VANDERBILT UNIVERSITY

SERVICE CENTER POLICY

EFFECTIVE DATE: JULY 1, 2008
UPDATED: MAY 2017

I. POLICY STATEMENT

Vanderbilt University operating units that charge internal users for goods and services are required to document that rates charged are reasonable in relation to the cost of goods or services provided. Federal regulations provide for the review and approval of documentation for internal charge-out rates by the Department of Health and Human Services Division of Cost Allocation and/or Offices of the Inspector General.

II. SCOPE OF THE SERVICE CENTER POLICY

Generally, operating units that process internal charges for goods and services are subject to government regulations concerning service centers. Those operating units are responsible for developing service center billing rates in accordance with this policy and government regulations.

III. PURPOSE OF THE SERVICE CENTER POLICY

To provide consistent operational guidelines for Vanderbilt service centers to promote compliance with Vanderbilt policy and government cost principles (Office of Management and Budget (OMB) 2CFR Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards).

IV. DEFINITIONS

A. Service Centers

Service centers are operating units that provide goods and services (collectively referred to as "services") to University departments, although services may also be provided on an incidental basis to external/individual users (faculty/staff, students, non-Vanderbilt users)[1]. At Vanderbilt, service centers are categorized as either specialized service facilities or recharge centers (defined below, Section IV.B.). Typical characteristics of service centers (specialized service facilities and recharge centers) are as follows:

1. Service center costs charged directly to departmental centers (including sponsored agreements) are based on actual use of the services and a schedule of rates that does not discriminate against federally supported activities of the institution.

[1] Note: Conversely, operating units such as Housing, Dining, Bookstore, etc., that provide goods and services to external/individual users on other than an incidental basis are not considered service centers for purposes of this policy. However, charges made to internal users for goods and services should be documented as reasonable in relation to the costs of providing the goods and services.

2. Rates charged for services are generally designed to recover the cost of providing those services. It is recognized that a variance (under or over recovery) may result in any given fiscal year. It is not necessary that the rates charged for services equal the cost of providing those services during any one fiscal year as long as rates are reviewed annually for consistency with the business plan (see Sections V and VI of this document) and adjusted if necessary.

3. Generally, department copiers, fax machines, etc. are not considered to be service centers if the charge is reasonable and merely to recover the cost of supplies (paper, toner, etc.). However, if rates are to recover personnel and/or equipment costs further guidance is needed (See Exhibit D for specific contact persons).

B. Types of Service Centers
Vanderbilt University defines two types of service centers:

1. RECHARGE CENTERS
Recharge Centers are service centers with operating costs of less than $1,000,000 per year.

2. SPECIALIZED SERVICE FACILITIES (SSF)
Specialized Service Facilities are service centers with operating costs of $1,000,000 or more per year.

V. IDENTIFYING/CREATING/DOCUMENTING SERVICE CENTERS

The steps involved in identifying and documenting existing service centers as well as creating new service centers are outlined below.

A. Operating Unit prepares documentation – The first step in identifying and documenting an existing service center or creating a new service center is the completion of a business plan consisting of:

1. Key information regarding the existing or proposed service center that will be used to determine whether or not it should be treated as a service center under this policy and to distinguish between a recharge center and a specialized service facility. Example of the type of information required can be found in Exhibit A.

2. Detailed Budget and Rate Calculation is used to gather costing information outlining anticipated costs and usage

statistics in accordance with the requirements in Section VI of this document, "Rate Development". Initiation and completion of a business plan is the responsibility of the operating unit. Example can be found in Exhibit B to this document.

B. Operating Unit Obtains Required Approvals

i. Upon completion of the business plan, the operating unit needs to obtain approval of the Unit/Department Head and Dean/Director/Division Head as appropriate.
ii. The signed business plan is sent to OCGA for review. OCGA ensures proper costing and no duplication of services within VU and VUMC.
iii. The business plan is forwarded to the Provost's Office for approval.
iv. If approved, the OCGA initiates appropriate accounting system modifications for the approved service center. OCGA will work with the operating unit to 1) initiate creation of new center(s)/accounts 2) implement accounting requirements for the service center and 3) establish proper setup in the CORES/iLab billing system.
v. If NOT approved at any point during this process, the business plan is returned to operating unit.

