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UAP 2440: Internal Service Centers

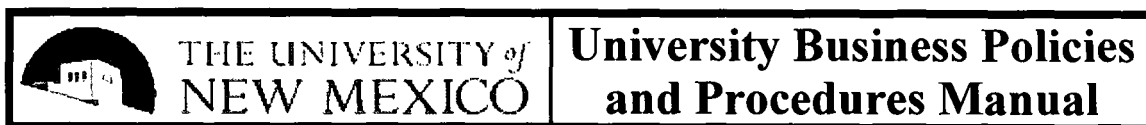
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2440

INTERNAL SERVICE CENTERS

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Subject to Change Without Notice

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Process Owner: Vice President for Finance

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1. General

As an extension of its educational service mission, the University has various internal service centers that enhance the University's instructional and research mission. Although these activities are organized as separate internal service centers, they are an integral part of the University and must comply with all University policies. University internal service centers and other operations that regularly sell goods or services to University departments or activities must also follow cost accounting practices that comply with federal accounting requirements. Federal accounting requirements are discussed in Office of Management and Budget (OMB) Circular A-21, "Cost Principles for Colleges and Universities" and "**Cost Accounting Standards**" **Policy 2400, UBP**. A critical component of the federal accounting requirements is that the rates internal service centers charge must be carefully developed to ensure that they do not include costs that have been charged to a contract or grant either as a direct charge or through facilities and administrative cost pools used to determine the University's facilities and administrative cost rate. For more information refer to "**Recovery of Facilities and Administration Costs**" **Policy 2425, UBP**. For this reason internal service center rates must include a justification showing how the rate was determined and, in certain cases defined herein, be approved by Financial Services prior to use.

This policy describes procedures for the establishment of/and financial administration for internal service centers which ensure consistent operational practices among various units and compliance with federal regulations.

2. Internal Service Centers

An internal service center is an organizational unit providing a specific type of good or service (including facility usage) primarily to University departments rather than to people or entities outside the University. If goods or services are provided externally the rate charged may exceed but cannot be less than the internal rate. The internal service center is supported by interdepartmental charges to the user department's operating account. In order to qualify as an internal service center, the unit:

- is established primarily to provide goods or services to University departments, sponsored programs, and activities (including the department, program, or activity overseeing the center);
- operates as a separate, stand-alone entity having control of revenues and expenses;
- is an ongoing activity; and
- requests an internal service center fund and index, recording revenues from University customers in this index using the appropriate account code in the 06xx range; and
- charges all internal users equally for goods or services at a rate calculated to recover their costs over a fixed period of time.

Approval, accounting, and reporting requirements for internal service centers are dependent on the classification assigned to the service center. There are two (2) classifications, which are based on estimated annual operating expenses:

- major internal service centers have at least \$100,000 in estimated annual operating expenses, or
- minor internal service centers have less than \$100,000 in estimated annual operating expenses.

This policy applies specifically to internal service centers and does not apply to:

2.1. Auxiliary Enterprises

These entities exist to provide services to students, faculty, staff or the general public and charge a fee related to but not necessarily equal to the cost of services. They are managed as essentially self-supporting entities (housing, dining, golf courses, etc.) Auxiliaries may also at times internally bill other University departments for goods or services (Bookstore, etc.)

2.2. Units Reallocating Direct Costs

Units that only reallocate or transfer identifiable direct costs at cost are not internal service centers. Accounting guidelines can be obtained by contacting the appropriate Financial Services accounting office.

2.3. Departmental Copy Centers

Departments that operate copy centers are not internal service centers unless they otherwise qualify as defined in **Section 2**. herein. Accounting guidelines can be obtained by contacting the appropriate Financial Services accounting office.

2.4. Units Making Infrequent and Immaterial Interdepartmental Sales

Departments that make infrequent and immaterial interdepartmental sales are not internal service centers. Infrequent sales are sales that do not occur on a regular, on-going basis. Immaterial sales must total less than \$20,000 in a fiscal year. To qualify for this exclusion departments must be able to provide documentation regarding how the amount billed was determined. Accounting guidelines can be obtained by contacting the appropriate Financial Services accounting office.

2.5. Activities Generating Program Income

Program income is revenue earned by activities for which part or all of the cost is borne by a grant or contract or is counted as a direct cost toward meeting a cost-share or matching requirement. Program income is not derived from service center sales. Principal investigators are responsible for identification, use, and disposition of program income.

3. Responsibilities

School and/or department administrative offices are responsible for the day-to-day operations of internal service centers, which must comply with all University policies including accounting, graphic standards, payroll, and personnel policies. Specific responsibilities are detailed below.

3.1. Internal Service Center Manager

The internal service center manager must:

- prepare and submit an annual budget with rate justifications to the cognizant director, dean, or vice president;
- enter the budget into Banner at the prescribed time;
- bill in a timely manner and ensure that all billings are adequately documented--generally within thirty (30) days of the service unless otherwise defined in a specific agreement;
- use the approved rate schedule for all internal service center billings;
- operate the internal service center at break-even and in accordance with the center's budget; and
- keep appropriate records for review and audit by internal and external auditors.

