Overview & Definitions

Service centers (referred to in this policy as “service units”) are University groups that provide goods or services to other University departments for a fee. Service units must be able to demonstrate compliance with federal requirements, cannot use fee structures that discriminate between federal and non-federal sponsored activities, and can recover only their aggregate costs. This policy facilitates oversight and review of all UCIO service units.

HUIT businesses that are defined as a service center must adhere to all aspects of the University Service Center policy. Applications of the individual policies within HUIT are indicated in “green” throughout each section.

As a recipient of federal funding, the University must comply with the U. S. Office of Management and Budget Circular A-21, Principles For Determining Costs Applicable To Grants, Contracts, And Other Agreements With Educational Institutions (revised 05/10/04), in its entirety. In addition to other matters, this circular requires that units charge according to actual usage at non-discriminatory rates calculated to recover actual costs (Section J. 47). Non-compliance could harm the University’s reputation and reflect negatively on future award proposals. Government-imposed fines or other negative outcomes could also occur.
Basic Considerations
There are several factors to consider before creating a service unit. There should be an expectation that the service unit will engage in ongoing activity, that not all specific users or usage are known at the time the rates for services performed by the unit are set, and that recovery of costs will be sufficiently complex that the use of a simple cost-allocation method is impractical.

Further, if a service unit and an external user collaborate on the intellectual direction, interpretation or outcome of the requested service, the activity is most effectively managed through a sponsored research agreement negotiated through the Office for Sponsored Programs (OSP) or the Office of Technology Development (OTD), rather than through a service unit transaction. OSP and OTD agreements include research-related terms and ensure that the intellectual contribution of University faculty and staff is properly recognized and protected. Tubs with service units that provide goods or services to the public are required to comply with the Provost’s regarding commercial activities. In addition, service units that engage in ongoing commercial activities which are not substantially related to the tax-exempt mission of the University may be putting the University at risk for Unrelated Business Taxes as defined by the Internal Revenue Code. Please see the policy at the Office of the Controller’s web site. The Service Unit Review Committee will work with tub financial officers to determine whether a proposed service unit should be referred to the Provost or to the Office of the Controller for further consideration and approval.

Types of Service Units
Service units provide services or products principally to other departments within the University and recover their costs through charges to users. At Harvard, the review and rate-setting processes are determined by the size of each service unit. All service units are expected to recover the aggregate cost of their operations through charges to users and are expected to break even over time. Major categories of service units include Departmental Service Units, Central Units, and Auxiliary Service Units.

Departmental Service Units
Service Units within tubs or schools generally support the research or instruction of one or several academic groups. Types of Departmental Service Units include Recharge Center, Service Center, and Specialized Service Center.

Recharge Center
A recharge center is a service unit with annual operating expenses less than $500,000 and less than $100,000 in annual internal billing. Recharge centers develop rates that recover their aggregate direct costs and are expected to break even annually. Service activities with operating expenses that do not exceed $50,000 are exempt from this policy.

Service Center
A service center is an operating unit that is larger than a recharge center, with more than $500,000 in annual operating expenses or more than $100,000 in internal charges. Service centers recover their direct costs plus, with approval, depreciation expenses related to their equipment. If a unit qualifies as a service center only because it has more than $100,000 in internal charges, the unit can operate as a Recharge Center if it is able to demonstrate the charges to federal grants do not exceed $75,000.

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 rates must be set to recover all costs, including utilities, operation and maintenance, and building depreciation.
Central Units
Service units providing services to the entire University community are called Central Service Units. It is Harvard’s policy that these large centers must recover all costs, including the costs of utilities, operations and maintenance, and building depreciation. Examples of central units include University Information Systems and University Operations Services.

Auxiliary Service Units
An auxiliary service unit is 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 that charges a fee for the use of goods or services. Auxiliary services generally do not support Harvard departments. The general public may be served incidentally. Examples include residence halls, food services, intercollegiate athletics, college stores, alumni travel, parking, and shuttle services. Pricing for auxiliary services may be based on market rates, except when charging for services provided to federal awards. Auxiliary lines of products or services can exit within Departmental or Central Service Units, but their rate setting and financial operations must be accounted for separately from non-auxiliary activities. Auxiliary service units and auxiliary lines of products or services are not subject to limitations on rates, working capital balances, or transfers and uses of reserve balances. They will not be reviewed by the Service Unit Review Committee. Auxiliary service units or lines are, however, subject to the approval of the Provost and all related policies and Office of the Controller.

