

New York University  
School of Medicine

Policy # 3.2

Service Centers

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**I. Policy Summary & Purpose**

This policy provides a framework for the fiscal operations of NYUSOM service centers that will ensure compliance with federal regulations, consistency in accounting and costing practices, and flexibility to meet the needs of different operations.

Service centers must adhere to the requirements established in OMB Circular A-21: Cost Principles for Educational Institutions. These regulations require:

- Charges must be designed to recover no more than the cost of the service over time.
- Billing rates charged to users must be based on actual use of the services.
- A schedule of rates must be established that does not discriminate between federally and non-federally supported users.

NYUSOM exposure from non-compliance with federal regulations may involve reimbursement to the government as well as adverse publicity that could harm future award applications.

**II. Service Center Definitions**

- A. Service Center** - A service center is an operating unit that provides goods or services to NYUSOM departments. Service center operating costs are supported by recharges to

departments receiving the services. Service centers with more than \$50,000 in total annual expenses must maintain a separate service center chartfield combination (formerly referred to as an account number) and will be subject to the annual rate review and approval process outlined in this policy.

- B. Specialized Service Center** - A specialized service center has over \$1,000,000 in annual *direct* operating expenses and involves the use of highly complex or specialized facilities. Specialized service centers are expected to recover its direct operating costs and facility costs (i.e., utilities, operation and maintenance, and building depreciation) unless subsidized by NYUSOM. Subsidies must be approved by the Chief Financial Officer.
- C. Auxiliary Services** - A self-supporting entity that exists principally to furnish goods or services to students, alumni, or faculty and staff acting in a personal capacity, and charges a fee for the use of goods or services. Auxiliary services generally do not support NYUSOM departments. The general public may be served incidentally. Examples include residence halls, food services, bookstores, parking, and shuttle services. Auxiliary Services are not subject to this policy.
- D. Internal Users** - Users whose ultimate source of funds is within NYUSOM or flows through NYUSOM (i.e., NYUSOM federal awards performed on campus or at affiliated hospitals). These include academic, research, administrative, and auxiliary departments that purchase services to support their work at NYUSOM. The HSO (including Mount Sinai - NYU Medical Center, HJD, and NY Downtown) are considered internal users.
- E. External Users** - External users are organizations or individuals whose ultimate source of funds is outside of NYUSOM. External users include students and any members of faculty or staff acting in a personal capacity. Bellevue, Lenox Hill, North Shore and VA are considered external users.

### III. Policy Statement

- A. Rate Components** - All costs directly related to a service center must reside in the service center chartfield combination and should be included in the rate calculation. These costs include:
  - A.1. Direct Personnel** - The salaries and wages of all personnel directly related to the service center. If an individual works on more than one activity, the salary costs should be allocated to the activities based on the percent of effort that is dedicated to each activity.
  - A.2. Administrative Staff** - The salaries and wages of administrative staff in direct support or management of a service center. Administration costs benefiting more than one service center activity should be allocated to the benefiting activities based on the percent of effort that is dedicated to each activity.
  - A.3. Fringe Benefits** - Fringe benefits related to all personnel that are charged to the service center.

- A.4. Materials and Supplies** - The costs of materials and supplies needed to operate a service center. If inventory is accumulated in a particular year, the service center should not include the costs of accumulated inventory in its rates.
- A.5. Other Expenses** - Other operating expenses to be included in service center rates may include non-capital equipment, rental and service contracts, equipment operating leases, and purchased services.
- A.6. Capital Equipment Depreciation** - Capital equipment is defined as an item with a purchase price over \$3,000 and a useful life of over one-year. The purchase cost of a capital item may not be recovered through service center rates however; the depreciation associated with the asset may be recovered in the service center rates.

Each service center that purchases equipment will have an associated plant asset chartfield combination to capture capital equipment purchases. Annually, equipment depreciation expense will be calculated and charged to the service center's operating chartfield combination. Depreciation is calculated using the straight-line method over the useful life of the asset.

