

**Service (Recharge) Center Guidelines**

Service (recharge) centers are operating units established for the primary purpose of providing goods or services to the Colleges of CUNY. These centers recover their operating costs by billing or recharging user fees based on predetermined rates.

Since service center activities can result in charges, directly or indirectly, to federal grants and contracts, CUNY must comply with Office of Management and Budget (OMB) Circular A-21. Federal cost accounting standards require that all service units at CUNY operate using consistent business practices in the treatment of revenues, costs, pricing and reporting.

**Summary – Implementing Cost Accounting Standards for Service Centers**

* Annual cost studiesare required as a basis for establishing user rates for service centers.
* All costs included in a service center’s user rate should:
	+ be related to the function of the center;
	+ be allowable under OMB Circular A-21; and
	+ not be reimbursable through the College’s F&A Rate.
* All costs should be consistently classified as either direct or indirect costs across all college departments
* Copies of all support documentation including detail expenditures, calculation of user rate and billings records should be kept by the service centerfor a minimum of 7 yearsin the event of an audit.
* Fiscal year-end surpluses from a service center’s operation must be carried forward to the next year’s user rate. Deficits from service centers must either be carried forward to the next year’s user rateor subsidized by other non-grant funds. Service centers will by definition always breakeven.
* At least annually, the service centers management must review the center’s user rates to assure a significant surplus or deficit will not exist at year-end. If a significant surplus or deficit is projected, the user rates should be adjusted to reduce the projected variance.
* All users must be charged equitably according to measures of actual usage with no internal user subsidizing another user. Service centers are established for CUNY use only. However, at times there may be incidental usage by external users.

**Establishing a New Service Center**

Before establishing a service center, a department should demonstrate that there is both a compelling need for the center and a clear benefit to be derived from providing goods and services within the College rather than through external commercial markets.

Requests for new accounts at the RF used for the operation of a service center *over $100,000 in* *total annual gross operating expenses* will not be approved unless the Service (Recharge) Center form has be signed-off by the following:

* Dean or Department Chair - The establishment of any service center(including the continuation of all existing ones) must be approved by the related Dean or Department Chair of the College.
* Fiscal Officer - Approval by the V.P. for Administration or Business Officer ensures that the methodology for development of applicable user rates is in accordance with generally accepted accounting principles.

Although service centers with $100,000 or less in expenses do not need advance approval and are exempt from the annual rate documentation requirements, they nevertheless must comply with these policies.

**Procedures**

On or before May 1 of each year, a service center with over $100,000 of total annual gross expenses is required to submit a Service (Recharge) Center Rate Calculation template to the RF’s Finance department. Even if the service center is not changing its full rate, forms supporting user rate must be submitted for the next fiscal year.

For new service centers, a rate proposal must be submitted at least two months before plans to begin operations commence.

**Rate documentation** for a *new* service center includes the following information:

* Budgeted expenses listed separately by major category (e.g. salaries, fringe benefits, supplies, equipment, service agreement). Expenses are then increased or decreased by any subsidy and/or prior year surplus or deficit. Expenses must also be segregated by, or allocated to, major product lines in order to determine whether breakeven is achieved for each product line.
* Budgeted charges (revenues) based on the proposed rate(s) and the volume of activity for each type of product or service. This includes work-papers documenting the assumptions and method for determining the level of activity used to compute the rate(s).
* The position title and percentage effort of all personnel whose salaries and benefits are included in the rate(s). For confidentiality, only the aggregate of these salaries and benefits are included in the rate documentation. However, internal work papers documenting how the aggregate has been derived must be maintained by the service centers.
* For all equipment owned or used by the service center:
* equipment type - date equipment is placed in service
* acquisition cost - annual and accumulated depreciation
* acquisition date - useful life
* date of disposal or removal
* disposal costs
* salvage value

**CALCULATION OF SERVICE CENTER RATES**

The Research Foundation has provided templates that may be used for both the surplus/deficit analysis and the user rate calculation. Instructions on using the templates are also provided on the website. The guidelines below provide an overview of how to develop the rate calculation and how to determine the price that can ultimately be charged to the users.

**Overview**

* Charges to users of products/services provided by service units must be based on a schedule of established rates (i.e. a published and distributed “price list”).
* A given rate must be based on actual/estimated costs (versus an amount derived from the market or a “historical” rate that cannot be documented) and charged based on actual usage.
* Rates cannot discriminate between internal users (i.e. one internal user cannot subsidize the cost of providing the same product/service to another internal user).
* A unit may “sell” its products/services to external users (individuals and/or organizations outside of the University), but such sales should be *incidental.*  In this case, internal sponsored rates, plus the College’s F&A rate should be charged to external users.
* Over time, a unit which charges users should **break even, or recover no more than the total cost** of providing the good(s)/service(s). A unit may lose money on its operations, but it may **not** earn a profit. Any calculated surplus in excess of 60 days normal operating expenses must be deducted from future rates. Any calculated deficit should be added to future rates. Any carry forward amount will be reflected in a future year’s rate (i.e. a surplus generated in fiscal 2012 will be reflected in fiscal 2013 pricing).

