

System-wide Policy:	
FI0145 - Service and Recharge Centers	
Version: 5	Effective Date: 10/01/2017

FI0145 – Service and Recharge Centers

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Objective:

To provide policies and guidelines for the fiscal operations of university service centers and recharge centers that will assure compliance with sound accounting principles and government regulations. This policy addresses the establishment of service centers and recharge centers, billing rates, costing issues including equipment, limitations on sales, and compliance responsibilities.

Policy:

Rates, fees and prices for all services provided by university departments must be approved by the campus or institute business office prior to engaging in business practices with the intent to charge for goods and/or services.

Definitions

1. **Auxiliary Enterprises**. Auxiliary enterprises are not covered by this policy. Auxiliary enterprises are self-supporting entities that exist to furnish goods and services primarily to students, faculty or staff for personal use, and that charge a fee directly related to, although not necessarily equal to, the cost of goods or services. The general public may also be served incidentally by an auxiliary enterprise. These units may generate a profit from the sale of goods and

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services. Examples include housing, food services, bookstores, and parking facilities.

2. **Service Centers**. Service centers sell goods or services primarily to university departments, on a regular, ongoing basis, for a fee that is based upon the actual cost of the goods or services. Annual operating expenditures exceed \$500,000 per year. Service centers are expected to be self-supporting by generating income from multiple funding sources, including departments outside the parent department. They operate on a break-even basis. The goal is exactly to recover the costs of the goods or services provided. Examples include motor pool, telephone services, and graphic arts.
3. **Recharge Centers**. Recharge centers are similar to service centers in that they sell goods or services primarily to university departments, on a regular, ongoing basis, for a fee that is based upon the actual cost of the goods or services. Recharge centers may also sell to external customers on an incidental basis. Annual operating expenditures are less than \$500,000 per year. Recharge centers may not be expected to be self-supporting and may be subsidized by their parent department. Examples include computing services, copiers, specialized scientific equipment usage and testing services, and departmental shops and storerooms.

Certain recharge centers may directly transfer the actual cost of the goods or services to the user, such as copy services and postage. There is no markup involved to recover any cost other than the cost of the good or service initially provided.

4. **Specialized Service Facilities**. Specialized service facilities (SSF) are recharge centers that typically require the use of highly complex or specialized facilities or equipment, such as computers, wind tunnels and reactors. A unit that charges a fee for providing one or more specialized services, has an annual operating budget exceeding \$1 million and generates significant charges to sponsored projects is a SSF. The University does not currently operate any centers that meet the criteria of a SSF.

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5. **Break-even.** Break-even occurs when revenues equal expenses. The goal is to break-even annually. However, it is permissible that rates break-even over time.
6. **Billing rate.** A billing rate is an amount established to charge for specific goods or services. The billing rate may vary by types of customers and/or goods/services. However, rates charged to Federal funds, either directly or indirectly, may not subsidize non-Federal users or rates in any way. The rate shall be determined by dividing the costs of a particular good/service by the billable unit (e.g., machine hours, labor hours, quantity, etc.).
7. **Subsidy.** A subsidy is non-federal funding from any department or unit outside of the service/recharge center account to offset general or specifically identified expenses or to reduce the rate charged for a product or service according to certain guidelines. Activities unable to operate at break-even must identify sources of subsidized funding.
8. Federal costing requirements place numerous limitations on service center and recharge center activities. These limitations are enumerated in this policy.

Costing

9. The full direct cost of the service center or recharge center activity should be included in the computation of charge rates. These preliminary full-cost charge rates for recharge centers may be adjusted downward if subsidies have been approved. The direct costs to provide a good or service may include salaries and wages, fringe benefits, supplies, equipment lease or rental, maintenance contracts, etc.
10. Service centers and recharge centers may include in their expense budget a depreciation factor for all capital equipment items (used exclusively by the operation) to be recovered. A renewal and replacement WBS element must be established in the IRIS accounting system for this to occur. Renewal and replacement funds may be used to purchase new capital equipment or to pay for maintenance costs that extend the useful life of the equipment. The definitions of equipment and the determination of useful lives for capital assets must be made in accordance with university policy. Equipment purchased with federal funds

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cannot be included in the depreciation calculation or included in service center or recharge center billing rates.

