

UNIVERSITY of HOUSTON
MANUAL OF ADMINISTRATIVE POLICIES AND PROCEDURES

SECTION: Administrative Operations
AREA: General

Number: 03.01.01

SUBJECT: Service Centers (Recharge Centers)
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I. PURPOSE AND SCOPE

Entities, hereinafter referred to as service centers, within the University of Houston may establish and operate to provide goods or services to other academic and administrative units within the university. Since these activities often result in charges, either directly or indirectly, to federally sponsored programs, university policies, procedures and practices must reflect government regulatory costing principles such as those contained in the Office of Management and Budget's (OMB) Circular No. A-21. This document establishes consistent operational practices and ensures compliance with federal government regulations, Board of Regents (BOR) policies, and University of Houston System (UHS) and University of Houston (UH) policies and procedures.

II. POLICY STATEMENT

Each college/division is responsible for ensuring that all activities relating to the providing of goods or services to other academic and administrative units within the university are carried out pursuant to federal regulations, all applicable UHS Administrative Memoranda (SAM), other applicable UH policies and procedures (MAPPs), and this document.

III. DEFINITIONS

A. Auxiliary enterprise: An entity that furnishes goods or services primarily to faculty, staff and/or students; that charges a fee directly related (although not necessarily equal) to the cost of the goods or services delivered; and that is managed as a self-supporting entity. The distinguishing characteristic of auxiliary enterprises is that they are managed essentially as self-supporting activities, whose services are provided primarily to individuals in the institutional community rather than to departments of the institution. Auxiliary enterprises may generate a profit or surplus; they are not considered service centers, specialized service centers, or recharge centers for the purposes of this document. Once an auxiliary enterprise's total recovered costs from federally sponsored activities exceeds \$100,000 for two consecutive fiscal years, it will be subjected to the provisions of this policy that relate to specialized service centers until such time as its total recovered costs from federally sponsored activities does not exceed \$100,000 for three consecutive fiscal years.

- B. Break-even analysis: Determination of the billing rate to charge, based upon projected use/activity, in order to recover costs equal to the amount of operating expenses.
- C. Equipment replacement reserve fund: A separate cost center established for accumulating (i.e., depositing) use allowance/depreciation expense cost recovery. The purpose of the cost center is to accumulate funds, recovered through the application of approved use allowance/depreciation methods, for replacing equipment used in service center and specialized service center operations.
- D. Facilities and Administrative (F&A) Costs: These costs consist of general administration and general expenses. Examples of facilities costs include utilities, building maintenance, custodial services, depreciation, and external interest associated with the financing of building construction. Examples of administrative costs include general administration and general expenses, such as executive management, payroll, accounting and personnel administration; maintenance and operating expenses, such as office supplies, paper, copier rental expenses; administrative and supporting services provided by academic departments; libraries; and special administrative services provided to sponsored agreements.
- E. Fixed-price jobs: Costs that are quoted and billed based upon a flat amount rather than the approved billing rate. Any fixed price must be fully supported by a cost study.
- F. Non-discriminatory rates: For this document, rates that are the same for all internal university users for the same level of services or products.
- G. Operating fund: The primary budget cost center in which all recovered costs must be recorded and all direct, non-subsidized expenses should be recorded.
- H. Recharge center: Departmental service operations providing (or sharing) goods and services incidental to total departmental activity, internally within their own departments. These are not formally recognized and no formal cost studies are performed (e.g., photocopying done on a department copier and recharged to the user).
- I. Service center: An entity that offers goods and/or services to other university departments, that does not receive a material portion of their funding from federally supported activities or sponsored agreements, and that charges a fee directly related (although not necessarily equal) to the cost of the goods or services delivered.
- J. Specialized service center: An entity that offers goods and/or services involving the use of highly complex or specialized facilities primarily to other university departments and whose total recovered costs from federally sponsored activities exceeds \$100,000 for two or more consecutive fiscal years. Specialized service

center costs will be charged directly to users, including sponsored agreements, based on actual use of the goods and/or services and a schedule of rates that does not discriminate between federally and non-federally supported activities of the institution, including use by the institution for internal purposes. Specialized service centers are governed by the same policies and procedures in effect for service centers, except where otherwise indicated in this document, and they are subject to oversight by the Specialized Service Center Committee.

- K. Specialized Service Center Committee (SSCC): The SSCC reviews requests to establish a new specialized service center, annual specialized service center billing rate proposals including annual budgets and costs studies, and requests to discontinue operations as a specialized service center and makes recommendations regarding the approval of those requests. The committee chairman shall be designated by the Associate Vice President for Finance and will be responsible for planning, scheduling and conducting SSCC meetings. The committee is comprised of representatives from the Division of Finance, the Division of Research, the Provost's Office, the faculty, and others as deemed appropriate by the Associate Vice President of Finance.
- L. Standard cost accounting methods: Defined by the Cost Accounting Standards and applied according to the Federal Register Office of Federal Procurement Policy, Cost Accounting Standards Board of the Office of Management and Budget.
- M. State records retention policies: The regulations, issued by the State of Texas, which define the minimum and maximum length of time that agencies are required to retain official documents and materials.
- N. Start-up costs: The costs incurred to establish a new service center. Federal regulations do not permit these costs to be recovered.
- O. Subsidy: Additional funding provided by sources other than the recovery of costs from users. Subsidies may be in the form of actual fund transfers into the service center operating cost center or the paying of service center expenses from non-service center cost centers. The most common forms of subsidy will usually include the payment of service center employees' salaries, the payment of maintenance and operating expenses, or the purchase of capital equipment from other funding sources. While specialized service center operations may be subsidized by authorized university allocations, to the extent that specialized service center expenses are paid for from non-service center sources, they cannot be included in the university's facilities and administrative cost recovery pool.
- P. Use allowance: The federal default method for determining allowable expense for fixed asset usage. Current federal guidelines for use allowance calculation prescribe a 15-year life for equipment and a 50-year life for buildings. For example, the annual

use allowance for a piece of equipment is calculated by dividing the cost of the equipment by the 15-year life.