Types of Users
Internal
Internal users include Harvard University consolidating tubs, defined as tubs included in the University’s annual Financial Report and related financial statements.

External
External users include users from non-consolidating tubs, users from outside of Harvard University, and users located in our affiliated hospitals and other collaborating institutions. External users include the public, students and any members of faculty or staff acting in a personal capacity. At a minimum, external users will be charged for the full direct costs of the service unit operation. An allocable share of the University’s indirect cost for the service unit operation may be charge to external users. Sales tax, when applicable, must be charged to all external users who do not provide tax-exempt certificates.

Non-consolidated tubs considered external users are:

130 (Magazine)
185 (Agencies)
190 (Yenching Institute)
295 (American Repertory Theater)
595 (HPRE 3rd Party)
670 (Master Trust)
685 (Charitable Annuity Lead Trust)

Rate Development
The rate development process varies with the size and complexity of each service unit and is often coordinated with departmental, tub, and University budgeting cycles.

Principles
For each type of service that is billed to users, the department must maintain documentation detailing how the rate per unit has been determined.
A service center rate is the cost per unit of output used to recover the expenses of the service unit. The business manager is responsible for calculating service center rates for each fiscal year. When a service center is established in mid-year, rates may be set for longer than twelve months so that the end of the first break-even period coincides with a fiscal year end.

To compute this rate, departments should use the following equation:

\[
\text{Budgeted Expenses} \pm \text{Prior Year Under/Over Recoveries (within } \pm 10\% \rangle \div \text{Budgeted Usage Base}
\]

The budgeted usage base is the volume of work expected to be performed, expressed in units (e.g., labor hours, machine hours, CPU time or any other reasonable measurement). This rate, based on budgeted activity, is applied to the actual activity when charging users.

For example: a computer costs approximately $100,000 per year to operate (total allowable costs) and has an estimated activity level of 1,500 hours per year. This would result in a rate of $100,000/1,500 hours = $66.67 per hour. If a researcher uses the computer for four hours for a sponsored project, his or her award should be charged 4 x $66.67 or $266.68.

When developing customer rates, each business should consider the following:

- Since most HUIT businesses provide more than one service, each cost classification should be allocated using activity-based principles (e.g., effort expended, % utilization, direct allocation, etc.) in order to identify the true costs of providing each service. There should be no cross-subsidization between services, especially if the customer user groups (i.e., federally sponsored grants) vary between the services.

- In determining the most equitable usage base for cost allocation to customers, rate models must consider how the service is used, what usage data is collected, and whether or not the cost allocation model methodology represents a true and accurate consumption of resources used to provide the service. Under certain circumstances, a given service may use more than one type of usage base in allocating the cost of services (e.g. staff costs may be allocated based on time expended; equipment costs based on hours of usage).

Non-discriminatory Rates
A service center must charge all internal users at the same rate for the same level of services or products purchased in the same circumstances. Rates must not differentiate among internal users. (Refer to subsidized users below). The use of special rates, such as for high volume work or less demanding non-scientific applications, is 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, but internal rates must be based on total usage.

Subsidized Users
All users must be billed for services received. If the University chooses to provide a service to a particular internal group of users at no charge or at a lower rate than other users (e.g., audio visual services as part of an instructional program), the service center billing rate must be calculated for all internal users based on total service center expenses and total units of output. The services used by the subsidized user group must be accounted for at this rate. The service center must ensure that the rate charged to this user group is consistent with that charged to other internal users. The service unit must also ensure that any subsidy is identified or reflected in the general ledger segments approved for use by the service unit so that the subsidies are correctly accounted for in the determination of the indirect cost rates.

