendors."

VII. POLICY PROCEDURES

The services provided by service centers may range from highly specialized to routine functions. Often the services could not be provided as effectively or efficiently if performed by other sources.

The service center should develop a rate for the activity based on *direct costs* (incurred costs) and charges users for their *actual usage*. The rate(s) should be computed so as to cover only allowable costs; there should be no markup for profit or contingencies. A service center can sell to external users, as well as internal University units.

The direct costs should include direct operations and maintenance costs as well as depreciation of equipment. Service center managers who have equipment to depreciate should contact the Controller's Office for guidance. The rates will *not* include an allocation of central administrative costs. (The Federal government has designated certain services as Service Centers, even though they may fall below the University expenditure threshold, e.g., animal care facilities.) Separate organization(s) must be established for each service center to account for its operations. Depending upon the complexity and variation of activities, it may be necessary to establish separate organizations within the service center.

If a service center is determined to meet the requirements to be considered a specialized service facility, then the service center rates must be set to recover both its direct costs and its allocable share of the University's administrative and facility-related indirect costs. Units falling in this category should contact the Controller's Office for specific rate development guidance.

Rates charged to internal users must be nondiscriminatory, and all users must be billed for services received. Therefore, rates should not differentiate between the University users (which includes federal and non-federal-sponsored projects.) The use of special rates, such as for high volume work, are allowed, but they must be equally available to all users who meet the criteria. (The federal government does not object to charging **external** users a higher rate than that charged to internal users. However, rates must be justified as covering costs and not as profit.)

Services must be billed ***after*** the service has been rendered, prepayments are not appropriate. The centers will operate in accordance with the University's fiscal year, October 1 through September 30. Centers should handle year-end billings consistently each year, to assure that twelve months of revenue are associated with twelve months of incurred cost.

Service Centers should target break-even through budgeting and rate setting, but normally revenues and expenditures do not exactly match. The University has defined a break-even policy stating that a service center's surplus or deficit for a given fiscal year should not exceed 10% of annual operating expenses, computed as of the final closing of the books on September 30. Under or over recovery of costs should be calculated based on actual revenues and expenditures, without regard to budgeted funds. (See Revenues and Expenses Worksheet - SC 99-04.) To the extent the annual operating surplus or deficit is within the break-even range of +/- 10%, that surplus/deficit must be applied to the following year's rate calculation(s) so the operation will break-even over a 5 year period.

Annual operating expenses should ***exclude***:

- Increase in inventory. A physical count of inventory must be taken annually and reported to Financial Reporting by October 15. (See Rate Development Worksheet - SC 99-03.)
- Current Year Capital Equipment Purchases. Only the annual depreciation expense is to be included in calculating profit or loss.
- Federally-funded equipment. Depreciation of equipment purchased with Federal Funds, including Federal Appropriations such as Hatch, **cannot** be included in user rates.

When it appears that a service center is going to end a given fiscal year with an operating ***surplus or deficit*** for the twelve months ***exceeding*** the 10%, this excess (the portion beyond the 10%) surplus or deficit should be addressed in a midyear adjustment of rates.

Unallowable costs may **not** be budgeted or expensed on service center accounts and they may **not** be included in the user rate calculations as prohibited by OMB Circular A-21. Typical unallowable costs include, **but are not limited to**:

- Advertising and public relations costs (J.1)
- Alcoholic beverages (J.2)
- Bad debts (J.4)
- Contingency provisions (J.9)
- Entertainment costs (J.15)
- Fines and Penalties (J.18)
- Insurance and indemnification (J.21)
- Memberships, subscriptions, and professional activity costs of a social or individual nature (J.28)
- Selling and marketing costs (J.42)

Refer to OMB Circular A-21, Section J for a complete list of unallowable costs.

The Controller's office is responsible for overseeing the formation of service centers and the establishment of their organizations, performing an annual review and approval of rates for the service centers, reviewing the performance of selected service centers annually, with respect to break-even at midyear and at fiscal year-end, periodic review of financial status of service centers with respect to budget vs. actual expenditures, approving service center requests for rate changes during the year, assisting service center managers with policy and procedural matters related to accounting operations, assisting centers in annual rate calculations for incorporation in the budget, and maintaining depreciation calculations and provide semi-annual depreciation estimates to service centers for incorporation in the rate development.

The Deans are ultimate responsibility for review of desirability and feasibility of service centers and recharge centers. The Deans are responsible for reviewing and approving the establishment of each new service center, prior to an organization being requested from the Controller's Office (See Request For Establishing a New Service Center - SC 99-01). Factors such as consistency with the University's mission, availability of similar service (particularly on campus) and the ability to identify separate costs should be considered before approving. On an annual basis, the Deans are responsible for reviewing and approving the annual rate calculation, and supporting documentation for the rate, prior to submission to the Service Center Review Committee (See Rate Development Illustration - SC 99-02 and Rate Development Worksheet - SC 99-03), reviewing and approving the annual rate calculation and budget, ensuring the service centers will operate in accordance with federal cost principles and University policies and procedures, responding to all audit findings related to the service center, and monitoring financial position with the respect to 'break-even' semi-annually.

The Department Head is responsible for serving as a liaison between the Service Center Manager and the Dean, as well as providing oversight for the activities of the Service Center Manager.

The Service Center Manager is responsible for day-to-day activity. The Manager monitors the operations and takes corrective actions as needed. The Manager has an obligation to assure that an annual schedule of rates, with supporting calculations, is submitted to the Controller's Office for review by the Service Center Review Committee, with detailed supporting documentation available for an audit upon request, the financial position with respect to 'break-even' is reviewed periodically so the rate may be adjusted if necessary, all equipment for which depreciation costs are included in the service center users fees are identified as service center equipment for Property Services, all building space should also be identified as service center space in the annual space study performed by Planning and Analysis, the approved rate schedule is *applied uniformly* to all users, billings are timely and adequately documented, and receivables billed are controlled and reconciled, records of the details contained in all service center charges are maintained for audit as long as the grants or contracts they charge remain subject to audit. Each service center activity must be documented and records maintained to support expenditures, billings and cost transfers including:

1. salary and wage documents for seven years,
2. rate calculation work papers,
3. justification of the selected activity base for rate development (See Rate Development Illustration - SC 99-02)
4. documentation of actual costs of operations (personnel and operating costs),
5. approval of the rate from the review committee, if applicable,
6. records documenting and measuring sale of the services or products.
7. maintaining inventory system

Budget Services is responsible for assisting centers in establishing expenditure, revenue and capital budgets and periodic review of financial status of service centers.

Planning and Analysis is responsible for collecting information regarding the building space assigned to each service center or specialized service facility as part of their annual space usage study.

Service centers are subject to Internal Audit review for compliance with Office of Management and Budget Circular A-21 and this policy.

New Service Centers will be approved by the Dean's Office, Office of Sponsored Programs, and the Business Office (Financial Reporting and Contracts and Grants Accounting).

VIII. SANCTIONS

Violators of this policy will have their service center organizations inactivated and charges moved to another funding source or the organization will be temporally suspended until corrective action has taken place. Financial Reporting will be responsible for sanctioning the violators. However, at times Financial Reporting may consult with the Office of Sponsored Programs and Contracts and Grants Accounting.

IX. EXCLUSIONS

It is possible in the establishment of a service center, if costs have never before been accounted for, the rate developments will depend on estimates and not history. Therefore, the rates will have to be monitored with more scrutiny to adjust as needed, as history is established.

X. INTERPRETATION

The Associate Vice President for Business and Finance, or designee, will interpret what the policy means and how to apply it.

XI.