- Q. Working capital: Funds accumulated in excess of actual cost in order to fund future operating or capital expenses.

IV. SERVICE CENTER AND SPECIALIZED SERVICE CENTER POLICIES

This section sets forth the policies governing units or entities that have been established, and are operated, to provide goods or services to other academic and administrative units within the university. These policies have been developed to ensure compliance with government regulatory costing principles, such as those contained in OMB Circular No. A-21 (“Cost Principles for Educational Institutions”), all applicable University of Houston System Administrative Memoranda (SAM), and other applicable University of Houston policies and procedures (MAPP). Except as noted, these policies apply to all service centers and all specialized services centers (regardless of the funding source) operating at the university.

- A. Establishment: Entities within UH that want to provide goods or services to other academic and administrative units within the university must submit a written request to establish themselves as a service center or specialized service center. The request must be submitted to the Division of Finance using forms prescribed in the procedures section of this document.
1. Requests to establish a service center will be reviewed by the Division of Finance and approved by the Associate Vice President for Finance. Once a service center’s total recovered costs from federally sponsored activities exceeds \$100,000 for two consecutive fiscal years, that entity will automatically be reclassified as a specialized service center and will be subjected to the provisions of these policies and procedures that pertain to specialized service centers retroactively (i.e., as of the first day of the fiscal year in which total recovered costs from federally sponsored activities has exceeded \$100,000 for two consecutive fiscal years). The entity will continue to be classified as a specialized service center until such time as its total recovered costs from federally sponsored activities does not exceed \$100,000 for three consecutive fiscal years.
 2. Requests to establish a specialized service center (i.e., a service center that anticipates recovering more than \$100,000 of costs from federally sponsored activities for two, or more, consecutive fiscal years) will be reviewed by the Division of Finance and the SSCC and then forwarded to the Associate Vice President for Finance for approval.

3. For those entities who provide goods or services to other academic and administrative units without first obtaining approval:
 - a. No recovered costs will be recognized until approval has been given recognizing the entity as a service center or specialized service center.
 - b. In those instances where a service center or specialized service center becomes operational and begins to recognize recovered costs before obtaining approval, all recovered costs may be re-deposited and retained in a separate cost center under the control of the Associate Vice President for Finance until approval is obtained. If approval is subsequently denied, all recovered costs retained by the Associate Vice President for Finance will be disposed of at his/her discretion except for recovered costs received from federally sponsored agreements which will be returned to the appropriate funding agency.
- B. Costing and pricing: All service centers and specialized service centers must determine the cost of producing goods and/or services and establish a price (i.e., billing rate) to be charged for those goods and/or services taking into consideration the following:
 1. The cost of goods and services (i.e., billing rates) will be charged directly to all users, including sponsored agreements, based on actual use of the goods and services and pursuant to a published schedule of billing rates that does not discriminate between federally and non-federally supported activities of the institution, including use by the institution for internal purposes. Billing rates shall be stated in measurable units of goods or services, and a separate rate shall be established for each class of goods or services provided. Price discrimination is strictly prohibited.
 2. Service center billing rates for goods and services shall be developed and submitted to the Division of Finance for review and approval by the Associate Vice President for Finance on an annual basis and at least 90 days prior to the beginning of the fiscal year in which they are to take effect.
 - a. Service center billing rates should be directly related (although not necessarily equal) to the cost of producing and delivering the goods or services and should consist of all direct costs including salary and wages, cost of materials and supplies, maintenance and operating expenses and capital equipment usage allowance or depreciation expense.
 - b. Service center capital equipment usage allowance or depreciation expense shall be calculated in accordance with university cost accounting procedures.

- c. Material revisions to service center billing rates, or billing rates developed for new goods or services added during the fiscal year, must be submitted to the Division of Finance at least 90 days before they are to become effective. They will be reviewed by the Division of Finance and then forwarded to the Associate Vice President for Finance for approval.
 3. Specialized service center billing rates for goods and services shall be developed and submitted to the Division of Finance on an annual basis and at least 90 days prior to the beginning of the fiscal year in which they are to take effect. The proposed billing rates will be reviewed by the Division of Finance and the SSCC and then forwarded to the Associate Vice President for Finance for approval.
 - a. Specialized service center billing rates shall not be based upon pro-rations or other IDC allocations. They should be based on standard cost accounting methods and designed to recover not more than the aggregate cost of the services over a long-term period (i.e., they should not make a profit or accumulate large surplus balances).
 - b. The cost of goods and services (i.e., billing rates) for a specialized service center shall consist of its direct costs and, where deemed appropriate, its indirect costs (i.e., F&A).
 - c. Specialized service center direct costs paid for from non-service center sources (i.e., subsidized) must be disclosed in the annual billing rate proposal.
 - d. Other than acquisitions funded by the federal government, use allowance or depreciation expense for specialized service centers shall be calculated and charged for all inventoried equipment assigned to the centers. Capital equipment usage allowance/depreciation expense shall be calculated in accordance with university cost accounting procedures. Use allowance/depreciation costs shall be considered direct costs and an equipment replacement reserve fund should be established.
 - e. Material revisions to specialized service center billing rates, or billing rates developed for new goods or services added during the fiscal year, must be submitted to the Division of Finance at least 90 days before they are to become effective. They will be reviewed by the Division of Finance and the SSCC and then forwarded to the Associate Vice President for Finance for approval.
4. Service centers and specialized service centers that fail to prepare and submit billing rates for review and approval at least once each fiscal year may be subjected to one, or more, of the following sanctions as deemed appropriate by the Associate Vice President of Finance:

- a. All recovered costs recognized in the fiscal periods for which the service center or specialized service center has not submitted billing rate proposals may be transferred to a cost center under the control of the Associate Vice President for Finance. These funds will remain under the control of the Associate Vice President for Finance until such time as the service center or specialized service center comes into compliance with this policy.
 - b. Temporary suspension of the service center's or specialized service center's approval to provide goods or services to other academic and administrative units within the university. During this period service center or specialized service center recovered costs may be deposited in, or transferred to, a cost center under the control of the Associate Vice President for Finance. These funds will remain under the control of the Associate Vice President for Finance until such time as the service center or specialized service center come into compliance with this policy.
 - c. Permanent revocation of the service center's or specialized service center's approval to provided goods or services to other academic and administrative units within the university. All recovered costs recognized by the service center or specialized service center will be transferred to a cost center under the control of the Associate Vice President for Finance and disposed of at his/her discretion except for recovered costs received from federally sponsored agreements which will be returned to the appropriate funding agency.
5. Goods or services shall not be routinely sold to university-affiliated faculty, staff or students unless approval for an exception is obtained from the Associate Vice President for Finance.
 6. Goods or services shall not be sold to the general public or other non-university affiliated entities if the sales will compete with commercial sources.
 - a. The Associate Vice President must approve all sales to non-university affiliated entities in advance.
 - b. The billing rates for sales made by specialized service centers to the general public, if approved, shall include the university's on-campus indirect cost (IDC) rate to recover institutional overhead costs. Written requests for exceptions to this overhead cost recovery policy must be submitted to the Division of Finance. These requests will be reviewed by the Finance Division and the SSCC and then forwarded to the Associate Vice President for Finance for approval. Funds representing overhead cost recovery shall be separately recorded in a cost center identified by the Associate Vice President for Finance and shall be distributed as directed by him/her.

C. Administration: Each college/division is responsible for ensuring that all activities relating to the establishment and operation of service centers are carried out pursuant to OMB Circular No. A-21, "Cost Principles for Educational Institutions," all applicable University of Houston System Administrative Memoranda (SAM), other applicable University of Houston policies and procedures (MAPPs), and this document. General guidelines to be followed in the administration of service centers and specialized service centers include the following:

1. All financial-related information (i.e., request for establishing a new service center or a new specialized service center, costs studies, budget analysis, billing rate computations and proposals, revisions to billing rate computations and proposals, etc.) is to come from, and be reconciled to, the university's official financial records system. Financial and statistical data used in developing billing rates, and revisions to billing rates, should be based on a one-year period, normally the university's fiscal year (i.e., September 1 to August 31). Financial records and supporting documentation for billing rates must be maintained at the college or department level for the time periods prescribed in the State of Texas Records Retention Schedule, Category 4: Fiscal Records.
2. Service centers shall operate on a break-even basis, rather than a profit basis. A year-end surplus should not exceed an amount equivalent to two months (i.e., 60 days) of operating costs unless prior approval has been obtained from the Associate Vice President for Finance. Failure to obtain prior approval from the Associate Vice President for Finance may result in the transfer of excess surplus funds to a cost center under the control of the Associate Vice President for Finance until such time as adequate justification is given for accumulating the funds or service center billing rates are adjusted to eliminate the excess surplus balance.
3. Specialized service centers shall operate on a break-even basis, rather than a profit basis. A year-end surplus should not exceed an amount equivalent to two months (i.e., 60 days) of operating costs. A surplus or deficit occurring in any year shall be included in the calculation of the subsequent year's billing rates. In cases where a rate adjustment would create severe fluctuations in rates from one year to the next, a specialized service center may submit a request for a reasonable extension to achieve a break-even balance to the Division of Finance. The request will be reviewed by the Division of Finance and the SSCC and then forwarded to the Associate Vice President for Finance for approval.
4. All recovered costs shall be recorded in the operating fund assigned to service centers and specialized service centers.

5. All direct costs should be recorded in the operating fund assigned to the service centers and specialized service centers. However, in those instances where a center receives subsidy from another operating fund (or funds), the amount(s) and source(s) of the subsidy must be reported to the Division of Finance as part of the annual billing rate proposal package.
6. Service centers shall not transfer recovered costs, expenditures, or fund balances from, or to, the operating fund without submitting a request to the Division of Finance. The request will be reviewed by the Division of Finance and then forwarded to the Associate Vice President for Finance for approval.
7. Specialized service centers shall not transfer recovered costs, expenditures, or fund balances from, or to, the operating fund without submitting a request to the Division of Finance. The request will be reviewed by the Division of Finance and the SSCC and then forwarded to the Associate Vice President for Finance for approval.
8. Service centers and specialized service centers shall not recharge or initiate other billing transactions in advance of providing goods and services. Progress billings may be made for jobs in process.
9. Service centers must submit a written request to discontinue operations to the Division of Finance for review and approval by the Associate Vice President of Finance.
10. Specialized service centers must submit a written request to discontinue operations to the Division of Finance and the SSCC for review and approval by the Associate Vice President for Finance.
11. Capital expenditures, including cost of equipment, shall not be charged to the operating cost center of any service center or specialized service center.