**A.6.A Useful Lives.** Service center equipment must be depreciated using the useful lives outlined by the American Hospital Association. In certain circumstances, service centers with "specialized" equipment, or equipment which is unique in the nature or extent of its use, may need to estimate a more accurate useful life. Approval to deviate from standard useful lives must be obtained from Restricted Funds.

**A.6.B Federally-Funded Equipment.** Depreciation of equipment purchased by the federal government must be excluded from the service center rates.

- A.7. Interest on Debt-Funded Equipment** - Federal regulations do not allow for principal payments on debt to be recovered through service center rates. However, service centers may recover the external interest associated with the debt if the following two criteria are satisfied:
- an external financing source was used, and
  - equipment costs are over \$25,000.
- A.8. Operations & Maintenance, Utilities, and Building Depreciation Costs** - Operations & Maintenance ("O&M"), utilities, and building depreciation costs are assigned to all specialized service centers and are expected to be recovered in the rates.
- A.9. Unallowable Costs** - Unallowable costs must be excluded from the internal user rate calculation. Such expenses (e.g., bad debt expense, internal interest, alcohol, etc.) may be recovered only through charges to external users, or funded through NYUSOM budget support. Refer to Section J, OMB Circular A-21 *Cost Principles for Educational Institutions*, for a list of unallowable expenses.

**B. Break-even** - A service center must develop rates so that revenues offset expenses over a reasonable period of time.

**B.1 Surpluses** – A service center's surplus for a given fiscal year should be carried forward and the rates adjusted in the next or succeeding fiscal year.

**B.2. Deficits** - A service center's deficit less than 15% of total annual expenses should be carried forward and the rates adjusted in the next fiscal year. The Department Chair is responsible for funding the portion of the deficit that exceeds 15% of total annual expenses.

**B.3. Long-Term Break-Even Agreement** - In unique situations, when a service center requires an extended period in which to recover its operating costs, a long-term break-even agreement can be negotiated. This usually occurs when the service center requires initial large capital equipment and building costs. Such agreements must be presented to and reviewed by Restricted Funds and approved by the CFO.

**B.4. Transfers** - Service centers that have accumulated surplus funds through billings to internal users may not transfer the surpluses to a chartfield combination unrelated to the service center operation. The balance must be carried forward and used to adjust subsequent billing rates.

**C. Service Center Pricing**

**C.1. Non-discriminatory Rates.** A service center must charge all internal users at the same rate for the same level of services or products purchased. Rates should not differentiate among internal users. (For exceptions, refer to C.2 and C.3 below) The use of special rates, such as for high volume work or less demanding non-scientific applications, are allowed, but they must be equally available to all users who meet the criteria.

**C.2 Center, Core and Program Project Grant Support.** Federal sponsors often provide funding to support "core facilities" from center, core, and program project grants. Core support from federal sponsors may create a situation in which the institution can charge different rates to certain users. Different sponsors have divergent views of who should benefit from the core subsidy. Some encourage the subsidy be applied to all users; others expect that only "members" would receive the benefits.

Where a service center receives core support from a federal sponsor, the rates must be reviewed by Restricted Funds to ensure they are compliant with federal and sponsor guidelines.

**C.3. Subsidized Users.** All users must be billed for services received. If the NYUSOM chooses to provide a service to a particular internal group of users at no charge or at a lower rate than other users, the service center billing rate must be calculated based on total service center expenses and total units of output. The services used by the subsidized user group must be billed out at this rate, but to a different

chartfield combination designated for capturing subsidized use. The service center must ensure that the rate charged to the subsidized user chartfield combination consistent with that charged to others including federal sponsors.

**C.4. External Users** - At a minimum, external users will be charged for the full direct costs of the service center operation. At no time will an external customer be charged less than the federal government and internal users for the same service. Sales tax, when applicable, must be charged to all external users who do not provide their tax-exempt certificates. Revenues associated with external users should be tracked in a separate revenue account 44465.

