

531-006-A: SERVICE CENTER POLICY

I. Policy Overview

This policy provides a framework for the fiscal operations of the University Corporation at Monterey Bay (“University Corporation” or “CSUMB”) service centers that will ensure compliance with federal cost principles, consistency in accounting and costing practices, and flexibility to meet the needs of different operations. Although there is variation in size, complexity, and services provided by service centers, they all should maintain common administrative practices. This policy addresses the requirements that should be consistent among the various practices.

The University Corporation must comply with 2CFR, part 220, (Office of Management and Budget (“OMB”) Circular A-21), Cost Principles for Educational Institutions (A-21), and the Cost Accounting Standards. Compliance with A-21 is implicit in this policy. All references to the federal government also apply to the State of California.

The operation and administration of service centers as defined in this policy is not an option to be prescribed in the above referenced costing principles and federal regulations allows for the appropriate transfer of costs between service providers and users. Non-compliance could require the University Corporation to reimburse the federal government as a result of government audits, as well as receive adverse publicity. This could have an effect on future award applications.

II. Terms and Definitions

A. *Service Center*: A service center is an operating unit which exists principally to provide services to CSUMB departments and other university and University Corporation operating units. Operating costs are supported by revenue generated through billing rates that are assessed to all service center users. Service centers develop the billing rates based on incurred costs and should break even over a period of time, which may not exceed 2 years.

There are two types of service centers – specialized service facilities and recharge centers.

1. Specialized Service Facility: A specialized service facility (SSF) is a service center that provides *highly complex* or *specialized services* to university or University Corporation operating units, including federal sponsored accounts. The difference between billed costs

531-006-A: SERVICE CENTER POLICY

and actual costs (deficits or surpluses) are recovered through an adjustment to the billing rate. Billing rates should only include the direct operating costs of the service center. Applicable F&A costs are recovered by charging the appropriate F&A rate to the direct billing rates, which are part of the modified total direct cost (MTDC) base. This rate application is in conformance with the simplified method in Section H of OMB Circular A-21.

2. Recharge Centers: Recharge centers provide services that are *more general in nature* and may include mail distribution, copy centers, publications and computer support. The difference between billed costs and actual costs (deficits or surpluses) are recovered through an adjustment to the billing rate. Billing rates should only include the direct operating costs of the service center. Applicable F&A costs are recovered by applying the appropriate F&A rate to the direct billing rates, which are part of the modified total direct cost (MTDC) base. This rate application is in conformance with the simplified method described in Section H of OMB Circular A-21.

There are two types of recharge centers – university-wide and departmental.

- a. University-wide recharge centers provide services to university operational units, both academic and non-academic; and possibly outside organizations.
 - b. Department recharge centers generally provide services to internal department operations.
- B. *Enterprise Activities (Auxiliaries)*: University Corporation auxiliary activities, such as the bookstore, dining hall, housing and dormitory operations, and other similar activities, are not considered service centers and are not subject to this service center policy.
- C. *Service Center Manager*: The individual who is responsible and accountable for service center operations.
- D. *Service Center Users*:
1. Internal User: A service center user whose ultimate source of funds comes from the Federal government, the State of California, the University, or the Auxiliary Organizations. Thus, depending on the ultimate source of funds, the following types of users are typically considered “internal users”:
 - a. Research and other sponsored activities including grants and contracts
 - b. Academic departments
 - c. Administrative units

531-006-A: SERVICE CENTER POLICY

- d. Auxiliary organizations that purchase services from the service center
2. External User: An external user is a service center user who does not meet the definition of an “internal user.” These users include organizations or individuals whose ultimate source of funds are external to CSUMB or the Auxiliary Organizations, and do not come from the Federal government or the State of California. External users typically include:
 - a. Non university users
 - b. Students and any members of faculty or staff acting in a personal capacity
 - c. Affiliated institutions and other universities, unless CSUMB has subcontracted with them as part of a federal or California state grant or contract

III. Billing Rate Components

The following section describes the appropriate treatment of costs typically included in service center billing rates. All costs relating to a service center must reside in the service center account

- A. *Direct Personnel*: The salaries and wages of all personnel directly related to service center activity (e.g., lab technicians or machine operators) should be included in the billing rate calculation and charged to the service center’s 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. This proportion may be determined by effort reporting or by a time study.
- B. *Administrative Staff*: The salaries and wages of service center administrative staff should be included in the billing rate calculation and charged to the service center’s operating account. If more than one service unit is associated with a service center, the service center administrative costs should be allocated to the individual service units on a reasonable basis and included in each of the service unit billing rates.
- C. *Fringe Benefits*: Fringe benefits related to salaries and wages charged directly to the service center operating account should be included in the billing rate calculation.
- D. *Materials and Supplies*: The cost of materials and supplies needed to operate a service center should be included in the billing rate calculation.
- E. *Other Expenses*: Other operating expenses that can be included in the development of service center billing rates may include travel, rental and service contracts, equipment operating leases, and professional services.