V. SERVICE CENTER AND SPECIALIZED SERVICE CENTER PROCEDURES

A. Establishing a Service Center or Specialized Service Center

1. To establish a service center, a completed "Request for Establishing a New Service Center or Specialized Service Center" (Addendum A) must be submitted to the Division of Finance prior to the beginning of operations. The request will be reviewed by the Division of Finance and then forwarded to the Associate Vice President of Finance for approval.
2. To establish a specialized service center, a completed "Request for Establishing a New Service Center or Specialized Service Center" (Addendum A) must be

submitted to the Division of Finance prior to the beginning of operations. The request will be reviewed by the Division of Finance and the SSCC and then forwarded to the Associate Vice President for Finance for approval.

B. Guidelines for Establishing a Service Center or Specialized Service Center

Forms have been developed for documenting the billing rate development process. These are included as Addenda B, C, D, E, F and G. A three-step approach which includes: (1) compiling a cost study of the most recently completed fiscal year's activity, (2) developing a budget for the upcoming fiscal year's activity, and (3) developing billing rates for the upcoming fiscal year based upon the most recently completed fiscal year's cost study and the budgeted activity for the upcoming fiscal year, is recommended for establishing, modifying, and revising billing rates for both service centers and specialized service centers. Each of these steps is discussed in greater detail below.

1. Compiling a cost study of the most recently completed fiscal year's activity: An analysis of the most recently completed fiscal year's activity will ensure that all costs incurred to provide goods and services have been identified and taken into consideration when computing the accumulated over/(under) recovery of costs (i.e., any accumulated surplus or deficit balance). Any surpluses or deficits occurring in one fiscal year should be included in the calculation of the subsequent fiscal years' billing rates.

If specific PeopleSoft cost centers accurately reflect all expenditures of the center and there are no costs unrelated to the center's activities recorded in the cost centers, expenditure amounts for salaries and wages and maintenance and operating expenses used in the calculation of actual costs should come directly from PeopleSoft. If the center's costs are commingled with costs unrelated to the center's operations, it will be necessary to identify those costs separately for the calculation of actual costs.

The Cost Study (Form 1), included as Addenda B to this policy, should be used to compile this data. (The form may be modified and supporting schedules attached as deemed necessary; however, as part of the review process, the Division of Finance and, where appropriate, the SSCC may require service center management to explain the reasons for any modifications to the original form.) The following information will be included in the cost study:

- a. **Salaries, Wages, and Benefits Costs:** Total wages, salaries, and benefits for all employees involved in providing the goods or services. Include employees who actually produce/deliver the goods or provide the service, as well as employees involved in the administration of the center. Payroll expenses should be prorated for employees responsible for activities related to more

than one good or service and for employees responsible for both center and non-center activities within a department. The expense should be prorated based upon recorded effort or a reasonable estimate of the percentage of time devoted to specific activities. This should include employees funded from the center's cost centers as well as employees funded from other sources, such as state funds.

The Salaries, Wages, and Benefits Cost Analysis (Form 2) included as Addenda C to this policy may be used to compile this data. (The form may be modified and supporting schedules attached as deemed necessary; however, as part of the review process, the Division of Finance and the SSCC may require service center management to explain the reasons for any modifications to the original form.)

- b. Maintenance and Operating (M&O) Expenditure Costs: Include expenditures paid from the center's operating cost center, as well as expenditures funded from other sources (i.e., subsidies). M&O expenditures benefiting more than one good or service, or benefiting both center and non-center activities should be prorated based upon as accurate a basis as possible.

The Maintenance and Operations Cost Analysis (Form 3) included, as Addenda D to this policy, may be used to compile this data. (The form may be modified and supporting schedules attached as deemed necessary; however, as part of the review process, the Division of Finance and the SSCC may require service center management to explain the reasons for any modifications to the original form.)

- c. Use Allowance/Depreciation Expense Costs: Capital equipment cannot be purchased from a center's operating funds; however, capital equipment may be purchased from other funding sources whereupon an annual depreciation or use allowance can then be charged to the center's operations. The recovered costs for capital equipment usage may then be accumulated and used to purchase replacement equipment.

The Use Allowance/Depreciation Expense Analysis and Equipment Inventory (Form 4) included, as Addenda E to this policy, may be used to compile this data. (The form may be modified and supporting schedules attached as deemed necessary; however, as part of the review process, the Division of Finance and the SSCC may require service center management to explain the reasons for any modifications to the original form.)

- d. Facilities and Administrative (F&A) Costs: These costs consist of general administration and general expenses, such as executive management, payroll, accounting and personnel administration; operations and maintenance

expenses, such as utilities, building maintenance and custodial services; building depreciation and external interest associated with the financing of buildings; administrative and supporting services provided by academic departments; libraries; and special administrative services provided to sponsored agreements.

The Facilities and Administrative Cost Analysis (Form 5) included, as Addenda F to this policy must be used to compile this data. (The form may be modified and supporting schedules attached as deemed necessary; however, as part of the review process, the Division of Finance and the SSCC may require service center management to explain the reasons for any modifications to the original form.)