Break-Even Concept
Service Center Policy

A service center must develop rates so that revenues offset expenses over a reasonable period of time. A service center’s surplus or deficit for a given fiscal year must not exceed 10% of annual operating expenses. To the extent that a surplus or deficit is within the break-even range of +/- 10%, that surplus or deficit must be carried forward and the rates adjusted in the following period.

All HUIT rate models must include consideration for prior year surpluses or deficits, however, since rates for the upcoming year are frequently developed 6-8 months prior to the current year-end close, rate adjustments may lag by one fiscal year.

Surpluses and Deficits
When it appears at mid-year that the operating results will exceed the 10% break-even range, the service center should adjust its rates mid-year.

If, at fiscal year end, the service center’s operating results exceed the 10% break-even range:
• Surpluses beyond the 10% range must be eliminated through retroactive adjustments to users, or
• Deficits beyond the 10% must be funded by a non-federal source and transferred into the service center account.

Long-Term Break-Even Agreements
It may be necessary for a specialized service center or a central service center to liquidate excess balances over a period longer than one year. When operating conditions justify a longer break-even term, tub financial officers may approve the carrying over of excesses for up to three years with notification of the Service Unit Review Committee. Periods longer than three years require the approval of the Committee.

Transfers
Service centers may not transfer excess balances. Balances must be carried forward in the service unit’s operating account and used to fund future rate adjustments. Any transactions to reserve balances must be approved by the tub financial officer with notification to the Service Unit Review Committee.

HUIT surpluses and deficits will be maintained in unrestricted/undesignated accounts (object code 3700) by business unit. Business unit managers are responsible for the development of business plans and rate models that account for the return or recovery of yearly surpluses and deficits. Business plans and models are subject to review by the HUIT Financial Planning and Management and the University Office for Sponsored Programs.

Working Capital
In addition to full recovery of actual costs, specialized service centers and central service units may demonstrate a financial need for increased operational liquidity that can be met through a working capital reserve. After demonstrating the need for a reserve, units can work with their financial officers and the Service Unit Review Committee to establish and review a working capital balance annually. In these circumstances, the approved reserve will normally not exceed 60 days of annual operating expenditures.

When longer-term business planning demonstrates the need to maintain working capital allowances, either to guard against changes in business models or for rate stabilization during implementation of new business technologies, up to 60 days of annual operating expenditures may be accumulated over time and utilized during the period(s) when working capital needs rise. In all cases, the accumulation of working capital allowances must receive prior approval of the Service Unit Review Committee.

Cross Subsidization
A service unit is required to perform and document the rate calculation and break-even analysis for each type of service it provides. A service center providing more than one service may sometimes make a surplus on some services and a loss on others. Service centers must ensure that there is no cross-subsidization between users 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 are subsidizing losses charged to a different group of users.

**Rate Components**

All costs, subsidies and revenue relating to a service center must be accounted for within the general ledger segments as stated in the *Service Unit Practices Statement* unless charged as a direct cost to sponsored award. Costs included in rate development are restricted to the following guidelines:

**Personnel & Benefits**

**Direct Personnel**
The salaries and wages of all personnel directly related to service center activity (e.g., lab technicians or machine operators) must be included in the rate calculation and charged to the service center’s operating account. If an individual works on more than one activity, the costs associated with that individual must be allocated to the activities based on the proportional benefit. This proportion may be determined by effort reporting or by a time study or some other equivalent method.

**Administrative Staff**
The salaries and wages of administrative staff in direct support or management of a service center must be included in the rate calculation and charged to the service center’s operating account. Administrative costs benefiting more than one service center activity must be allocated to the benefiting services on a reasonable basis.

**Fringe Benefits**
Fringe benefits related to all personnel costs directly charged to the service center operating account must be included in the rate calculation.

**Materials & Supplies**
The costs of materials and supplies needed to operate a service center must be included in the financial analysis for the fiscal year in which the material is used. If excess materials or supplies are purchased during a fiscal year, the service unit must not include the costs of the excess material or supplies in the closing fiscal year’s financial analysis. Service centers that maintain significant inventory must establish a separate inventory account within the general ledger and separate from operating expenses.

