

# MISSISSIPPI STATE UNIVERSITY

## OPERATING PROCEDURE

Service Centers

### GENERAL PURPOSE

This document provides guidance and procedures covering the financial operation of service centers in order to ensure compliance with generally accepted accounting practices, applicable laws and regulations, and requirements of sponsored agreements.

### DEFINITION

Service Centers are established primarily as a means to capture costs associated with providing goods and services. Some, if not all, of the costs of providing the goods or services are then recovered from customers via a calculated billing rate. There are three types of service centers – recharge center, specialized service facility, and service center.

1. **Recharge Centers** - A service center within a department that provides goods or services that do not represent the major purpose of the generating department. The goods or services are intended as a convenience to a limited group of internal users primarily within the department. A separate fund is not required to account for costs and revenues associated with a recharge center.
2. **Specialized Service Facilities (SSF)** – A service center that offers highly complex and technical services that are not readily available from outside vendors. A separate 24XXXX fund must be established to account for and document all costs and revenues associated with a Specialized Service Facility. Per Uniform Guidance, direct and indirect costs can be captured and included in the rate calculation.
3. **Service Center** - A service center that does not fit either the Recharge Center or Specialized Service Facility definition. A Service Center provides goods and/or services primarily to internal users throughout the academic community. The goods and/or services provided are readily available from external sources, however, they are offered via a service center predominantly as a convenience to users. A separate 24XXXX fund must be established to account for and document all costs and revenues associated with a Service Center when annual federal revenues are greater than \$50,000. The \$50,000 federal revenue threshold is calculated by performing a running 5 years average. The 5 years are the last 5 complete fiscal years. Only direct costs can be captured and included in the rate calculation.

### RESPONSIBILITIES

- A. **Service Center Director** - Manage the daily operations of the service center and ensure the financial goals of the service center are being met.

This is accomplished by

- Providing competitive rates and services while maintaining break-even margins and necessary fund balances.
- Preparing an annual budget and financial statements for the center, plus other intermittent financial reports as requested.
- Performing an annual review and rate analysis in time for customers to include rate adjustments in their next year's budgets.
- Maintaining detailed records supporting charges to all users.
- Billing customers for goods and/or services in a timely manner, preferably monthly.
- Maintaining documentation of user rate calculations.
- Reviewing rates periodically to ascertain all unallowable costs are being excluded.

**B. Department Head\Dean\Vice President** – Approve and accept responsibility of creating and maintaining the Service Center in accordance with MSU's guidelines.

This is accomplished by

- Approving the establishment of new service center and the continued operation of existing ones.
- Approving the center's annual budget.
- Funding any deficit or disallowance's created by service centers under their direction.

**C. Property Control** – Provide detailed listing of assets.

This is accomplished by

- Identifying Service Center assets.
- Identifying items of equipment that were purchased with federal funds.

**D. Cost Accountant** – Monitoring the Service Center for compliance with Federal guidelines.

This is accomplished by

- Reviewing and approving the rate calculation for all new and existing service centers to ensure accuracy and consistency with applicable policies and procedures.
- Monitoring the billing rates to determine if total billings for services are reasonable compared to the costs of operation.
- Notifying the service center and appropriate administrators if the review identifies practices inconsistent with applicable policies and procedures.

## **PROCEDURES**

### **A. Service Center Establishment**

In order to operate a service center, there must be an existing demand for a particular service and there must be a significant anticipated volume of recharging, both in dollar amounts and in number of transactions. In addition, it should be anticipated that the service will be needed on a

long-term, continual basis.

A [Service Center Request Form](#) may be obtained from the Cost Accounting website. The completed form should be submitted to the Cost Accountant at Mail Stop 9602. The Cost Accountant will request a 24 Fund be established and advise the primary contact person of the new fund number.

The Cost Accounting Department will maintain a [comprehensive listing of all MSU Service Centers and rates](#) on the Cost Accounting tab of the Controller & Treasurer's web site.

## **B. Billing Rates**

Costs are recovered into a service center through revenue generated from the established billing rate. Only those costs charged to, or expected to be charged to, the 24XXXX fund can be included in the billing rate. Billing rates should be reviewed each fiscal year so that users can include any rate adjustments in their upcoming budgets. Revisions to an established rate should be submitted to the Cost Accounting Department at least biennially on a [Service Center Request Form](#). If a service center provides multiple services, separate billing rates should be established for each significant service whose cost and revenues can be segregated.