With approval from the Associate Vice President of Finance, indirect costs (i.e., F&A costs which include utilities, building maintenance, custodial services, depreciation, and external interest associated with the financing of building construction, general administration and general expenses, such as executive management, payroll, accounting and personnel administration; maintenance and operating expenses, such as office supplies, paper, copier rental expenses; administrative and supporting services provided by academic departments; libraries; and special administrative services provided to sponsored agreements) may be excluded from the billing rate computations if these costs are small in relation to the other direct cost components (i.e., Salary, Wages and Benefits Costs, M&O Expenditure Costs, Use Allowance/Depreciation Expense Costs, and Administrative Costs). The omission of facilities costs will need to be disclosed in the billing rate proposal to provide for the identification and exclusion of these costs from the university's indirect cost rate proposal.

- e. **Prior Accumulated Over/(Under) Recovery:** This is the accumulated surplus (or deficit) balance that has resulted from the over/(under) recovery of costs in prior fiscal periods. This amount should be included in computing total expenditures since any surpluses or deficits occurring in one fiscal year should be included in the calculation of the subsequent fiscal years' billing rates.
- f. **Total Expenditures:** This amount should equal the total of a, b, c, d, and e above.
- g. **Total Recovered Costs:** This is the total amount of recovered costs recognized from all sources.
- h. **Over/Under Recovery:** This amount is determined by subtracting the total expenditures incurred in the most recently completed fiscal year, including any accumulated over/(under) recovery of costs from prior fiscal years, from

the total recovered costs recognized in the most recently completed fiscal year.

The Over/Under Recovery derived from the above cost study of the most recently completed fiscal year will be used in computing the proposed billing rate(s) for the upcoming fiscal year.

2. Developing a Budget: Estimating the demand for goods and services and then identifying all costs associated with providing those goods and services is an important step in developing billing rates for service centers and specialized service centers to ensure that recovered costs equal (or closely approximate) the operating costs.

The Salaries, Wages, and Benefits Cost Analysis (Form 2), Maintenance and Operations Cost Analysis (Form 3), the Use Allowance/Depreciation Expense Analysis and Equipment Inventory (Form 4), and the Facilities and Administrative Cost Analysis (Form 5) included as Addenda C, D, E, and F to this policy, should be used to compile this data. (These forms may be modified and supporting schedules attached as deemed necessary; however, as part of the review process, the Division of Finance and, where appropriate, the SSCC may require service center management to explain the reasons for any modifications to the original form.)

The following information will be included on the appropriate form:

- a. **Salaries, Wages, and Benefits Costs**: Employees who have their salaries and benefits paid from the center's operating budget should perform functions that directly relate to the provision of services. If an employee 'wears multiple hats' (i.e., performs maintenance on internal service provider equipment and performs direct research) then the salary and benefits would be split between the center and the appropriate cost centers based upon percent of effort.
- b. **Maintenance and Operations Costs**: Expenses such as operating supplies and maintenance contracts that directly relate to the provision of goods or services should be charged to the center's cost center. Expenses that may jointly benefit the center and other activities should be split on an objective and supportable basis. Travel: Travel expenditures should not ordinarily be paid from a center's cost center since the travel must be directly attributable to the services or goods provided in order to justify a charge to the center's cost center.
- c. **Capital Equipment Usage Allowance/Depreciation Expense Costs**: Capital equipment acquisition from the center's fund sources is not permitted except

from accumulated depreciation or use allowance that was built into the billing rate. Depreciation or use allowance schedules must be maintained.

- d. **Facilities and Administrative Costs:** These costs consist of general administration and general expenses, such as executive management, payroll, accounting and personnel administration; operations and maintenance expenses, such as utilities, building maintenance and custodial services; building depreciation and external interest associated with the financing of buildings; administrative and supporting services provided by academic departments; libraries; and special administrative services provided to sponsored agreements.

With approval from the Associate Vice President of Finance, indirect costs (i.e., F&A costs which include utilities, building maintenance, custodial services, depreciation, and external interest associated with the financing of building construction, general administration and general expenses, such as executive management, payroll, accounting and personnel administration; maintenance and operating expenses, such as office supplies, paper, copier rental expenses; administrative and supporting services provided by academic departments; libraries; and special administrative services provided to sponsored agreements) may be excluded from the billing rate computations if these costs are small in relation to the other direct cost components (i.e., Salary, Wages and Benefits Costs, M&O Expenditure Costs, Use Allowance/Depreciation Expense Costs, and Administrative Costs). The omission of facilities costs will need to be disclosed in the billing rate proposal to provide for the identification and exclusion of these costs from the university's indirect cost rate proposal.

3. **Developing Billing Rates:** Service centers and specialized service centers should operate on a break-even basis (i.e., annual recovered costs less operating costs normally should equal zero), rather than a profit basis; therefore, the cost charged for goods and services (i.e., billing rates) should be established to ensure that recovered costs equal (or approximate) the costs of producing those goods and services.