531-006-A: SERVICE CENTER POLICY

- F. *Capital Equipment:* Capital equipment is defined as an item with a purchase price of \$5,000 or more and a useful life of more than 1 year. The actual cost of capital equipment may not be recovered through service center billing rates. Equipment which is expensed (purchase price under \$5,000) may be treated as an operating expense in calculating service center billing rates.

Depreciation, external interest, or capital lease costs (limited to cost of ownership) associated with assets purchased for a service center may be included in the billing rates, depending on the type of user (internal vs. external) and the funding source. For internal user billing rates, Federal guidelines allow for depreciation, external interest, or capital lease costs (limited to cost of ownership) associated with assets purchased **only** with gift funds, or from other non-sponsored sources to be included (refer to §III.G.1. for additional clarification on the types of depreciation expense that can be included in internal and external user billing rates).

Equipment Inventory – It is important that the government not be charged for the depreciation on a piece of equipment through the internal billing rate and again through the University Corporation’s F&A rate. To avoid this duplicate charge, service center capital equipment will be identified to the service center and captured within an associated plant asset account. Each service center will have an associated plant asset account to capture capital equipment purchases.

- G. *Depreciation:* Depreciation of capital assets is charged to the service center operating account using the straight line method over the asset’s useful life. Service center managers need to include the appropriate depreciation amounts when establishing billing rates.
1. Useful Lives: Service center equipment must be depreciated using the useful lives method prescribed in the California State University GAAP Reporting Manual, Chapter 13 Capital Asset Guide. In certain circumstances, service centers with “specialized” equipment, or with equipment which is unique in its nature or in the extent of its use, may use a different (usually shorter) useful life than is used for the normal asset class. The shorter useful life must be documented and may be subject to audit. Approval to deviate from standard useful lives must be obtained from the University Corporation Controller and a special asset class will be established for each specialized asset.
 2. Allowable Depreciation Expense:
 - a. Internal User Billing Rates
 - i. Depreciation on equipment purchased by the federal of California state government or a non-federal sponsored account cannot be included in the calculation of internal user billing rates. For equipment purchased with non-federal sponsored

531-006-A: SERVICE CENTER POLICY

funds, depreciation may be included once the grant has closed, assuming there is still an un-depreciated balance remaining. Where the University has specifically agreed to “cost-share” a piece of equipment on a federal award, the depreciation of the University-funded portion is also unallowable in the internal user billing rates.

ii. Depreciation related to gift-funded equipment (i.e., equipment purchased under a non-sponsored agreement) can be included in the internal user billing rates.

b. External User Billing Rates

i. Depreciation and external interest costs on equipment purchased for the service center may be included in external user billing rates, regardless of the funding source for the equipment purchase.

3. Debt Funded Equipment: Federal regulations do not allow for principal payments on debt to be recovered through internal user billing rates. However, service centers may recover the external interest associated with the debt if all three of the following criteria are satisfied:

- a. an external financing source was used,
- b. acquisition was after 1 July 1982, and
- c. equipment costs are over \$10,000.

H. *Applicable F&A Costs*: F&A costs are not allocated to specialized service facilities or recharge centers and should not be included in the calculated billing rates. Billing rates are to be calculated based on direct costs of the service center. Applicable F&A costs are recovered by charging the appropriate F&A rate to the direct billing rates, which are part of the modified total direct cost (MTDC) base. This rate application is in conformance with the simplified method described in Section H of OMB Circular A-21.

I. *Unallowable Costs*: Unallowable costs must be excluded from the standard billing rate calculation for internal users, e.g., the billing rates charged to federal/state grants or contracts. Such expenses (e.g., bad debt expense, entertainment expenses, alcohol, etc.) may be recovered only through charges to external users, or funded through other University Corporation funds. Refer to Section J, OMB Circular A-21 to identify additional unallowable expenses.

