

The University of Texas Health Science Center at San Antonio

Service Center Policy

Effective: June 2016

Purpose of Policy

This policy is to assist in the establishment and maintenance of Service Centers at the Health Science Center (HSC). Service Centers, also called service departments, cost centers or recharge centers, are operating units that either stand alone or exist within departments. These units provide services or products to users within the HSC community and charge a fee for their services or products. Service Centers are established for the benefit of the HSC community and will be created and maintained only when a broad base of internal HSC customers requires services or goods. Service Centers will not be established to provide services primarily to outside customers.

Provision of Services

Services may range from routine to highly specialized functions. Such a service might be available from commercial sources but, for reasons of convenience, cost, regulatory compliance, quality, or fiscal control, are often provided more effectively through an on-campus unit. Some examples are printing services, data analysis and statistical services, central stores, lab services and animal care facilities.

Service Centers recover their expenses of operations by directly charging their rates based on the actual cost or use of services. Because Service Centers may provide services to federal grants and contracts directly or indirectly, they must comply with federal cost recovery principles included in the U.S. Office of Management and Budget Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR §200) (Uniform Guidance) and those required by the Cost Accounting Standards contained in the Uniform Guidance. New Service Centers must be reviewed and approved by the Budget and Financial Planning Office.

Types of HSC Service Centers

The types of Service Centers are depicted in the chart below:

Type of Service Center	Services Provided To	Billing Rates May Include	Special Notes
Centralized Service Centers	Provides services to the entire HSC (e.g. copy center, telecommunications, etc.)	Direct operational expenses, including applicable administration and equipment depreciation	Any unrecovered direct and/or indirect expenses for these centers will not be included in the HSC's F&A cost calculations
Specialized Service Centers	Customers within the HSC community with annual billings of more than \$1 million on federal awards (e.g. Lab Animal Resources)	Direct operational expenses, including applicable administration and equipment depreciation	Any unrecovered direct and/or indirect expenses for these centers will not be included in the HSC's F&A cost calculations
Institutional Research Core Laboratories*	Primary customers within the HSC community and The University of Texas System. Could also include potential external users.	Direct operational expenses, including applicable administration and equipment depreciation	Any unrecovered direct and/or indirect expenses for these centers will not be included in the HSC's F&A cost calculations
Departmental Research Service Centers	Primary customers within the HSC community with annual billings on federal awards of at least \$50,000, but not more than \$1 million. Could also include potential external users.	Direct operational expenses only. Applicable equipment depreciation must be obtained with prior approval.	Any unrecovered direct and/or indirect expenses for these centers will be included in the HSC's F&A cost calculations
Other Internally Charged Activities	For purposes of this policy, activities generating annual billings of less than \$50,000 on federal awards are not subject to this policy. However, internal charges for goods and/or services to sponsored awards must not be greater than the actual costs of those goods or services and federal awards must not be charged more than other customers, internal or external		

*Institutional Research Core Laboratories report to the Office of the Vice President for Research.

Rates for animal care facilities should be calculated according to the NIH National Center for Research Resources' (NCRR) Cost Analysis and Rate Setting Manual for Animal Research Facilities (CARS). This can be found at:

http://grants.nih.gov/grants/policy/air/rate_setting_manual_2000.pdf.

Composition of Billing Rates

Service Center billing rates will recover only actual expenses and must be based on the actual use of services. The billing rates must not discriminate between federally and non-federally sponsored activities of the HSC. The use of special rates, such as for high volume work or less demanding non-scientific applications, is allowed, but the special rates must be equally available to all users. The federal government does not object to charging external users a higher rate than that charged to internal users, but internal rates should apply to all Health Science Center and for any user whose institution participates in The University of Texas System Research Core Management Master Agreement.

Alternate pricing structures based on time-of-day, volume discounts, turn-around time, etc. are acceptable, provided that they have a sound management basis, do not discriminate among users, and do not result in recovering more than the cost of providing the services. If users are not charged or are charged at reduced rates for services, the amount of uncollected revenue for those services must be considered when calculating the service center's annual surplus or deficit for purposes of establishing the standard billing rate. For example, uncollected revenues of \$500 for services provided to users who were not charged must be factored into the ending surplus/deficit balance when calculating standard user rates. This is necessary to avoid having some users pay higher rates to make up for the waived or reduced rates charged to other users.

The billing rates for all Service Centers must be reviewed periodically, compared to actual expenses and utilization, and adjusted as necessary to achieve break-even status. Operating surplus balances should not generally exceed two months' operating expenditures, exclusive of depreciation accumulation.