**Step by Step Process for Rate Calculation**

***Step 1: Identify Core Products/Services***

*A separate rate must be calculated for each distinct product/service offered to users. “Bundling” of certain products/services may be possible; however, the level of aggregation should be analyzed by the Business Office and RF.*

* Develop a comprehensive listing of all products and services including a brief descriptions of the products/services identified.
* Ensure that all new products/services to be offered are included on this list.
* Exclude products/services that will no longer be offered.

***Step 2: Identify Rate Components***

There are 3 types of rate components which must be estimated by the service center when developing a rate for goods or services.

1. **Direct Costs –** costs readily identifiable and related directly to the good or service provided. Examples include:
	1. *Salaries, wages and fringe benefits* of individuals associated with providing the good or service
		* Determine who performs the key direct activities required to produce each product/service
		* If an individual spends time on activities related to more than 1 product/service, estimate the percentage of time spent on each product/service. An individual’s time is allocated to a product/service must = 100% of the time of that person dedicated to the facility to produce that product/service.
		* If an individual spends time on activities outside of the unit, estimate the percentage of time spent in the unit (and then between products/services, if necessary). The time estimates should be consistent with the effort reporting documentation maintained by the College.
		* For each individual, multiply time spent on each product/service by their projected salary (net of salary recovered through sponsored sources) & fringes.
	2. *Supplies and materials (Non-Labor)*
		* Determine the non-labor (e.g. materials and supplies) costs necessary to perform the key direct activities
		* Based on projected (or historical) costs, estimate the non-labor costs for each product/service
		* For items that are kept in inventory, the estimated cost should reflect the unit cost of product/service sold and not the cost of purchasing the total inventory. The inventory valuation method (FIFO, LIFO, average cost, etc.) should be consistent between products/services.
		* If certain materials/supplies are used in the provision of more than one product/service, determine the most equitable method for allocating the estimated cost between products/services based on a beneficial relationship. To the extent possible, use transaction-level detail to specifically and directly identify costs to a product/service. Document the basis for any allocation.
	3. *Equipment repair and maintenance* – follow rules for supplies and materials
	4. *Outside services*– follow rules for supplies and materials
	5. *Capital equipment depreciation -* The definition of capital equipment must be consistent with CUNY’s definition: items of equipment with an acquisition cost of $5,000 or more and a useful life of more than one year. The capital equipment cost to be included in any rate is the depreciation expense and any external interest cost associated with debt financing for that equipment. Current year purchase amounts may not be included. Similarly, principal payments on any debt and any internal interest costs may not be included. Costs associated with any federally-funded equipment may not be included.
		* identify the direct capital equipment costs of providing each product/service
		* Work with your property manager to obtain a listing of all capital equipment identified to the unit in the University’s CUNY First system.
		* On an item by item basis, identify the equipment to a product/service.
		* Identify any missing items of capital equipment and work with property management to locate them in the CUNY First system. The property manager must notify the RF of any capital equipment items moved to Service Centers
		* Calculate the annual depreciation expense for each item, based on its estimated useful life and the straight-line method (dividing the depreciable cost [less any federal contribution] by the number of years of useful life). Work with the Business Office to identify any discrepancies between the useful life estimated for this calculation and the life assumed in the CUNY’s Office of the Controller’s calculation for financial statement purposes [for any given item, the depreciation expense should be consistent]
		* A separate capital reserve line should be established which captures the revenues generated by the depreciation expense portion of each rate and from which equipment purchases are made.
		* Work with CUNY’s Office of the Controller to obtain the annual interest expense associated with any debt financing for capital equipment with an acquisition cost of $10,000 or more. Include these amounts with the depreciation expense of the related equipment items

Note: Direct costs do not include unallowable items under OMB A-21 such as: entertainment expenses, bad debt, public relations, alcoholic beverages, and goods and services for personal use. Where applicable, any unallowable costs must also be identified and segregated for the calculation of indirect cost rates (see next bullet). Appendix A contains a list of Unallowable Costs outlined in A-21.

1. **Indirect Costs** – for service centers greater than $1,000,000 the College must assess an F&A fee in the calculation of a user rate.

