Service Center Establishment and Maintenance

Responsible Officer: Vice President for Business Affairs and Controller
Sponsoring Department: Accounting Services
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Errors or changes to: aim@uta.edu

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PROCEDURE OBJECTIVE

The purpose of this procedure is to establish The University of Texas at Arlington (UT Arlington) practice for establishing and maintaining service centers. Because service center costs may result in either direct or indirect charges to federal grants, UT Arlington must operate its service centers in a manner consistent with established cost principles, including those outlined in 2 CFR Part 220 ("Cost Principles for Educational Institutions", OMB Circular A-21), as well as the laws of the State of Texas. Failure to comply with these regulations, if applicable, could result in disallowances of potentially-recoverable costs, as well as additional penalties to UT Arlington by its sponsors.

SCOPE

This procedure applies to all UT Arlington employees.

RESPONSIBILITIES
Service Center Director

- Follows the rate setting, documentation, and billing requirements outlined in this procedure, as well as the approved business plan.
- Provides the services of the center to the university community in a consistent and non-biased basis.

Service Center Oversight Committee

- Approves service centers that adhere to the requirements set forth in this procedure and related policy.
- Assists in establishing rates in accordance with 2 CFR Part 220 and UT Arlington policy.
- Reviews the service center business plan, considers institutional strategy and existing resources and coordinates with administration any issues that arise.

Office of Accounting

- Ensures fiscal compliance of the service center.

PROCEDURES

Section I. Establishing a Service Center

A. Requests to establish new service centers should be submitted to the UT Arlington Service Center Oversight Committee and must include a business plan, a proposed budget showing the ability of the center to be self-sufficient, as well as a cost/benefit analysis documenting the benefits derived from operating the new center at UT Arlington versus the anticipated cost.

B. The establishment of all new service centers must be approved by the UT Arlington Service Center Oversight Committee. For a service center to be approved, it should:

1. Be primarily for UT Arlington users.
2. Have at least $20,000 in anticipated annual revenue or a significant volume of recharge transactions.
3. Be able to recover the majority of its costs through fees.
4. Be cost effective to perform the services internally.

C. If the service center's expected revenue is below the $20,000 threshold, the cost of the services will be addressed through a discussion with the Office of Accounting. In cases where the revenue is below $20,000 but there is anticipated to be a substantial volume
of annual recharge transactions, the establishment of a service center may be approved.

D. Service centers may sell goods or services to external customers only when those goods or services are directly related to UT Arlington's mission.

E. All customers, both internal and external, must be accommodated on a first come, first serve basis unless otherwise stated in the approved business plan.

F. All service center rates must be published on a university website.

Section II. Rate Development

A. The Service Center Director, in conjunction with a representative from the Service Center Oversight Committee, will establish rates in accordance with 2 CFR Part 220 and UT Arlington policy.

B. Service Center rates should consist of all identified allowable costs of operating the service center, including the costs specific to providing the service (service center direct costs), as well as the costs incurred by the service center to support its overall operation (service center support costs).

1. **Service Center Direct Costs** - Costs specifically identifiable to the good or service being produced, such as the input materials required to produce the particular good, or the salaries and benefits of the service center staff directly providing the service.

2. **Service Center Support Costs** - Costs required to support the overall operation of the service center, such as the salaries and benefits of the Service Center Director, or general supplies or equipment maintenance contracts required to support the service center. (Note that this does NOT include institution-wide indirect costs, which are recovered through UT Arlington's Facilities and Administrative cost rate).

C. Service Center Rates must NOT include unallowable costs or costs that are already recovered through UT Arlington's Facilities & Administrative (F&A) cost rate.

1. **Unallowable Costs** - Costs identified in 2 CFR Part 220 as unallowable, such as entertainment/alcohol, bad debt, and sales/marketing costs.

2. **Facilities and Administrative Costs** - Costs that are already recovered through UT Arlington's negotiated F&A rate agreement, such as building depreciation, utilities, data processing, and sponsored programs administration costs.

3. **Equipment Depreciation** - The majority of UT Arlington's equipment depreciation is recovered through its Facilities and Administrative cost rate and should not be recovered through service center rates. Service centers should continue to request capital equipment items through the institutional capital equipment process and exclude the cost of the equipment as well as the annual depreciation from the service center rates. Exceptions will be made for...
specialized service centers, whose facility costs cannot be recovered through the F&A rate.

D. Service center rates must be calculated for distinctive types of goods/services and be based on a reasonable unit of service, such as volume, hours, etc. Service center usage must be calculated for all customers to ensure they recover only the actual cost of providing the good or service over the long-term. Rates must not discriminate against federally-funded activities, and costs may not be shifted from one user to another. Rates must be calculated and updated on a regular basis and should not be based solely on "market rates".