The Billing Rate Proposal (Form 6), included as Addenda G to this policy, should be used to compile this data and document the billing rate computations. Documentation must be maintained to support each calculated billing rate or price charged. (The form may be modified and supporting schedules attached as deemed necessary; however, as part of the review process, the Division of Finance and the SSCC may require service center management to explain the reasons for any modifications to the original form.) The following information will be included in the billing rate proposal computations:

- a. Estimated Salaries, Wages, and Benefits Costs: This information should come from the Salaries, Wages, and Benefits Cost Analysis (Form 2, included as Addenda C to this policy) prepared during the development of a budget for the upcoming fiscal year. (Step 2.a., above.)
- b. Estimated Maintenance and Operating Expenditures Costs: This information should come from the Maintenance and Operations Cost Analysis (Form 3, included as Addenda D to this policy) prepared during the development of a budget for the upcoming fiscal year. (Step 2.b., above.)
- c. Estimated Use Allowance/Depreciation Expense Costs: This information should come from the Use Allowance/Depreciation Expense Analysis and Equipment Inventory Form (Form 4, included as Addenda E to this policy) prepared during the development of a budget for the upcoming fiscal year. (Step 2.c., above.)
- d. Estimated Facilities and Administrative Costs: This information should come from the Facilities and Administrative Cost Analysis Form (Form 5, included as Addenda F to this policy) prepared during the development of a budget for the upcoming fiscal year. (Step 2.d., above.)
- e. Estimated Total Expenditures: This amount should equal the total of a, b, c, and d above.
- f. Accumulated (Over)/Under Recovery from Prior Fiscal Years: This information should come from the Cost Study (Form 1, included as Addenda B to this policy) prepared during the development of a cost study of the prior (i.e., most recently completed) fiscal year's activity. (Step 1.h., above.)
- g. Estimated Total Costs To Be Recovered: This amount should equal the total of e and f above.
- h. Estimated Fiscal Year Usage of Goods or Services: This amount should be estimated based upon the expertise of center's operating staff. This estimate should be in the form of the units of goods or services for which the rate is charged. For example, a center providing services at an hourly rate should estimate the number of hours of services that will be provided in the fiscal year. The estimate for a center that provides goods will be the total number of units to be provided by the center during the fiscal year.
- i. Costs Per Unit of Goods or Services: The Estimated Total Costs To Be Recovered (g above) should be divided by the Estimated Fiscal Year Usage of Good or Services (h above) to determine the actual cost to provide the particular good or service.

- j. Proposed Billing Rate: Since the objective of the center is to operate on a break-even basis, the proposed billing rate should be equal to the cost per unit of goods or service (i above) with adjustments for rounding if deemed appropriate.

C. Approving Service Center or Specialized Service Center Billing Rates

Service centers and specialized service centers shall prepare and submit a billing rate proposal on an annual basis and prior to the beginning of the fiscal year in which the proposed billing rates are to take effect.

- D. Service center billing rates must be submitted to the Division of Finance for review and approval by the Associate Vice President for Finance. Billing rates should be developed using the forms and procedures recommended in the above section of this policy entitled, "Guidelines for Establishing a Service Center or Specialized Service Center."

- E. Specialized service center billing rates must be submitted to the Division of Finance. The proposed billing rates will be reviewed by the Division of Finance and the SSCC and then forwarded to the Associate Vice President for Finance for approval on an annual basis and prior to the beginning of the fiscal year in which they are to take effect. Billing rates should be developed using the forms and procedures recommended in the above section of this policy entitled, "Guidelines for Establishing a Service Center or Specialized Service Center."

F. Modifying, Adding, or Revising Service Center and Specialized Service Center Billing Rates

Billing rates may be revised as deemed necessary by service center and departmental management. In all instances, billing rates must be based on the actual cost of providing the goods or services. Documentation must be maintained to support each calculated billing rate, billing rate change, or price charged for a particular good or service. To materially revise existing billing rates or rate methodology or to propose new billing rates for new goods or services, complete the "Request to Change Rates or Rate Methodology and Request to Add Rates for New Goods or Services" Form (see Addendum H). Copies of the billing rate computations must be kept on file at the college or department level for the time periods prescribed in the State of Texas Records Retention Schedule, Category 4.

1. Billing rate computations modifying, adding or revising service center and specialized service center billing rates must be documented and approved by the college/division business administrator, the department chairman (where applicable), and the college dean or division head.

2. Requests for material modifications, additions, or revisions to service center billing rates must be submitted to the Division of Finance at least 90 days before they are to become effective. These requests will be reviewed by the Division of Finance then forwarded to the Associate Vice President for Finance for approval.
3. Requests for material modifications, additions, or revisions to specialized service center billing rates must be submitted to the Division of Finance at least 90 days before they are to become effective. These requests will be reviewed by the Division of Finance and the SSCC and then forwarded to the Associate Vice President for Finance for approval.

G. Discontinuing Service Center and Specialized Service Center Operations

Service centers and specialized service centers shall notify the Division of Finance in writing of the intention to discontinue operations. This notification shall include the planned termination date, reason for discontinuing the operation, an explanation of the specialized service center's plan for the resolution of any cost center surplus or deficit, and the planned disposition of remaining inventory.

1. Service centers shall not take action to dispose of equipment, inventory, or cost center balances without first submitting a request to the Division of Finance. The request will be reviewed by the Division of Finance and then forwarded to the Associate Vice President for Finance for approval. Upon completion of close out, the service center cost center should have a zero balance and be frozen and flagged for deletion.
2. Specialized service centers shall not take action to dispose of equipment, inventory, or cost center balances without first submitting a request to the Division of Finance. The request will be reviewed by the Division of Finance and the SSCC and then forwarded to the Associate Vice President for Finance for approval. Upon completion of close out, the specialized service center cost center should have a zero balance and be frozen and flagged for deletion.