*Per OMB A-21, indirect costs are those that are incurred for common or joint objectives and cannot be identified readily and specifically to a product or service.*

The F&A fee is determined by taking the calculated F&A rate times the aforesaid allowable direct costs. The F&A fee may not be waived. All indirect costs used in creating the service center’s F&A rate must be communicated to the RF so that they will be removed from the College’s calculated F&A rate. To calculate the F&A rate:

* + - Identify the unit-specific indirect (overhead) costs of providing each product/service
		- Identify the key indirect activities required to produce each product/service
		- Determine who performs the indirect activities and any non-labor costs necessary to perform the indirect activities
		- For each item of labor and non-labor cost, determine the most equitable method for allocating the estimated cost between products/services based on a beneficial relationship. Document the basis for any allocation. In many cases, the non-labor costs may simply “follow” the associated labor cost. Possible bases include:
			* + Effort
				+ Usage
				+ Costs
				+ Revenues
				+ Space
				+ Allocate the unit-specific indirect costs, using projected (or historical) costs, to each product/service based on the determined allocation statistic. *Work with the RF to determine the amounts of indirect costs to be included in the rates.*

**All direct and indirect costs used in the calculation of User Rates should be identified to a CUNY First department/account code.**

1. **Usage Base** - Estimate of the number of products/services to be provided during the year. Usage will be the basis used to determine the rate per unit and the amount charged to users. The use basis must be relevant to the type of product/service being provided. Examples of use basis include man-hours, number of tests performed, items sold, machine hours, etc.

***Step 3: Determining User Rates***

Service center user rates are determined as follows:

 ***Total Direct & Indirect Costs***

 ***Usage Base***

The result of this calculation is the rate to charge each product/service unit.

Rates many 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 the 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.

***Step 4: Applying User Rates***

Once rates are approved, the service centeris required to notify all users through published User Ratelists made available to *all* potential users. The center must maintain records to support their billings to all users.

This documentation should consist of:

• the quantity of product ordered

• the quantity of products provided

• the total charge to the users by product type

• the name of the user/account number charged

Service centersshould charge users at least monthly. Records must be retained for evidence of the application of uniform, consistent rate equity. The service centeris responsible for the collection of all of its receivables. Individual handling receivables may not also be responsible for cash receipts. Any receivables not collected are considered to be bad debt and are an *unallowable cost* to the *center* and should be absorbed by the Department’s or School’s recovery account as an unallowable expense.

***Step 5: Verify the Accuracy of and Document the Rate Calculations***

Verify the accuracy of the rate calculations:

* If historical (i.e., previous fiscal year) costs were used as the basis for the calculations, reconcile the total prior year College costs from CUNY First to expenditures recorded in the service center.
* If projected costs were used, reconcile the total costs to the budgets recorded in CUNY first. At a minimum, all costs that were charged/budgeted to the unit’s area should be included in the calculations, with the exception of any unallowable costs (which should be represented as reconciling items).
* Ensure that all cost inputs and formulas are correct.
* Document the Rate Calculations
* Ensure that all assumptions are documented.
* Describe the allocation base used.

**PERFORMANCE MONITORING & FISCAL YEAR END ACCOUNTING**

At a minimum a review of the rate calculation for a service center must be completed annually (May of fiscal year) and submitted to the RF’s Compliance Manager to ensure any resulting surplus or deficit is carried-forward into the next year’s rate calculation. The analysis must include the variance between revenue and actual costs for the period.

Periodic (e.g., monthly) variance analysis is encouraged to minimize large variances at fiscal year-end. Rates may be adjusted mid-year based on periodic analysis.

To facilitate the variance calculation, revenues and costs should be identified

(accumulated in the RF account/CUNY First) by product/service. Each unit must have its own dedicated account number into which all revenues and costs are recorded.

Year-end transactions that transfer funds to remove deficits must be flagged to ensure exclusion from the F&A rate calculation. The RF must be notified of any such transfers.

* Unrelated Business Income Tax (UBIT) - Any questions regarding Unrelated Business Income Tax (UBIT), sales tax, or other transactions and relationships with outside users should be discussed and resolved prior to final approval with the Business Office. The Research Foundation is available to assist in this process.

**RECORDS RETENTION**

Service center management is responsible for maintaining complete documentation of financial records, rate calculations, and supporting documents pertinent to service and recharge center activities.

All service center activities must be documented and the records maintained to support expenditures, revenues, billings, and cost transfers. Each service center must retain the following:

1. Work papers documenting how the rate(s) was calculated
2. Records supporting utilization (level of activity)
3. Documents related to expenses incurred, including salary data

 or all current employees and depreciation schedules for fixed assets

1. Records supporting the amount and basis of user billing, including invoices
2. Records documenting and measuring the use of the services or products
3. Records documenting and supporting the basis of subsidies
4. Documentation must be retained for 7 years