11. Service centers may also include in their expense budget a depreciation factor for the building used by the service center. This must be approved by the campus or institute business office and appropriate cost objects established in IRIS by the Controller's Office. Buildings purchased with federal funds cannot be included in the depreciation calculation or included in service center billing rates.
12. Operations which hold inventory must maintain perpetual inventory records in order to determine the merchandise cost to be included in the charge rate. A physical inventory of merchandise must be conducted at least once per year in accordance with university fiscal policy. Adjustments to the accounting records which may be required to restate the book value of inventory to match the physical inventory are allowable costs for service centers and recharge centers.
13. Items that are specifically restricted by the Federal Government under the Office of Management and Budget (OMB) Uniform Guidance may not be charged. For a complete list of unallowable costs, see [FI0206 - Sponsored Projects - Distinguishing Direct vs Indirect Costs](#).

Billing Rates

14. **All internal users (university cost centers or WBS elements, including non-federal and federal sponsored projects) must be charged the same rate for the same level of products or services.** Rates charged to external users may be higher (but not lower) than those charged to internal users. The use of special rates, such as for high volume work, are allowed, but they must be equally available to all users who meet the criteria. (The federal government does not object to charging external users a higher rate than that charged to internal users. However, rates charged to internal users must be justified as covering costs and not as profit).
15. Generally, service center and recharge center goods or services are for internal university use only and are normally not sold to individuals or organizations outside the university. However, with the approval of the campus or institute chief

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business office, sales to external entities may be made at cost plus an appropriate markup (recommended as the equivalent of the current university research Facilities and Administration Cost rate) or market rates. External sales should be recorded as income and not as recovery of expenses. External sales may have sales tax and unrelated business income tax issues. The department head should notify the campus or institute chief business officer who should then notify the Controller's Office of potential tax issues.

16. Service centers and recharge centers should target break-even through budgeting and rate setting, but normally billings and expenditures do not exactly match. If the service center or recharge center has external sales with a markup, then the markup should be excluded from the break-even computation. Rates shall be reviewed for adjustments at least biennially, and shall take into consideration any surplus or deficit of the previous period(s). Rates should be reviewed internally within the center at least annually and more frequently if significant changes occur. The surplus or deficit for a given period should not exceed 10% of operating expenses. Under or over recovery of costs should be calculated based on actual receipts and expenditures, without regard to budgeted funds. To the extent the surplus or deficit is within the break-even range of +/- 10%, that surplus or deficit must be applied to the following period's rate calculation.
17. A service center or recharge center may need to establish separate rates for its various operations. Such separate rates may provide more accurate charges to all users than one blended rate. The billing rate of each operation must be documented. A service center or recharge center providing more than one service may sometimes make a surplus on some products or services and a loss on others. Combining the results of various services is acceptable as long as the mix of users of each service is not different.
18. As noted in 14. above, rates charged to internal users must be non-discriminatory. However, departments may choose to charge internal users at less than the approved billing rate if the internal user has subsidized the service center or recharge center. This must be well-documented in the center's accounting records in order to prove that it is legitimate and in no way uses

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federal funds to subsidize non-federal users either directly or indirectly.

Subsidized rates must be formally approved by the campus or institute chief business office. Under no circumstances may the cost attributable to subsidized users be recovered by increasing the charge rates to other users.

19. Billing transfer vouchers should be prepared at least monthly and on a timely basis. Appropriate documentation must be maintained for all goods or services provided.

Requesting the Establishment of a Service Center or Recharge Center

20. A written request for establishing a service center or recharge center must be sent to the campus or institute chief business officer. The request must include the following information:

- a. A justification for establishing the service center or recharge center including an explanation as to why other internal or external providers of these services are not being used in lieu of its being established.
- b. A description of the goods or service to be offered.
- c. The name and number of the affiliated department.
- d. A description of the anticipated users of the goods or services, both internal and external. Specifically state if sponsored projects are expected to be charged.
- e. An identification of the allocable space in which the service will be provided, including all buildings and rooms.
- f. The name, title, phone number and signature of the service center or recharge center manager.
- g. The signature of the department head and dean indicating approval of the service center or recharge center.
- h. The proposed rate or schedule of rates to be charged, including a detailed budget of operating costs to be included in the billing rate(s), a description of the institute of activity, estimated activity for the budget period, the rate calculation using budgeted amounts, and the projected level of activity for the first period of operation through the end of the fiscal year.