IV. Billing Rate Requirements

A service center billing rate is developed by dividing the estimated cost of a service center operation by an estimated unit of service. The billing rate is applied to each unit of service provided to recover the service center operating costs.

531-006-A: SERVICE CENTER POLICY

- A. *Non-discriminatory Billing Rates:* A service center must charge all internal users at the same billing rate for the same level of services or products purchased under similar circumstances. Billing rates should not differentiate among internal users. The use of special billing rates for high volume work, less demanding non-scientific applications or for other reasons, are allowed but they must be equally available to all users who meet the criteria (refer to subsidized users below).

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

- B. *Subsidized Users:* All users must be billed for services received. If the service center chooses to provide a service to a particular internal user at no charge or at a lower billing rate than calculated to break even, the service center must bill the subsidized portion to a department discretionary account supplied by the user. Documentation should show the transaction as if the user were billed at the standard internal user billing rate. When the break-even calculation (see 4 below) is made to determine the surplus or deficit to be carried forward, it is necessary to include the charges posted to the discretionary department accounts in the total revenue to avoid the impression that there was an under recovery of costs.

Alternatively, amounts charged to external users in excess of the federally compliant internal billing rates should be excluded from calculating service center surpluses or deficits for the purpose of making carry-forward adjustments to future billing rates. These amounts are to be charged to a separate account, and may be used as a source of funds for equipment purchases or replacement.

- C. *Billing Rates for External Users:* External users may be charged for the full costs of providing the service, which may involve a billing rate that is higher than the calculated internal user billing rate. As an example, the higher billing rate could include unallowable costs under government cost principles (e.g., depreciation expense for equipment purchased under a sponsored agreement) and an equipment replacement reserve factor. However, the billing rates charged to external users must not be below the market billing rates to ensure that CSUMB is not competing with local providers.
- D. *Break-Even Concept:* A service center must develop billing rates so that revenues offset expenses over a reasonable period of time, which may not exceed 2 years. A service center's surplus over a 2 year cycle must not exceed a 60 day operating reserve. The operating reserve is calculated as follows:

531-006-A: SERVICE CENTER POLICY

Total operating expenses for 1 year X 60 days = 60 Day Operating Reserve
365 days

If the service center generates a surplus at the end of a break even cycle that is greater than the allowed 60 day operating reserve, that surplus must be “carried forward” as an adjustment to future billing rates or be refunded to the users (see section F below).

1.

- E. *Long-Term Break-Even:* In unique situations, when a service center requires more than 2 years to break even, a long-term break-even agreement may be requested by the service center manager. Approval will come from the Controller and the University Corporation Executive Director, who will work with the Department of Health and Human Services, Division of Cost Allocation (“DCA”) to obtain written approval.
- F. *Surpluses in Excess of 60 Day Operating Reserve:* When it appears that the operating results will exceed the 60 day operating reserve and it is believed that the surplus will continue to increase, the service center may adjust its billing rates at mid-point to avoid further surplus build-up (see §VI.B. Monitoring Operations below).

At least once every 2 years, the service center’s operating results must be evaluated to determine whether a surplus exists in excess of the 60 day operating reserve. If such a surplus exists, it must be addressed through carry-forward adjustments to future billing rates or as retroactive adjustments to users (for possible exceptions, see Long-Term Break-Even above).

- G. *Working Capital or Operating Reserve:* Service centers are allowed to maintain a 60 day operating reserve fund balance for working capital needs. This reserve should not include depreciation recovered and set aside for future equipment purchases or initial cash contributions to the service center. The working capital allowance should not exceed 60 days of annual operating expenditures.
- H. *Transfers of Surpluses:* Service centers that have accumulated surplus funds through billings to internal users may not transfer these funds out of the service center operating account. The surplus balance must be used to adjust future billing rates or be refunded to the user; surpluses should not be used to pay for salary increases, purchasing equipment or other materials and supplies.
- I. *Pricing of Multiple Services:* A service center providing more than one service may develop a surplus in one service unit while incurring a loss in another service unit. Service centers must ensure that there is no cross-subsidizing between individual service units. A surplus in one service unit

531-006-A: SERVICE CENTER POLICY

may not be used to offset a deficit in another. Combining the results of different service units is not acceptable because the mix of users for each service is usually different.

