University of Massachusetts Amherst

# SERVICE CENTER GUIDELINES

## Definition of a Service Center

Service centers are operating units established for the primary purpose of providing goods or services to the educational and research community. These centers recover their operating costs by billing or recharging user fees based on predetermined rates.

1. Account Set-up and Collection Process

A unit must get approval from the campus Budget Office to establish a service center account. The Budget Office will forward the request to the Chancellor's Office for determination regarding its appropriateness to the University's mission. If approval is granted, an operating account will be established to capture all costs and revenues associated with the service center operations. There should be no costs charged to the account other than those necessary for the service center.

The campus has established a recharge process whereby each service center bills and collects from users based upon their use of its goods and services. The recharge process provides for a timely billing and collection of service enter activities. Service centers using the recharge process must bill within thirty days of when the good or service was provided. Charges not levied within the month timeframe risk not being paid, as accounts may have been closed. Billing disputes should be brought to the attention of the Controller 's Office for disposition.

Each service center is responsible for keeping and maintaining all supporting documentation for 7 years from the date the service is provided. It is the service center's responsibility to provide support and adequate documentation to answer any inquiries regarding charges levied by the service center. Examples of documentation that must be maintained include:

- ❖ Financial records that track revenues, expenditures and surplus/deficit to specific goods/services within a cost center.

- ❖ Statistical records necessary for allocating costs or accumulating units of services available and used (for example, vehicle miles, central processing units or animal care days).

- ❖ Effort reporting records that identify employee work-time (in hours or percentage of time) to goods/services within a cost center.

Although the service center is responsible for support of all charges levied, it is the user's responsibility to ensure that the good or service is appropriate to be charged to the user account.

2. Rate Guidelines

All proposed billing rates must be submitted to the Office of Financial and Cost Analysis for approval before they are established. The submissions must be based on the campus fiscal year (July-June) and include the proposed operating budget, methodology used to determine the rate(s), rate calculations including any over/under recovery from prior years, scope, explanation of the center's activities, and room/space location(s). Once a rate is established, it should be applied as approved to all bills issued by the service center. Allowances for such items as volume discounts or delivery allowances should be identified and quantified during the rate analysis.

Once established, rates can only be changed with the Office of Financial and Cost Analysis approval.

All service center rates will be developed in accordance with the cost accounting standards established in OMB Circular A-21 using full direct costs, unless approval is granted by the Office of Financial and Cost Analysis to do otherwise. Rates will be calculated on the identified costs, not based on competitor's rates.

Approved rates must be charged equally to all users within the campus community. In other words, all UMASS/Amherst users must be charged the same rate for the same level of services and products regardless of funding sources.

Service center operations should attempt to operate on a breakeven basis annually. Significant variances from activity projected in the rate development may result in a rate reevaluation by the Office of Financial and Cost Analysis. It is recognized that unique situations may require a multiple-year or spread-out period to recover initial start up or past negative operating costs. However, approval for such long-term break-even arrangements must be obtained in advance from the campus Budget Office.

Where a revenue operation provides different types of services to users, separate billing rates should be established for each service that represents a significant activity of the revenue operation. The costs, revenues, 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. The surplus from one service may be used to offset the deficit from another service only if the mix of users and level of services provided to each group of users is approximately the same.

Where separate billing rates are used for different services provided by a revenue operation, the costs related to each service must be separately identified through a cost allocation process.

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 revenue operation overhead, and (c) institutional indirect costs.

When cost allocations are necessary, they should be made on an equitable basis that reflects 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 revenue operation overhead and institutional indirect 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 Office of Financial and Cost Analysis (545-2143). The Office of Financial and Cost Analysis is also responsible for determining the amount of institutional indirect costs that is allocable to each revenue operation.

If a revenue operation provides services to individuals or organizations outside of the University, the billing rates may include "other institutional indirect costs" even though these costs are not included in the rates for internal University 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 should be excluded from the computation of a revenue operation's surpluses and deficits for purposes of making carry-forward adjustments to future billing rates.

3. Rate Components

Basically, three items must be estimated by the service center when developing a rate for goods or services.

a. Direct Costs - costs readily identifiable and related directly to the good or service provided. Examples of direct costs are:
   1. salaries, wages and fringe benefits of individuals associated with providing the good or service;
   2. direct supplies and materials;
   3. equipment repair and maintenance;
   4. outside services;
   5. equipment use allowance.

Direct costs do not include such items as: entertainment expenses, bad debts, advertising, public relations, alcoholic beverages, contributions and donations, and goods or services for personal use. The original cost of equipment is also an excludable cost when determining billing rates. Equipment costs are recovered through the use allowance or depreciation expense included in the service center rate. It should be noted that equipment purchased by the federal government cannot be included in a service center's billing rate.

b. Indirect Costs - The campus assesses each operation a levy to recover the campus-wide costs incurred to support service center operations (i.e. financial services, payroll and space). This assessment is represented by a rate per dollar of expense and established annually by the campus. The levy is not waivable.

c. Usage - Estimate of the number of items or services to be provided during the year.

Usage will be the basis used to determine the rate per unit and the amount charged users. The use basis must be relevant to the type of service or good being provided. Examples of use basis include labor hours, number of tests performed, items sold, machine hours, etc.

Simply put, service center rates are a calculation of total direct and indirect costs divided by the appropriate usage basis. The result of this calculation is the rate to be charged for each good or service unit.

Rates may not include costs for future equipment or a build up of funds for future use. If at the end of a fiscal year the center has an under-or-over recovery of costs the amount of variance from breakeven will be incorporated into developing the next year's rates. When establishing rates any subsidies received should be identified in the rate development process.

5. Notification

It is suggested that the Office of Financial and Costs Analysis be contacted as soon as it is recognized a rate will need to be calculated or revised. Rate analysis requires time and the service center billings cannot begin without the Office of Financial and Cost Analysis approval.