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- i. A list of the equipment with university tag numbers owned by the service center or recharge center whether or not equipment depreciation will be included in the rate.
- j. A budget form detailing the budget for each new account including all positions, benefits, travel, telephone, printing, current expenses, and revenues. This is mandatory if the new center is created at a time other than the budget preparation process.

Establishing the Service Center or Recharge Center

21. The campus or institute chief business officer will notify the campus or institute research office and the Controller's Office of the approval to establish a service center or recharge center. The Controller's Office will open the appropriate types of cost centers/WBS elements.

Compliance Responsibilities

22. The campus or institute business officer is responsible for:
- a. Overseeing the formation of service centers and recharge centers and ensuring that appropriate cost centers/WBS elements are established in IRIS
 - b. Ensuring that the campus or institute research office is notified of new service centers and recharge centers
 - c. Performing a review and approval of billing rates, at least biennially
 - d. Reviewing the performance of selected service centers and recharge centers at least biennially, with respect to break-even analysis
 - e. Periodic review of financial status of service centers and recharge centers with respect to budget vs. actual expenditures
 - f. Approving service center and recharge center requests for interim rate changes
 - g. Approving subsidization of rates by internal users
 - h. Closing out the annual activity and reviewing the deficit or surplus balances.

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23. Ultimate responsibility for review of desirability and feasibility of service centers and recharge centers rests with the dean or director or designee.

Responsibilities include:

- a. Fully review and approve the establishment of each new service center and recharge center before operations commence. Factors such as consistency with the university's mission, availability of similar service, and the ability to identify separate costs should be considered.
- b. Review and approve the rate calculation and supporting documentation for the rate prior to submission to the campus or institute business office.
- c. Review and approve the periodic rate calculation and budget.
- d. Ensure centers will operate in accordance with federal cost principles and university policies.
- e. Respond to all audit findings related to the service center or recharge center.
- f. Monitor financial position with respect to the break-even financial analysis.

24. The department head is responsible for serving as liaison between the service center manager or recharge center manager and the dean, as well as providing oversight for the manager's activities. The department head should notify the campus or institute chief business officer of any potential tax issues relating to outside sales.

25. Day-to-day responsibility for the center is provided by the service center manager or recharge center manager who monitors the operation and takes corrective actions as needed. The manager has an obligation to assure that:

- a. A schedule of rates with supporting calculations is submitted to the campus or institute business office at least biennially.
- b. The financial position with respect to "break-even" is reviewed periodically so the rate may be adjusted if necessary.
- c. The approved rate schedule is applied uniformly to all users.
- d. Billings are timely, regular, and adequately documented. Receivables are controlled and reconciled, and collection efforts are pursued.

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- e. Records of the details contained in the billing rates are maintained for audit as long as the grants or contracts they charge remain subject to audit. Each service center and recharge center activity must be documented and records maintained to support expenditures, billing, and cost transfers including:
 - i. Salary and wage documentation
 - ii. Rate calculation work papers
 - iii. Justification of the selected activity base for rate development
 - iv. Documentation of actual costs of operations
 - v. Approval of the rate from the campus or institute business office
 - vi. Records documenting the computation of subsidized rates and approval by the campus or institute chief business officer
 - vii. Records documenting and measuring the sale of goods or services
 - viii. Maintenance of inventory system

26. The Controller's Office will assist the campus or institute business offices in ensuring the appropriate cost centers/WBS elements are established in IRIS and will assist with tax issues.

PROCEDURES:

To view links to campus policies and procedures, click here:

<https://policy.tennessee.edu/campus-policies-procedures/>

FOR MORE INFORMATION:

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Related Policies: [FI0206 - Sponsored Projects - Distinguishing Direct vs Indirect Costs](#)