3.2. Directors, Deans, and Vice Presidents

Directors, deans, and vice presidents are responsible for the administrative and financial operation of internal service centers in their school, college, division, or unit. This includes specific responsibility to:

- approve all information necessary to establish an internal service center;
- approve budget and annual rate proposals; and
- fund audit disallowances and annual losses exceeding ten percent (10%).

3.3. Financial Services

Financial Services accounting offices are responsible for:

- approving the establishment of all new internal service center accounts (major and minor);
- reviewing and approving internal service center accounting transactions;
- reviewing and approving billing rates--minor internal service centers must develop rates in accordance with this policy, but will not submit the rates to Financial Services for approval. However, these rates will be subject to review by Financial Services at any time;
- monitoring internal service center financial operations; and
- providing billing and accounting assistance for internal service centers.

4. Costs

Because internal service center costs are used to determine the rates charged, internal service center indexes should contain only federally-defined allowable and allocable costs. These costs may include, but are not limited to, direct costs such as salaries, benefits, supplies, maintenance, and travel, and if appropriate, indirect costs. Only costs directly related to the operation of the internal service center can be used to calculate rates.

An internal service center may incur costs that are allowable by University policy (**"Allowable and Unallowable Expenditures" Policy 4000, UBP**) but may be deemed unallowable by federal regulations. **"Accounting for Federally-Defined Allowable and Unallowable Costs" Policy 2410, UBP** defines allowable and unallowable costs and provides accounting procedures for any federally-defined

unallowable costs.

5. Billing Rates

Billing rates have a large impact on federally-funded contracts and grants and are subject to heightened scrutiny by federal auditors. Therefore, billing rates must be:

- substantiated with allowable costs and usage calculation;
- reviewed and, if necessary, adjusted at least annually;
- stated in measurable units, i.e. hours of service, number of items bought or weight; and
- applied to all internal users on the same basis, however a higher rate or rates may be charged for sales to external entities (non UNM accounts).

Billing rates are calculated as follows: budgeted expenses +/- prior year deficit/surplus (within +/- 10%) divided by budgeted usage bases. Billing rates cannot include the full cost of capital equipment, building, and improvements but should include allowable depreciation charges on such items. However, equipment purchased using federal funds cannot be included in depreciation calculations. If equipment is purchased partially with federal funds, the purchase amount not paid for with federal funds may be included in depreciation calculations. There are times when indirect costs, such as facility costs, cannot be separately identified to the internal service center. When this occurs, only direct costs will be recovered through established rates.

Departments with major internal service centers are responsible for submitting rates for the upcoming fiscal year to the appropriate Financial Services accounting office by March 15. Departments with minor internal service centers are responsible for developing rates annually in accordance with this policy. Although minor internal service centers are not required to submit the rates to Financial Services for review, these rates, as well as internal service center activity, are subject to review at any time. Charges to sponsored projects by internal service centers that have not developed a rate and received approval by Financial Services, when applicable, are considered unallowable charges to sponsored projects.

Any surplus, exclusive of operating or depreciation reserves as discussed in **Section 6**. herein, are carried forward and the rates adjusted accordingly in the following period. Any deficit within the ten percent (10%) breakeven range is carried forward to the following period and the rates increased accordingly to cover the deficit. Deficits in excess of ten percent (10%) are funded by other departmental unrestricted funds.

6. Accounting and Budgeting

As self-funded business operations, internal service centers are budgeted and accounted for separately from other departmental activities. The costs of operating an internal service center are not commingled with the costs of other operations. Annual internal service center budgets must reflect expected revenue, funding sources, and expenses.

Revenue recognized by internal service centers must be recorded in the appropriate account code. Contact the appropriate Financial Services accounting office for guidance. As a prudent accounting practice, internal service centers will be allowed to accumulate an operating reserve of no more than sixty (60) days of estimated expenses (16.67% of annual operating budget) upon appropriate justification and documentation. Also, the costs recovered per the portion of the billing rate attributed to depreciation expense can be accumulated as a "capital reserve." Depreciation recovered will be transferred to a plant fund. Operating reserves and capital reserves are excluded when determining the net surplus accumulated or deficit incurred for the year.

7. Graphic Standards and Marketing

Service Centers are expected to follow the University's graphic standards described in "**University External Graphic Identification Standards**" **Policy 1010, UBP**. The centers must use the University logo on printed and other materials and are prohibited from using separately designed logos.

8. Exceptions

If an internal service center requires rate calculation, accounting, and/or budgeting methods that do not fit the parameters discussed above, the service center director must submit a written description of the method to be used and include a justification for operating outside the standard parameters. All exceptions require approval in writing by the Vice President for Finance.

Comments may be sent to UBPPM@UNM.edu
<http://www.unm.edu/~ubppm>

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