E. All customers, both internal and external, must be charged for goods and services consumed. Service center rates charged to internal UT Arlington customers shall recover no more than the federally-allowable cost of the services provided. Rates charged to other Texas Public University customers may not exceed the internal user rate plus UT Arlington's fully loaded indirect cost rate. Rates charged to other external users should consist of at least the internal user rate plus UT Arlington's fully loaded indirect cost rate. Rates above this are encouraged for other external users but may require further review related to unrelated business income.

F. Rates developed for Specialized Service Facilities have additional costing implications and must be coordinated with the Office of Accounting to ensure that their costs are appropriately captured in UT Arlington's F&A rate calculation. Specialized service center rates are expected to include the service center's allocable share of the facilities portion of F&A costs. For example, rates for UT Arlington's Animal Care Facility, a unique type of specialized service facility, must be calculated in a manner consistent with the Cost Analysis and Rate Setting Manual for Animal Research Facilities, published by the National Center for Research Resources.

G. Separate accounts must be established for each service center. Expense and revenue in the service center account must only reflect the operation of the service center and should not include any unrelated revenue and expense. Additional accounts may be required to track all activity of the service center, including outside revenue and subsidies.

H. Service center fees should be recognized as revenue. Revenue associated with any charges above internal rates that are charged to external users, such as charges for indirect costs and other additional charges, should be tracked in a separate object code or budget category.

Section III. Billing Requirements

A. Service centers are expected to regularly and accurately bill all customers for the goods or services consumed at the appropriate (internal or external) rate. Service Centers are responsible for managing all accounts receivable as outlined in their approved business plans.

B. All users must be charged the published rates without discount. Multiple funding sources may be identified by a user in order to fund the charges. All internal users
must be charged the same rate for a given service while rates charged to external users may be higher than the internal rates but may not be lower.

C. Service centers may not advance bill for goods or services.

D. If the service center is funded by an active grant, any external revenue must be recognized as program income and be used to offset expenses as outlined in the terms and conditions of the grant and subject to the approval of the grant program officer.

Section IV. Rate Adjustment Requirements

A. Revenues from services charged to users must be annually compared to the actual cost of providing each line of services to ensure that rates are reasonable and have not recovered more than the cost of providing the service.

B. Only the revenue generated from the internal portion of the service center rates should be used in the cost/revenue analysis. Modified rates (i.e. higher fees charged to external users) must be included in the analysis as if UT Arlington's standard internal billing rate had been used.

C. Rates should be adjusted according to the following schedule:
   1. Service centers may maintain their rates if their cumulative surpluses or deficits for a given year are within the break-even range of 2 months of working capital.
   2. Surpluses or deficits exceeding 2 months of working capital must be carried forward and used to adjust the billing rates in the following period.

D. Surpluses may not be transferred out of the service center or be used to subsidize other service center goods or line of services.

E. If a service center has been subsidized, any surplus gained through the use of modified rates (higher rates charged to external users) may need to be returned to the subsidizer.

Section IV. Rate Adjustment Requirements

A. All service centers will be responsible for maintaining the financial and customer data necessary to document and support the calculation of the rates for each good or service provided for review and auditing purposes.

B. The following information must be maintained at a minimum in order to properly validate rates:
   1. Documentation showing how each rate was calculated and how billable units are identified and tracked.
2. The costs incurred by the service center to provide each type of service, the revenue associated with each type service, and number of billable units provided by service.

3. Billing and customer usage information identifying the date the service was provided, the customer name and cost center number or external customer charged for the service, the type and number of units of good or service sold, the rate charged for each service, and the total amount charged per service.

4. Detailed accounts receivable records showing amount invoiced and amount paid by each customer.

C. All service centers will be required to provide an annual profit and loss statement detailing expense and revenue for the year for each line of services, including all documentation necessary to support rate maintenance or adjustment.

Section VI. Compliance

A. The Office of Accounting is responsible for ensuring fiscal compliance of the service centers.

B. The Service Center Director is responsible for following the rate setting, documentation, and billing requirements outlined in this procedure, as well as the approved business plan. If the service center does not adhere to these requirements or plan, the status of the service center and Service Center Director may be reviewed by the Service Center Oversight Committee.

Section VII. Closing a Service Center

A. If the volume of revenue or service provided falls below the materiality threshold of $20,000 for more than one year, the service center may be dissolved with approval of the Service Center Oversight Committee.

FORMS AND TOOLS/ONLINE PROCESSES

Service Center Rate Calculation (Form 2-27)

DEFINITIONS

Allowable Costs: Costs that are (a) reasonable; (b) allocable to sponsored projects under the principles and methods outlined in 2 CFR Part 220; (c) given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and (d) conform to any limitations or exclusions set forth in 2 CFR Part 220 or in the sponsored agreement as to types or amounts of cost items.
**Billing Rate:** The internal billing rate shall consist of the federally allowable costs of providing the good or service divided by the aggregate number of units of the good or service provided. Rates charged to other Texas Public University customers may not exceed the internal user billing rate plus UT Arlington's fully loaded indirect cost rate. Rates charged to other external users should consist of at least the internal user rate plus UT Arlington's fully loaded indirect cost rate.