VI. REVIEW AND RESPONSIBILITY

Responsible Parties: Associate Vice President for Finance

Review: Every three years, on or before June 1

VII. APPROVAL

John M. Rudley
Vice President for Administration and Finance

Arthur C. Vailas
Vice President for Research

Arthur K. Smith
President

Date of President's Approval: 02/20/03

VII. REFERENCES

- Federal Office of Management and Budget Circulars
- A-21 Cost Principles of Educational Institutions
- A-110 Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Institutions
- A-133 Audits of Institutions of Higher Education and Other Nonprofit Institutions
- UHS Board of Regents policies
- University of Houston System Administrative Memoranda
- MAPP 04.03.01 - Service Center Requisitions
- Property Management policies and procedures
- University of Houston Research Guidelines

- Index Terms:
- Auxiliary enterprise
 - Break-even analysis
 - Equipment replacement reserve fund
 - Fixed-price jobs
 - Non-discriminatory rates
 - Operating fund
 - Recharge centers
 - Service cost centers
 - Service centers
 - Service Center Committee (SCC)
 - Specialized service facility
 - Standard cost accounting methods
 - State records retention policies
 - Start-up Costs
 - Subsidy
 - Use allowance
 - Working capital

Addendum A

Request for Establishing a New Service Center or Specialized Service Center

Proposed inter-departmental service provider/specialized service center name:

Requested start date: _____

Description of goods or services provided: _____

Description of potential users, including both internal (i.e., inter-departmental) and external users: _____

1. Briefly describe and indicate locations of commercial and other non-UH sources from which similar goods or services may be obtained. (Attach additional pages if necessary.)

2. Briefly describe other UH sources from which similar goods or services may be obtained.

3. If similar goods or services may be obtained from non-UH sources or other UH sources, explain the necessity for the proposed activity.

4. If the goods or services have been provided free of charge in the past:
 - a. Describe past funding sources and provide expenditure history.

 - b. Explain the necessity of now charging for the goods or services.

5. Estimate/Project
 - a. Annual activity volume, such as hours of usage, number of copies, etc.

 - b. Number of annual users.

Addendum A (page 2)

- c. Annual dollar value of recharge income.

- d. Number of years the center will provide goods or services.

- 6. State the estimated percentage of users by the following categories:
 - a. UH departments
 - 1. Federal and federal flow-thru users _____ %
 - 2. State-funded users _____ %
 - 3. Non-federally or state-funded users _____ %

 - b. UH individuals
 - 1. Individuals _____ %
 - 2. Faculty _____ %
 - 3. Staff _____ %

- 7. If applicable, describe any connection between the proposed inter-departmental provider/specialized service center and any federal contract or grant, including:
 - a. Any subsidy, direct or indirect, to be provided by the federal contract(s) or grant(s).

 - b. Any limitation the Federal contract(s) place on the use of the proposed activity's income.

- 8. If applicable, describe any connection between the proposed inter-departmental provider/specialized center and any non-federal funding source, including:
 - a. Any subsidy, direct or indirect, to be provided by the funding source.

 - b. Any limitation the funding source places on use of the proposed activity's income.

Addendum A (page 3)

9. If sales to non-UH individuals or entities are expected, provide information conclusively showing that satisfactory commercial or other non-UH sources for similar goods or services do not exist.
10. Provide the following financial information:
 - a. Proposed funding sources for:
 1. Start-up costs
 2. Working capital
 3. Equipment to be acquired
 - b. Use the forms provided (modify to meet your needs) to provide:
 1. Cost study
 2. Budgets
 3. Use Allowance or Depreciation Expense
11. Provide the following tax information:
 - a. Sales Tax. If the proposed inter-departmental provider/specialized center will sell goods, explain why the activity should not be subject to Texas sales regulations.
 - b. Unrelated Business Income Tax. If the proposed activity will sell goods or services to individuals or entities, explain how the sales will relate to the university's educational or research mission. Sales not related to the university's educational or research mission will be reported as unrelated business income and subject to federal income tax regulations.

Addendum A (page 4)

12. If the proposed inter-departmental provider/specialized service center will have a point of sale or cash transactions, provide a copy of the cash handling procedures. Cash handling procedures must be approved by the Office of the Associate Vice President for Finance.
13. If the inter-departmental provider/specialized service center activity will bill other UH departments, provide a copy of billing procedures, including a sample of the billing statement/invoice to be provided to the service center users. Billing procedures must be approved by the SCC.

Service Center Location: _____

Prepared By (Name): _____

Title/Position: _____

Phone Ext: _____ **E-mail:** _____ **UH Mail Address:** _____

Service Center Manager (Name): _____

Primary Business Person (Name): _____

Title/Position: _____

Phone Ext: _____ **E-mail:** _____ **UH Mail Address:** _____

Department and College/Division Administrator's Approval Signature: _____

Approval of service center and acceptance of operating and financial responsibility:

Department Chair: _____ **Date:** _____

Dean (or equivalent): _____ **Date:** _____

Forward this completed request to Division of Finance for review and routing for approval.

Addendum B

Cost Study (Form 1)

FYE _____ (The most recently completed fiscal year.)

Service Center Name: _____

Prior Fiscal Year's Statement of Costs

- 1. Wages, Salaries, and Benefits Costs
(Attach Salaries, Wages, and Benefits Cost Analysis - Form 2) _____
- 2. Maintenance & Operations Expenditures Costs
(Attach Maintenance & Operations Cost Analysis - Form 3) _____
- 3. Use Allowance/Depreciation Expense Costs (Attach
Use Allowance/Depreciation Expense Analysis – Form 4) _____
- 4. Facilities & Administrative Costs
(Attach Facilities & Administrative Cost Analysis - Form 5) _____
- 5. Prior Accumulated Over/Under Recovery
(Add Under, Subtract Over Recovery) _____
- 6. Total Expenditures _____
- 7. Total Recovered Costs _____
- 8. Total Accumulated Over/(Under) Recovery _____

Note: Amount of Over/(Under) Recovery should be used to adjust estimated costs in proposed budget for the next fiscal year.