VI. RATE DEVELOPMENT

Proper rate development requires an accurate composition of allowable costs. The allowable cost criteria for service centers is the same as for direct costs and F&A costs as outlined in OMB Uniform Guidance. Billing rates are developed from anticipated costs for a specific service center and not based upon market rates. Proper rate development requires accurate reflection of all users in the usage base of the rate calculation. See Exhibit B for suggested format. Following are key requirements for developing billing rates:

A. Allowable Direct Costs

Allowable direct costs are those costs that are directly identifiable with the service center and will normally include cost elements such as:

1. Salaries, wages and fringe benefits
2. Materials and supplies
3. Travel
4. Cost of goods/services sold (adjusted for ending inventory balance)
5. Equipment Depreciation (See Section VI.C. for specific guidance).
6. Other (must be specified)

B. Unallowable/Excluded Direct Costs

The following costs are excluded from the calculation of billing rates:

1. Debt principal payments and internal interest

2. Fund Transfers
3. Costs identified in OMB Uniform Guidance as normally F&A costs (unless they are considered an allowable exception in accordance with Vanderbilt's Direct Charge Guidelines available at http://www.vanderbilt.edu/ocga/vupolicies/directcost/directcost.htm or http://www.mc.vanderbilt.edu/CFUIS)
4. Costs which are unallowable under federal regulations (§200.420-§200.475 of the Uniform Guidance), such as:
   a. Advertising
   b. Alcoholic beverages
   c. Bad debts
   d. Contributions and donations
   e. Entertainment
   f. Fund Raising
   g. Public Relations

Since unallowable/excluded costs are not recovered through billing rates or chargeable to the service center budget, funding for such costs may only be obtained from other University resources.

C. Equipment

Capital equipment is defined as an item with a purchase price of $5,000 or more and a useful life of more than one year. Federal guidelines do not allow the purchase cost of a capital item to be recovered through service center rates. However, it does allow for the recovery of depreciation associated with the asset. Equipment or supplies that are not capitalizable (purchase price under $5,000) may be treated as an operating expense in calculating rates. Refer to Vanderbilt's Asset Capitalization Policy for further guidance.

Furthermore, service center rates cannot be structured to build "reserves" for anticipated equipment purchases or replacements. It is not appropriate to charge current users with costs associated with future periods.

1. Depreciation Calculated and Charged to Service Center

   Equipment purchases are generally made from capital centers as opposed to being charged to the service center's operating budget. Separate capital centers are created to track equipment purchases. Actual depreciation expense is charged on the service center's operating budget and credited to a capital centers annually, creating funding for equipment acquisitions. The calculation of depreciation expense is obtained from University Central Asset Management.

2. Federally-Funded Equipment
Depreciation of equipment purchased by the federal government, whether or not title has reverted back to the University, cannot be included in the user rates. Where the University has specifically agreed to cost share a piece of equipment in a federal award, the depreciation of the University-funded portion is also unallowable in the rates.

D. Facilities and Administrative (F&A) Costs
Facilities and Administrative costs are those costs that are not directly identified to the service center, but are part of the institution's cost of operating the service center, such as depreciation on buildings, operation and maintenance costs, and certain general and administrative expenses, etc.

1. Recharge Centers
With the exception of equipment depreciation (see Section VI.C.), F&A costs are generally not charged to recharge centers. Exceptions require written approval from Contract and Grant Accounting due to Federal requirements for F&A cost. F&A costs for recharge centers are calculated and recovered through the University's F&A cost rates for research, instruction, and other sponsored projects.

2. Specialized Service Facilities (SSF)
F&A costs incurred on behalf of SSFs will be included in the rates for the SSF unless an exception is obtained by the SSF from the appropriate Vice Chancellor/Provost or their designee. If an exception is granted, the portion of costs applicable to the specialized service center operation will not be recoverable. If no exception is granted, the F&A costs specifically related to the SSF will be calculated on an annual basis by the Office of Contract and Grant Accounting and will be provided to the SSF for inclusion in the rates.

E. Revenues
For purposes of rate development, revenues consist of all INTERNAL and EXTERNAL revenue generated by the service center. If some users are not billed for the services, are not billed at the full rate, or the revenue was uncollected, contact the Office of Contract and Grant Accounting to determine proper handling of those situations.

The presence of EXTERNAL revenue indicates a potential need to comply with Unrelated Business Income Tax disclosure requirements. In addition, sales tax, when applicable, must be charged to all external users who do not provide their tax exempt certificates. Please contact Finance for assistance in complying with Federal regulations governing unrelated business activities and sales tax requirements.

F. Break-Even Concept

A service center must develop rates so that revenues offset expenses over a reasonable period of time. Once a service center has been established, a service center's surplus or deficit for a given fiscal year must be carried forward and the rates may be adjusted in the succeeding fiscal year. For example, when developing rates in the spring to be charged for services in the following fiscal year beginning July 1, the billing rate should include the prior fiscal year's surplus or deficit (as of June 30), net of any profit charged to external users. Therefore, the carry-forward is on a year lag for inclusion in the rates. Inclusion of a surplus will lower the newly developed rates; inclusion of a deficit will increase the newly developed rates.

G. Working Capital

In addition to full recovery of actual costs, service centers may establish and maintain through its charges a fund balance for working capital needs. The working capital allowance should not exceed 90 days of annual operating expenses.

H. Subsidized Users

Service center billing rates are calculated for all internal users based on total service center expenses and total units of output. If the University chooses to provide a service to a particular internal group of users at no charge or at a lower rate than other users, the service center billing rate may be charged to an appropriate unrestricted university center established for the purpose of this subsidy.