V. Establishment of New Service Centers

The appropriate Dean or AVP where the center will be located must approve the establishment of new service centers. Final approval for all new service centers is the responsibility of the University Corporation Executive Director.

VI. Internal Controls and Responsibilities

A. *Responsibilities:*

1. Billing rates are calculated at the conclusion of each center's break-even cycle by the service center manager for each service center and submitted for review to the University Corporation Controller.
2. The service center manager is responsible for monitoring the billing rates and ensuring compliance with this policy.
3. The University Corporation Controller is responsible for the oversight and monitoring of compliance with this policy.

B. *Monitoring Operations:* Service center managers should monitor their financial performance throughout the center's break-even cycle to assess their position with respect to break-even. Under special circumstances, billing rates may be adjusted mid-cycle through a reduction/increase to the billing rates provided that billing rate adjustments are subject to review by the University Corporation Controller. Billing rate adjustments should be considered only when it is apparent that continued use of the current billing rates would result in either a surplus or deficit that would exceed the 60 day operating reserve at the end of the established break-even cycle.

C. *End of Cycle Performance Review:* All service centers are required to submit actual financial results, including the calculation of carry-forward and projected billing rates, to the University Corporation Controller at the conclusion of the center's break-even cycle.

D. *Establishing Service Center Accounts:* All service centers must maintain a separate account. The service center manager is responsible for requesting a new account set up for each new service center, which will be reviewed by the University Corporation Controller and approved by the University Corporation Executive Director.

E. *Billing Procedures and Record Retention:* Billings must be based upon measured and documented utilization which is properly authorized for the account charged. All billings should be processed in a timely manner and be based on established service center billing rates. Charges to users

531-006-A: SERVICE CENTER POLICY

based on a billing rate that is lower than the calculated billing rate must also include an account number (e.g., department discretionary fund) for the subsidy. The support for the charges, including original documentation of expenses and usage, should be retained by the service center or the University Corporation administrative offices and copies of the documentation should be attached to the billings.

A service should not be billed until the service has been rendered. Advance billings are not appropriate. Each service center must operate in accordance with the University Corporation's fiscal year.

- F. *Credits to Expenditure Accounts:* Credits to expenditure accounts are normally used to record amounts received for returned goods and other expense-related adjustments. Service center revenues should not be recorded as credits to expenditure accounts. Such treatment would misstate both revenues and expenses and affect the calculation of service center billing rates.

VII. Effective Date of Policy

The service center policy is effective as of fiscal year 2007-2008.

VIII. Glossary of Terms

- A. *Auxiliary:* A self-supporting entity that exists principally to furnish goods or services to students, alumni, or faculty and staff acting in a personal capacity, and charges a fee for the use of goods or services. Auxiliary services generally do not support CSUMB departments. The general public may be served incidentally. Examples include University Corporation activities, such as bookstore, dining, housing, and others.
- B. *Break-even:* The point at which revenues equal expenses. The policy establishes that service centers should break even over a reasonable period of time, which is not to exceed 2 years. Surpluses should not exceed the average 60 day operating reserve based on annual operating expenses.
- C. *Break-even Cycle:* The period of time established for a service center to break even, which is not to exceed 2 years.
- D. *Carry-forward:* The surplus or deficit created when comparing revenue generated from billing rates to actual operating costs that is carried-forward to adjust future billing rates to ensure "break-even" within the break-even period. If applicable, when determining account balances, service centers must impute revenue from internal users as if it were collected at the normal billing rate (exclusive of discounts or surcharges) to avoid reflecting inaccurate deficits or surpluses. This revenue adjustment is critical to avoid subsidies when one internal user is charged

531-006-A: SERVICE CENTER POLICY

at the full billing rate and other internal users are charged at lesser billing rates.