Service Center Location: _____

Prepared By (Name): _____

Title/Position: _____

UH Mail Address: _____ **E-mail:** _____ **Telephone:** _____

Addendum B (Page 2)

College/Division Business Administrator: _____

UH Mail Address: _____ **E-mail:** _____ **Telephone:** _____

Service Center Manager: _____

UH Mail Address: _____ **E-mail:** _____ **Telephone:** _____

Addendum G

Billing Rate Proposal (Form 6)

Billing Rate Proposal

FYE _____

Service Center Name _____

Proposed Budget and Billing Rate

1. Estimated Wages, Salaries, and Benefits Costs
(Attach Salaries, Wages, and Benefits Cost Analysis - Form 2) _____
2. Estimated Maintenance & Operations Expenditures Costs
(Attach Maintenance & Operations Cost Analysis - Form 3) _____
3. Estimated Use Allowance/Depreciation Expense Costs (Attach
Use Allowance/Depreciation Expense Analysis – Form 4) _____
4. Estimated Facilities & Administrative Costs
(Attach Facilities & Administrative Cost Analysis - Form 5) _____
5. Total Current Operating Costs to Recover _____
6. Accumulated (Over)/Under Recovery from Prior FYE
(Add Under, Subtract Over Recovery) _____
7. Estimated Total Recovered Costs Required to Break Even
(Add 5 and 6) _____
8. Estimated Usage (Expressed in Units) _____
9. Estimated Cost Per Unit (7 divided by 8) _____
10. Proposed Billing Rate _____

Note: Amount Over/(Under) Recovery (Item #6, above) should come from prior year cost study.

Service Center Location: _____

Prepared By (Name): _____

Addendum G (Page 2)

Title/Position: _____

UH Mail Address: _____ **E-mail:** _____ **Telephone:** _____

College/Division Business Administrator: _____

UH Mail Address: _____ **E-mail:** _____ **Telephone:** _____

Service Center Manager: _____

UH Mail Address: _____ **E-mail:** _____ **Telephone:** _____

Addendum H

**Request to Change Rates or Rate Methodology and
Request to Add Rates for New Goods and Services**

Service Center Name _____

Requested effective date of proposed rate changes _____

1. Provide list comparing existing rates with proposed rates.
2. Provide a description of basis for the proposed rate changes
3. State the estimated percentage of users by the following categories:
 - a. UH departments
 1. Federal and federal flow-thru users _____ %
 2. State-funded users _____ %
 3. Non-federally or state-funded users _____ %
 - b. UH Individuals
 1. Individuals _____ %
 2. Faculty _____ %
 3. Staff _____ %
4. If applicable, describe any connection between the proposed center and any Federal contract or grant, including:
 - a. Any subsidy, direct or indirect, to be provided by the Federal contract(s) or grant(s).
 - b. Any limitation the Federal contract(s) place on the use of the proposed activity's income.

Addendum H (page 2)

5. If applicable, describe any connection between the proposed center and any non-Federal funding source, including:
 - a. Any subsidy, direct or indirect, to be provided by the funding source.
 - b. Any limitation the funding source places on use of the proposed activity's income.
6. If sales to non-UH individuals or entities are expected, provide information conclusively showing that satisfactory commercial or other non-UH sources for similar goods or services do not exist.
7. Provide the following financial information:
 - a. Proposed funding sources for:
 1. Start-up costs
 2. Working capital
 3. Equipment to be acquired
 - b. Use the forms provided (modify to meet your needs) to provide:
 1. Cost study
 2. Budgets
 3. Use Allowance or Depreciation Expense
8. Provide the following tax information:
 - a. Does the activity currently collect Texas sales tax?
 - b. Does the activity currently generate Unrelated Business Income Tax?

Addendum H (page 3)

- 9. If the request includes a proposal of an existing service center to establish rates for new goods or services, provide the following additional information.
 - a. Briefly describe and indicate locations of commercial and other non-UH sources from which similar goods or services may be obtained.
 - b. Briefly describe other UH sources from which similar goods or services may be obtained.
 - c. If similar goods or services may be obtained from non-UH sources or other UH sources, explain the necessity for the proposed activity.
- 10. If the goods or services have been provided free of charge in the past:
 - a. Describe past funding sources and provide expenditure history.
 - b. Explain the necessity for now charging for the goods or services.
- 11. State the anticipated number of annual users of the goods or services.
- 12. State the anticipated annual dollar volume of service center income.
- 13. If sales to non-UH individuals or entities are expected, provide information conclusively showing that satisfactory commercial or other non-UH sources for similar goods or services do not exist.

Service Center Location: _____

Prepared By (Name): _____

Title/Position: _____

UH Mail Address: _____ **E-mail:** _____ **Telephone:** _____

College/Division Business Administrator: _____

UH Mail Address: _____ **E-mail:** _____ **Telephone:** _____

Service Center Manager: _____

UH Mail Address: _____ **E-mail:** _____ **Telephone:** _____

Addendum H (page 4)

Approval of service center and acceptance of operating and financial responsibility:

Department and College/Division Approval:

Department Chair: _____

Date: _____

Dean (or equivalent): _____

Date: _____

Forward this completed request to the Division of Finance.