**Capital Equipment and Depreciation**
Capital equipment is defined as an item with a purchase price over $5,000 and a useful life of at least two years. Federal guidelines do not allow the purchase cost of a capital item to be recovered through service center rates or to be included in the calculation of the annual surplus or deficit. However, federal guidelines do allow for the recovery of depreciation, external interest, or capital lease costs associated with the asset. Equipment that’s not capitalized (purchase price under $5,000) must be treated as an operating expense in calculating rates. Refer to the University’s accounting policy on *Capitalization of Property, Plant and Equipment* for further guidance. Each service center will have an associated plant asset account to capture capital equipment purchases.

Service units which include depreciation in their rates must have funds or activities associated with assets to capture equipment purchases and accumulated depreciation. It is important that the government not be charged for the depreciation of a piece of equipment through a user
Service Center Policy

charge and again through the University's F&A rate. To avoid this duplicate charge, F&A cost analysts within the tub financial offices will review and approve rates and fund balances for service units charging depreciation and will ensure the exclusion of the depreciation from the F&A indirect cost rates.

All businesses must adhere to University and Service Center capital equipment policies as outlined in University HUIT Administrative Services | Harvard University | Capital Process Management. All capital assets are reconciled with Central Administrative systems at fiscal year end.

Depreciation
The depreciation of all capital assets will be charged to the service center operating account using the straight-line method over the useful life of the asset. Such treatment ensures that users pay only for equipment cost associated with the usage in the given year.

Useful Lives
Service center equipment must be depreciated using the useful lives outlined in the University’s accounting policy for Capitalization and Depreciation of Property, Plant, and Equipment. 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. Specialized equipment is unique to the specific service center activity and not common to other University departments. Deviation from standard useful lives requires review and approval by the tub financial officer and Service Unit Review Committee notification.

Federally Funded Equipment
Depreciation of equipment purchased by the federal government, whether or not title has reverted back the University, cannot be included in the user rates. Where the University has specifically agree to "cost-share" a piece of equipment in a federal award, the depreciation of the University-funded portion is also unallowable in the rates.

Debt Funded Equipment
Federal regulations do not allow for principle payments on debt to be recovered through service center rates. However, service centers may recover the external interest associates with the debt if both of the following criteria are satisfied.

- An external financing source was used
- Equipment costs are over $10,000

Contact the Director of Sponsored Programs, Catherine_Breen@Harvard.edu for more information.

See HUIT Capital Process Management Policy for compliance with service center. With few exceptions, all equipment is funded using debt. For the purposes of rate development, only depreciation and interest (from external sources) are included in cost recovery.

Operations & Maintenance (O&M) and Utility Costs
O&M and utility costs are assigned to all University departments and central units. Central service centers and specialized service centers are required to recover these costs. Service units and other specialized service centers are not required to include these costs in the rates.

Other Expenses
Other operating expenses include but are not limited to the following items:
- Rental and service contracts
- Equipment operating leases
- Software and Equipment maintenance
Service Center Policy

- Professional Services

Unallowable Costs
OMB Circular A-21 specifies costs that are allowable and unallowable. Unallowable costs include but are not limited to the following items:

- Full cost of capital equipment purchases
- Bad debts or uncollected billings
- Internal interest
- Alcohol

These unallowable charges must be excluded from internal user rates, but may be recovered only through charges to external users, or funded through other University sources. Refer to Section J, OMB Circular A-21 and the University’s policy on expenses ineligible for federal reimbursement for a list of unallowable expenses.

Responsibilities and Internal Controls
Responsibilities
The financial managers of service units are responsible for accounting for the operations of the service unit and reporting on the activities and balances generated by service unit activities. Service unit managers are responsible for calculating rates for their units based on historical income and expense data and projected usage, with assistance from departmental financial managers.

The department financial managers with service unit responsibilities assist with or perform rate calculations as described in the Rate Development Section of this policy. They ensure that rates and reserve balances comply with the guidance in this policy and are reported to tub financial officers and the Service Unit Review Committee. They must also complete the Service Unit Financial Practices Statement and submit the statement annually.