- E. *Capital Equipment:* Equipment with a purchase price of \$5,000 or more and a useful life of more than 1 year. The actual cost of capital equipment may not be recovered through service center billing rates. However, the depreciation and external interest costs associated with the equipment purchase may be recovered through the service center billing rates in the following manner:
1. Internal Rates: Depreciation and external interest costs for equipment not purchased with sponsored funds (e.g., gift-funded equipment) may be included in the billing rate; depreciation for equipment purchased with non-federal sponsored funds may also be included once the grant has closed, assuming there is still an un-depreciated balance remaining.
 2. External Rates: Depreciation and external costs, regardless of the funding source, may be recovered through the external user billing rate.
- F. *Deficit:* A deficit occurs when a service center's expenses exceed revenues for a given fiscal year. Deficits may be carried forward and included in establishing future billing rates.
- G. *Direct Operating Costs:* Costs that can be identified specifically with the service center operations. Direct operating expenses include salaries and wages, employee benefits, supplies and non-capital equipment, and certain equipment depreciation and interest expenses. This does not include institutional overhead costs such as building depreciation and general administration.
- H. *Facility and Administrative (F&A) Costs:* Administrative costs that include, but are not limited to, institutional general administrative and general expenses such as executive management, accounting, payroll budgeting and personnel administration, departmental administration and sponsored projects administration. Facility costs include costs such as utilities, building maintenance and repair, custodial services, security, building and equipment depreciation and interest associated with the financing of certain buildings and equipment and library cost.
- I. *Facilities and Administration ("F&A") Cost Rates:* Indirect cost rates used by an institution to recover F&A costs incurred by an institution in the conduct of performing federal and non federal sponsored agreements. The rates are applied to federal, state, and other sponsored projects in order to recover University and University Corporation overhead costs.
- J. *Internal Users:* A service center user whose ultimate source of funds comes from the Federal government, the State of California, the University or the Auxiliary Organizations. Thus, depending on the ultimate source of

531-006-A: SERVICE CENTER POLICY

funds, the following types of users are typically considered “internal users”:

1. Research and other sponsored activities including grants and contracts
 2. Academic departments
 3. Administrative units
 4. Auxiliary organizations that purchase services from the service center
- K. *Long Term Break-even Agreement:* OMB Circular A-21 Section J.47 provides the opportunity for a service center to establish a plan for recovering its operating costs over a multiple-year period. Such arrangements must be agreed to by the University’s cognizant federal agency (DCA). The need for such an agreement must be reviewed by the University Corporation Controller and approved by the University Corporation Executive Director, who will work with the DCA to obtain written approval.
- L. *2 CFR, Part 200, (OMB Circular A-21) Cost Principles for Educational Institutions:* This Circular provides the principles for determining the costs applicable to research development, training, and other sponsored work performed by colleges and universities under grants, contracts, and other agreements with the Federal government.
- M. *External Users:* Service center users who do not meet the definition of “internal users.” These users include organizations or individuals whose ultimate source of funds are external to CSUMB or the Auxiliary Organizations and do not come from the Federal government or the State of California. External users typically include:
1. Non university users
 2. Students and any members of faculty or staff acting in a personal capacity
 3. Affiliated institutions and other universities, unless CSUMB has subcontracted with them as part of a federal or California state grant or contract
- N. *Operating Costs:* Operating costs include salaries and wages, employee benefits, supplies and non-capital equipment, external interest expenses, space and occupancy, and depreciation. Note that principal payments are not expenses.
- O. *Simplified Method:* A method for developing the F&A rate that is permitted for institutions where the direct cost of work covered by Circular A-21 does not exceed \$10 million in a fiscal year. The simplified method is described in Section H of OMB Circular A-21.

531-006-A: SERVICE CENTER POLICY

- P. *Surplus*: A surplus occurs when a service center's revenues exceed expenses for a given break-even cycle that exceeds a 60 day operating reserve.
- Q. *Unallowable Costs*: The federal Cost Principles for Educational Institutions, OMB Circular A-21, establishes guidelines for the allowability of costs in Section J. Costs that are "unallowable" may not be recovered as a part of internal user billing rates. Examples of unallowable costs include alcoholic beverages, entertainment, lobbying, and advertising.
- R. *University*: The term University, as used in this policy, includes both University Corporation and CSUMB functions.
- S. *Working Capital*: Operating funds available to cover current needs and to maintain reasonable stability in user charges when fluctuations in expenditures occur. Service centers may establish and maintain a fund balance for working capital needs not to exceed 60 days of annual operating expenditures.

IX. Adoption and Review

- A. The University Corporation's Board of Directors adopted this Service Center Policy on 26 June 2008.
- B. This policy shall be assessed in five years from its approval date to determine effectiveness and appropriateness. This policy may be assessed before that time as necessary to reflect substantial organizational, physical, or academic change(s) at CSUMB or any change required by law.

Any proposed amendments or variations of this policy would require a majority approval by the University Corporation Board of Directors.

X. Related Documents

- A. 533-006 Service Center Procedures
- B. 537-006 New Service Center Request Form
- C. OMB Circular A-21