Note: All costs used in determining billing rates for internal users must be federally-allowable; consistently estimated, accumulated, and reported; and reasonably allocated according to CASB standards 501, 502, 505, and 506.

Billing rates are calculated using the following basic formula:

$$\frac{\text{Projected Annual Costs +/- prior year carry-forward deficit or surplus}}{\text{Projected Billing Units expected to be provided during the year}}$$

A [model to calculate a new rate or revise an existing rate](#) is provided on the Controller & Treasurer's website under the Cost Accounting tab.

Account code 405790 Other Professional Fees & Services should be used when billing Restricted Funds.

## **C. Over/Under Recovery**

A service center should not operate for extended periods of time with either a deficit or a surplus fund balance.

In the event of a deficit, it may be necessary to increase the user fee rate to recover the deficit within the next annual operating cycle. However, it may be necessary to cover the deficit from departmental discretionary funds. This would be the case if the operating deficit was so significant that it would not be reasonable to expect that rates could be adjusted within reasonable levels for recovery from users within the next annual operating cycle. That is, the rate

would have to be set so high that potential users would not be willing to utilize the service.

In the event a surplus is generated, the user fee should be adjusted down as a method to return surplus to users. Surpluses 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. Surpluses should not be transferred out of service center accounts to subsidize other University operations. However, excess funds may be returned to a fund which has provided a subsidy, limited to the amount of clearly documented subsidy. Building a surplus in these funds could result in violations of the OMB A-81 Cost Principles.

In addition, generating revenues in excess of cost could create unrelated business income tax issues (UBIT) with the Internal Revenue Service. More information about UBIT can be found at the Tax & Compliance tab of the Controller & Treasurer's website (<http://www.controller.msstate.edu/tax/ubi/>).

The University, or a school, or a department, may elect to subsidize a service center either by allowing the Service Center to charge billing rates lower than actual cost or by not making adjustments to future billing rates at year end for deficit. However, these deficits must be addressed and funded by the Department Head, Dean, or appropriate Vice President. Since subsidies can result in a loss of funds to the University, they should be provided only when there is sound programmatic rationale and with the approval of the Department Head, Dean, or appropriate Vice President. Subsidies should be identified as a separate item in the billing rate schedules provided to the Controller's Office.

#### **D. Cost and Revenue Segregation and Allocation**

Costs and revenues should be segregated into cost centers for each service that is provided. Depending on the type of service center, there may be as many as three categories of cost that need to be allocated: (1) costs that are directly related to providing the product or service (i.e. staff salaries providing multiple services) (2) internal support costs (i.e. equipment maintenance costs) (3) institutional F&A costs (i.e. O&M, Building Use). In each instance, the costs should be allocated to the services on an equitable basis that reflects the relative benefit each service receives from the cost. The Cost Accounting Department is responsible for calculating the institutional F&A rate. And can provide the rate to the service center to use in developing external rates charged to non-sponsored grants and contracts.

#### **E. Equipment**

The cost of capital equipment (>\$5,000) cannot be fully recovered in the year purchased. These Equipment Costs can be recovered over time via depreciation. This can be accomplished in one of two (2) ways, but not both:

1. Depreciation Expense is included in the Service Center Rate calculation. **OR**
2. Depreciation Expense is included in the F&A Cost Rate Proposal

Footnote: Only Equipment purchased with MSU Funds can be recovered. Equipment purchased with Federal Funds cannot be included in either of the two above mentioned ways.

#### **F. Service Center Inventory**

If a service center sells products and has a significant amount of stock on hand, inventory records must be maintained. A physical inventory should be taken annually and reconciled to the inventory account. Inventory valuations may be based on any generally recognized inventory valuation method (i.e. FIFO, LIFO, average cost, etc.)

#### **G. Record Retention**

Service Centers must keep records of rate calculations, billings, collections, units of service provided, costs and revenues, surpluses and deficits (including all worksheets and detailed backup) for a period of five (5) years from the end of the fiscal year in which information was used.

#### **H. Technical Assistance**

The Cost Accounting Department within the Controller and Treasurer's office is available to provide assistance as necessary to facilitate development of a Service Center.