In addition, VU research-related service centers also have access to an alternative mechanism for appropriately managing subsidized use. Subsidies from a contributing research center to a core facility provide a benefit to the center membership in the form of "scholarships" redeemable for core services.

I. Billable Units

Total billable units, or total units of output, are the quantity of product generated by the service center which is the basis for the calculation of the billing rate(s). Typical billable units are hours of machine time, hours of

labor, number of users, pieces of glassware, or units of measure such as pounds or liters. It is important to recognize that billable units represent the anticipated number of units that will be billed in the coming year, not the highest potential output of the service center. An estimate of billable hours should take into consideration the estimated time away from work (vacation, sick and personal time), machine downtime and hours for which there are no customers.

J. Determination of Billing Rates

Once the allowable pool of anticipated costs and anticipated billable units has been determined, the rate(s) are calculated by dividing the costs (including any surplus or deficit from prior fiscal year as appropriate) by the anticipated billable units.

Service center rates should be reviewed at least annually by the Operating Unit for the fiscal year. The Operating Unit is responsible for obtaining all required approvals of the annual rates. When a service center is established in mid-year, rates may be set for longer than twelve months (for the first year only) so that the end of the first break-even period coincides with a fiscal year end.

The Operating Unit should evaluate their financial position and rates periodically throughout the fiscal year to assess their position with respect to break-even. Under special circumstances, rates may be adjusted through a mid-year reduction/increase in rates.

K. Pricing of Multiple Services

Sometimes operating units provide more than one service. Generally different rates based on actual costs should be developed for each service type. An exception to multiple rates may be granted if there is general commonality between the services and the customer base.

VII. BILLING PROCEDURES

Billings must be based upon measured and documented utilization which is properly authorized for the center charged. All billings should be processed on a timely basis (generally no less frequently than monthly) and at established service center rates. Services may not be billed without approved service center rates. The support of the charges, including documentation of expenses and usage, should be retained by the service center to answer any user inquiries or in case of an audit.

A service should not be billed for until the service has been rendered; that is, prepayments are not appropriate. Each service center must operate in accordance

with the University's fiscal year. Service centers should handle each year-end billing consistently, to ensure that twelve months of cost recovery are associated with twelve months of incurred cost, and thereby provide a more accurate break-even calculation at year end.

The manager of the service center is responsible for preparing and distributing invoices and the collection of all fees. All invoices must provide the following information:

- The nature of the services rendered
- The number of units
- The amount charged per unit and the total cost

The user of these services is responsible for documenting the purpose of the charge, and basis for allocation of charges among several account numbers, when applicable.

VIII. ACCOUNTING TREATMENT FOR SERVICE CENTERS

In establishing service centers within the University's accounting system, the following requirements apply.

A. Separate Operating Budget

Separate operating budgets (M&D Center Numbers) for accumulation of actual costs and revenue are established. Costs/revenues related to service centers are not commingled with other expenses.

[NOTE: If external/individual users are billed for services, an additional separate operating budget may also be required to meet Federal regulations regarding unrelated business activities. Sales tax, when applicable, must be charged to all external users who do not provide their tax exempt certificates.]

B. Separate Plant Fund for Equipment Acquisitions

If capital equipment is utilized by the service center, then a separate capital center for equipment acquisitions may be established.

C. Consistent Use of Credit Accounts

Specific accounts are set aside for use by service centers in recording income received from internal and external users. The presence of EXTERNAL revenue indicates a potential need to comply with Unrelated Business Income Tax disclosure requirements.

D. Separate Center Number for Unallowable Costs

Expenditures for items listed in Section V1.B., "Unallowable/Excluded Direct Costs", are not recorded on a service center's operating budget.

They are recorded in a separate operating budget/center number to allow for exclusion from the rate setting process.

IX. ANNUAL REPORTING REQUIREMENTS

Each recharge center and specialized service facility should work with the Office of Contract and Grant Accounting to complete all annual reporting requirements and annual rate calculations.

X. CLOSING AN INACTIVE SERVICE CENTER

Should it become necessary to close a service center, written notifications must be made to the appropriate Dean's Office, Department Head and the Office of Contract and Grant Accounting. Once all activity on the service center has ceased, the fund balance must be brought to zero as part of the closing process. If the center ends with a deficit balance, the department is responsible for funding the deficit. If the center ends with a surplus balance, the service center manager must perform an analysis of the service center's users within the last fiscal year to determine the extent to which Federal users were charged. A refund should be calculated and a credit provided to the federal projects originally charged.

XI. RECORD RETENTION

It is the service center's responsibility to maintain detailed records of all charges and to answer inquiries concerning those charges. Documentation must be retained for a minimum of eight years from the date the billing is entered in to the Vanderbilt accounting system for payment.