Costs – Allowable and Unallowable

Billing rates should be based on and designed to recover no more than operating costs for the goods or services provided over a period of no more than three years. As such, recoverable (allowable) costs can be averaged up to a 3 year period to include, but are not limited to:

- ◆ Salaries, wages, and applicable fringe benefit rates
- ◆ Supplies and materials
- ◆ Subcontracts and outside services
- ◆ Prior year(s) operating deficit (increase to user fee)
- ◆ Prior year(s) operating surplus (decrease to user fee)
- ◆ Other directly-related expenses (e.g. travel, communications)
- ◆ Depreciation expenses for equipment not purchased with federal funds (see Depreciation and Replacement Costs section of this policy)

Costs that are not included in the billing rates as they are included in the HSC's F&A cost

calculations include, but are not limited to:

- ◆ Building depreciation
- ◆ Facilities expense (utilities, maintenance, and custodial cost paid by the HSC and not recovered in the Centralized and Specialized Service Center accounts)
- ◆ HSC and departmental overhead costs that are not charged to the Centralized and Specialized Service Center account
- ◆ Purchase price or value of equipment (this should be depreciated)

Unallowable expenses as defined in the Uniform Guidance must not be included in the billing rate computation. Costs that should not be included in the billing rates because they are nonrecoverable (i.e. not eligible for reimbursement from the federal government) include, but are not limited to:

- ◆ Entertainment
- ◆ Bad debt
- ◆ Advertising
- ◆ Public relations
- ◆ Alcoholic beverages
- ◆ Contributions and donations
- ◆ Transfers of balances to unrelated projects
- ◆ Goods or services for personal use

Establishment of Billing Rates

Requests for establishment of a Service Center should be made to the Budget and Financial Planning Office by submitting the completed and signed “Service Center Establishment Questionnaire” accompanied by the rate calculation based on the model formats for computation of billing rates that are an attachment to this policy.

Billing rates should be calculated to recover the actual operating costs of the Service Center over the period of no more than three years. When the costs of the Service Center have been determined, the billing rate is established by dividing the costs by a usage base. Selection of an appropriate usage base (e.g. consumption, output, cost of sales) is important in order to ensure that the most accurate allocation of the center’s costs is applied to its users.

Departmental Research Service Centers will be partially costed. For example, they will include in their billing rates the direct costs of the operation and no indirect costs. The indirect costs not included in the billing rates will be included in the HSC indirect cost proposal. The costs from indirect cost categories that are most commonly included in billing rates for Centralized, Specialized Service Centers and Institutional Research Core Laboratories are equipment depreciation and Service Center administration.

Rate Development (Service Unit)

The rate development process varies with the size and complexity of each Service Center. A service unit rate is the cost per unit of output used to recover the expenses of the service unit. To compute this rate, departments must use the following equation:

$$\frac{\text{Actual Operating Costs- Institutional Subsidies +/- Surplus}}{\text{Projected Usage Base}}$$

The budgeted usage base is the volume of work expected to be performed, expressed in units (e.g. labor hours, machine hours, CPU time or any other reasonable measurement). This rate, based on budgeted activity, is applied to the actual activity when charging users.

For example: a computer costs approximately \$100,000 per year to operate (total allowable costs) and has an estimated activity level of 1,500 hours per year. This example would result in a rate of $\$100,000/1,500 \text{ hours} = \66.67 per hour. If a researcher uses the computer for four hours for a sponsored award, his or her project would be charged $4 \times \$66.67 = \266.68 .

Depreciation and Replacement Costs

If applicable, Service Centers may recover the cost of an asset (e.g. equipment) after its purchase only through depreciation, as a component of the user fee over the asset's useful life. Capital equipment that can be depreciated are for items costing \$5,000 or more. The equipment depreciation must be based on the original cost of the equipment, excluding any amount paid with federal funds. Depreciation must be calculated using the straight-line method over a useful life based on the projected service life of the equipment. Most medical and laboratory equipment should be depreciated over a period of seven years.

A separate equipment replacement project must be utilized to track and record equipment reserves. The equipment reserves can only be recovered based on equipment depreciation built in the Service Center billing rates. The depreciation expense is thus passed down to the users. A periodic entry should be performed to transfer the depreciation earned into the equipment replacement project. Equipment should then be purchased directly from the equipment replacement project.

Please note that "Departmental Research Service Centers" as defined above cannot recover either administration and/or equipment depreciation in their billing rates without prior written approval.

Billing Requirements

All Service Centers must maintain a published price list. Billings must be performed on a timely basis. Due to the implementation of the new HHS Payment Management System (PMS), it is strongly recommended that all Service Center charges be posted prior to the project end date to avoid disallowance. As such, billing should occur after the service or the agreed portion of work is performed and should be billed within 60 days after the date of service. The Service Center must be prepared to provide supporting documentation for all services rendered as requested by customers and/or auditors.

Review and Monitoring

Proposed Service Centers will be reviewed and approved by the Budget and Financial Planning Office in consultation with the department requesting the rates. A review will be performed at least every other year for each Service Center. The review will include an analysis of the Service Center's billing practices to ensure that only allowable costs are being billed to users, that all HSC users are charged the same rates for the same services, and that billing rates are adjusted periodically to recover aggregate expenses. The periodic reviews will be made by the Budget and Financial Planning Office. Service Centers are subject to internal and external audit at any time.

Retention of Records

Each Service Center is responsible for retaining documentation to support transactions such as cost transfers, billing rate calculations, utilization of services, and billed charges. Service Center charges are subject to audit as long as the grants or contracts they charge remain subject to audit. Consequently, records must be retained for seven years after the service/goods are performed unless an audit or litigation claim is started before expiration of this period.