**Capital Equipment:** Equipment with a useful life of at least one year and an acquisition cost of $5,000 or more. UT Arlington's capital equipment is generally recovered through its Facilities and Administrative cost rate and should not be included in service center billing rates, except in the case of Specialized Service Centers.

**Depreciation:** The allocation of the cost of an asset over its useful life. Useful lives must be consistent with those identified for other UT Arlington assets of the same nature.

**Direct Costs:** Costs that can be identified specifically with a particular sponsored project, a research, instruction, or service activity, or that can be directly assigned to such activities relatively easily and with a high degree of accuracy. If a particular type of cost is treated as direct costs on sponsored projects, all costs for the same purpose in like circumstances must be treated as direct.

**External User:** A customer who does not use a UT Arlington cost center/account for payment.

**Facilities and Administrative (F&A, or Indirect) Costs:** Costs that are incurred for common or joint objectives and cannot be specifically identified with a particular sponsored project, instructional activity, service activity, or other institutional activity.

**Fully Loaded Indirect Cost Rate:** UT Arlington's calculated facilities and administrative cost rate. This rate is available from Research Administration.

**Internal User:** A customer who pays with a UT Arlington cost center/account number.

**Service Center:** An operating unit or cost center that provides goods or services to other internal UT Arlington cost centers for a cost-based fee. Service centers operate on a break even basis.

**Specialized Service Center:** Service centers that provide highly complex or specialized services whose annual operation costs exceed $1,000,000. The services provided by specialized service centers are generally used by only a small number of research activities and are not easily available from external providers. Specialized service centers will be designated as such by the Service Center Oversight Committee, and their rates must be coordinated with the Office of Accounting to ensure that their costs are treated appropriately in the F&A rate proposal. The rates for animal research centers, a unique type of specialized service center, should be calculated according to the Cost Analysis and Rate Setting Manual for Animal Research Facilities, published by the National Center for Research Resources, a component of the National Institutes of Health (NIH).

**Support Costs:** Costs required to operate a service center but that are not specifically identifiable to an individual activity or service, such as the salaries and benefits of the Service Center Director, or general supplies or equipment maintenance contracts required to support the service center.
**Unallowable Costs**: Costs identified as non-reimbursable by the federal government in 2 CFR Part 220, or by the specific sponsored project terms and conditions.

**Working Capital**: Operating funds available to cover the current costs of the service center. Service centers are allowed to establish working capital reserves not to exceed 2 months of annual operating expenditures.

**RATIONALE**

Because service center costs may result in either direct or indirect charges to federal grants, UT Arlington must operate its service centers in a manner consistent with established cost principles, including those outlined in 2 CFR Part 220 (“Cost Principles for Educational Institutions”, OMB Circular A-21), as well as the laws of the State of Texas. Failure to comply with these regulations, if applicable, could result in disallowances of potentially-recoverable costs, as well as additional penalties to UT Arlington by its sponsors.

**RELATED STATUTES, POLICIES, REQUIREMENTS OR STANDARDS**

<table>
<thead>
<tr>
<th>UT System Administration Policies and Standards</th>
<th>Other Policies and Standards</th>
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<tbody>
<tr>
<td>UT Arlington Service Center Policy #XXXXXXX</td>
<td>2 CFR Part 220 (Office of Management and Budget Circular A-21 - Cost Principles for Educational Institutions)</td>
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**APPENDICES**

N/A

**CONTACTS**

If you have any questions about this procedure, contact the following departments:

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<thead>
<tr>
<th>Subject</th>
<th>Office Name</th>
<th>Telephone Number</th>
<th>Email/URL</th>
</tr>
</thead>
<tbody>
<tr>
<td>All topics in Procedure</td>
<td>Office of Accounting</td>
<td>817-272-9128</td>
<td><a href="mailto:kdgreen@uta.edu">kdgreen@uta.edu</a> <a href="http://www.uta.edu.business-affairs/accounting/index.php">http://www.uta.edu.business-affairs/accounting/index.php</a></td>
</tr>
<tr>
<td>Website access</td>
<td>Administrative Information Management</td>
<td>817-272-0222</td>
<td><a href="mailto:aim@uta.edu">aim@uta.edu</a> <a href="http://www.uta.edu/aim">http://www.uta.edu/aim</a></td>
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**WEBSITE ADDRESS FOR THIS PROCEDURE**

https://www.uta.edu/policy/procedure/2-37