**C.5. Pricing of Multiple Services.** A service center providing more than one service must develop rates and track the financial performance for each major service. When a service center makes a surplus on some services and a loss on others, the service centers should ensure that there is no cross-subsidization between user groups. Combining the results of various services is not acceptable if the mix of users of each service is different; that is, if higher prices charged to one set of users (i.e., federally sponsored awards) are subsidizing losses charged to a different group of users (i.e., discretionary funds).

**D. Billing, Documentation and Authorization.** Billings must be based upon measured and documented utilization that is properly authorized for the chartfield combination charged.

**D.1. Billing** - Service centers should process billings at least monthly using established service center rates. A service should not be billed for until the service has been rendered; that is, prepayments are not appropriate.

**D.2. Invoice Documentation** - Service center invoices must provide the following information:

- the nature of the services rendered (e.g., photocopying)
- the number of units (e.g., pounds, hours, # of items)
- amount charged per unit

The support for the charges, including documentation of expenses and usage, should be retained by the service center to answer any user inquiries or in case of an audit. Documentation should be retained for at least 3 years from the fiscal year covered by the rates.

The user of these services is responsible for documenting the basis for allocating charges among several projects or activities, when applicable.

**D.3. Rate Schedule Documentation** - The support for how the rates are calculated and rate approval documents should be retained by the service center. Documentation should be retained for at least 3 years from the fiscal year covered by the rates.

**E. Accounting.**

**E.1. Establishing a Service Center Chartfield Combination.** All service centers with over \$50,000 in total annual expenses must maintain a separate chartfield

combination to be established in Fund 17 of the General Ledger. Requests for a new service center chartfield combination must be submitted to Restricted Funds. The request should include a description of the nature of the service center activity, a schedule of rates, and the supporting rate calculations.( see addendum)

- E.2. Service Center Revenue.** Service center internal revenues should be recorded to revenue account 44420 and external revenues to account 44465.

#### IV. Roles & Responsibilities

##### **A. Service Center Director/Manager.**

- A.1** Ensures a separate chartfield combination is established for service center activities with over \$50,000 of total annual expenses. Requests for a new service center chartfield combination should be submitted to Restricted Funds and include the information outlined in Section E.1 “Establishing a Service Center Chartfield Combination” of this policy.
- A.3** Calculates a schedule of rates on a periodic basis to ensure break-even.
- A.4** Obtains Department Chair approval for the schedule of rates that ensures breakeven.
- A.5** Annually submits rate calculations and related documentation to Restricted Funds who reviews and forwards to the Budget Office as part of the annual budget submission.
- A.6** Evaluates the financial position and rates of service centers periodically to assess their position with respect to break-even.
- A.7** Ensures compliance with billing and documentation requirements outlined in this policy.

##### **B. Department Chair.**

- B.1** Oversees the financial position of service centers in the department. This includes approving service center billing rate calculations and determining how to fund deficits exceeding 15% of total annual expenses.
- B.2** Ensures compliance with federal regulations and this policy.

##### **C. Budget Office.**

- C.1** Approves the establishment of new service center chartfield combination.
- C.2** Reviews rate setting and break-even plans as part of annual budget. This will be performed in collaboration with Restricted Funds.

**D. Restricted Funds.**

- D.1** Reviews the rate calculations and breakeven position of service centers (in collaboration with the Budget Office). Restricted Funds will maintain supporting documentation for how service center rates are calculated.
- D.2** Monitors service center compliance.
- D.3** Assigns facility costs to specialized service centers
- D.4** Provides training of service center policies
- D.5** Reviews and approves long-term break even agreements, deficit carryovers, and variances in equipment useful lives.

V. Procedures – N/A

VI. Special Situations/Exceptions – N/A

VII. Other Related Documents – “Questionnaire to Establish New Service Center or Revise Rates”

VIII. Applicable Regulations

Office of Management and Budget (OMB) Circular A-21, Cost Principles for Educational Institutions

Cost Accounting Standards, as it pertains to service centers