Administration of Policy

The Budget and Financial Planning Office is charged with administering this policy. Questions or clarifications should be addressed to that office.

Attachments to Policy:

1. Service Center Establishment Questionnaire
2. Equipment Depreciation Calculation Form
3. Sample Formats for Service Center Rate Calculations

Service Center Establishment Questionnaire

General Information

1. Name of Service Center _____
2. Service Center project number (if already assigned) _____
3. Department in which the Service Center operation is located _____
4. Individual responsible for the service center (include telephone number and e-mail address) _____
5. Please provide a brief description of your Service Center's activities. Attach or include a description of all services offered. Attach a separate page if necessary.

6. Do competitors exist outside the Health Science Center? Yes No
If so, please describe how the service center's rates compare to market rates.

User Information

1. Are certain users provided services at discounted rates or free of charge? Yes No
If yes, please indicate which services and which user groups receiving free service or discounted rates.

2. Are all users included in the billing rate calculation, including those receiving services free of charge or at discounted rates? Yes No
3. Are charges made to anyone other than Health Science Center departments or other UT System institutions? Yes No
If yes, please list. _____

Rate Development

1. What unit of measure is used as a billing base (hour, day, procedure, etc.)?

2. Are billing rates based on: (select one)

3. List the source of start-up (seed) money. Include project numbers and dollar amounts.

4. List any institutional/department subsidy, or other sources of support if applicable.

5. How are costs such as bad debts, entertainment, fines and penalties, interest payments (or similar costs) identified and segregated during rate development?

Are any of these costs included in the rate calculation? Yes No

6. Is an inventory maintained for this operation? Yes No

If so, which costs are included in the billing rates:

costs of goods sold Yes No

total purchases Yes No

7. Will revenue from the service center be utilized to fund activities unrelated to that specific service? Yes No

If yes, please explain. _____

Equipment

1. Does the center recover equipment costs in the billing rates? Yes No

If so, please attach the equipment depreciation calculation form.

2. Are fully depreciated assets included in billing rates? Yes No

If so, please explain the method used to determine the amount included.

3. Indicate the dollar amount of capital expenditures during the fiscal year and how these expenditures were funded. _____

4. Indicate the approximate level of annual capital expenditures necessary to:

maintain operations \$ _____

improve operations over the next two to three years \$ _____

5. Are equipment maintenance contracts included in billing rates? Yes No

If so, please provide a schedule including information on the maintenance contracts as well as a description and inventory tag numbers for the equipment covered. _____

Date this questionnaire was completed: _____

Name of person completing questionnaire: _____

Approved by: _____

Signature of Department Chair/Institute Director

Sample Format for Service Center Rate Calculations

Example A: Calculation for Providing Services That Includes Equipment depreciation and Subsidy

1. Calculate Operating Cost

Salaries (5 technicians)	\$ 200,000
Salaries (other, list)	28,190
Employee Benefits	59,329
Communications	2,800
Training and Development	300
Repairs and Maintenance	4,350
Supplies	5,500
Equipment Depreciation	4,345
Equipment Service Contracts	2,000
Prior Year Operating Surplus	(1,000)
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	\$ 305,814
Less: Operating Subsidy	<u>(50,000)</u>
Total Cost	\$ 255,814

2. Calculate Units of Output

40 hours per week x 52 weeks	2,080
Minus holiday hours (8 days x 8 hrs/day)	(64)
Minus average vacation hours (40 hours/week x 2 weeks)	(80)
Minus average sick leave (12 x 8 hrs./day)	(72)
Minus down time (average 1 hour/day x 233 days)	<u>(233)</u>
Total Average Available Hours Per Technician	1,631

1,631 x 5 technicians = 8,155 productive hours (units of output)

3. Calculate Unit Fee

$$\text{Unit Fee} = \frac{\text{Total Cost}}{\text{Units of Output}} = \frac{\$255,814}{8,155} = \$31.37 \text{ per hour}$$

Sample Format for Service Center Rate Calculations

Example B: User Fee Calculation for Providing Goods

The following is an example of the user fee calculation for chemicals whose cost is \$10.00.

1. Calculate Operating Cost

Salaries	\$ 25,000
Employee Benefits	6,500
Office Supplies	1,000
Facilities expense (paid by the center or facility)	2,000
Prior Year Operating Surplus	<u>(500)</u>
Total Operating Cost	\$34,000

2. Calculate Projected Cost of Goods Sold

Chemicals	\$ 100,000
Supplies	50,000
Glassware	<u>31,250</u>
Total Cost of Goods Sold	\$ 181,250

3. Calculate Recoverable Rate

$$\text{Recoverable Rate} = \frac{\text{Operating Cost}}{\text{Cost of Goods}} = \frac{\$34,000}{\$181,250} = .1876$$

4. Calculate Unit Fee

$$\text{Unit Fee} = \text{Cost of Goods} + (\text{Cost of Goods} \times \text{Recoverable Rate}) = \$10.00 + (\$10.00 \times .1876) = \$11.88$$