The school or tub financial officers are responsible for reviewing rates, the use of reserves, the accounting for subsidies, the calculation of depreciation and accumulated depreciation reserves, and for approving the creation or dissolution of service units within the tub. The financial officers are also responsible for keeping the Service Unit Review Committee informed about the financial activities of their service units, including the timely annual completion and filing of the Service Unit Financial Practices Statements.

The Service Unit Review Committee, appointed by the Vice President for Finance, will review the creation or dissolution of service units as approved by tub financial officers, oversee University service unit policy, and review the Service Unit Financial Practices Statements approved by each tub. The Committee will initiate and coordinate agreements with the federal cognizant agency in unusual circumstances, as necessary.

Separate Accounting
All service units are required to maintain account code strings in the Harvard Chart of Accounts that are sufficiently segregated and detailed to facilitate the financial reviews required by this policy, including the revenue thresholds, the rate calculations, the break-even analysis, the review of uses of reserves, etc.

Each HUIT Service Center business will utilize a separate combination of Org, Activity, or Sub-Activity in the HUIT chart of accounts for the purposes of posting both revenues and expenses related to the provision of services. Furthermore, HUIT surpluses and deficits will be maintained in unrestricted/undesignated accounts by business unit in order to track balance carry-forwards from year to year.
Service Unit Financial Practices Statement
Each service unit is required to explain the account code strings designated for its use by completing the form. The purpose of the document is to state clearly the manner in which the general ledger will be used and to communicate those practices to the reviewers and approvers outside the service unit, including the department financial managers, tub financial officers, and the Service Unit Review Committee. Please refer to this form.

Midyear Review
Service center managers should evaluate their financial position and rates periodically throughout the year to assess their position with respect to break-even. Under special circumstances, the Business Managers and Financial Officers will adjust rates through a mid-year reduction/increase in rates provided that midyear rate adjustments are subject to review.

Year-End Rate Performance Review
At fiscal year end, all service centers will be required to submit their actual financial results to their departmental financial manager and the tub financial officer. The tub financial officer will forward the results to the Service Unit Review Committee.

Due to the cyclical nature of many HUIT businesses, mid-year snapshots are not always representative of the yearly performance of the business, as revenues may not catch up to fixed costs until the fiscal year is closed. Therefore, each business will complete a minimum of one year-end forecast using at least five months of financial information. The group’s Director and the HUIT Managing Director will review year-end forecasts. The group’s Director should be prepared to present financial and business plans to address excessive surpluses and deficits. The HUIT Financial Planning and Management will review all financial results with the Office of Cost Analysis annually.

Billing Procedures and Record Retention
Billings must be based upon measured and documented utilization, which is properly authorized for the account charged. All billings must be processed on a timely basis and will be at established service center rates. The service unit must retain documentation supporting the charges, including documentation of expenses and usage, to answer any user inquiries or in case of an audit.

All customer 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)
- The amount charged per unit

The user of these services is responsible for documenting the purpose of the charge and the allocation of the expense to the funding source. The service unit is responsible for the proper use of the object codes related to the recording of revenue and expense. Internal users are responsible for providing the service unit with valid and accurate account strings for use in billing.

Important notes regarding billing:
- Billing must not occur until the service has been rendered; that is, prepayments are not allowed.
- Each service unit must bill in the proper fiscal year in a timely manner.
- Service units must handle each year-end billing consistently to ensure that twelve months of cost recovery are associated with twelve months of incurred cost.
- Service units’ revenue from internal users must be recorded using the INTERTUB or INTRATUB expense object codes established by accounting policy (object code range:
Revenues from external users must be recorded in revenue object codes (object code range: 4000-5999).

Sales tax, when applicable, must be charged to all external users who do not provide their tax-exempt certificates.

Refer to the University’s accounting policy on Internal Billing and Internal Billing Guide

Effective Date of Policy
This policy was first issued July 1, 1999. This revision is effective July 1, 2007.

Glossary of Terms
Break even. The point at which revenues equal expenses. The policy establishes that service centers should break even over a reasonable period of time and, on an annual basis, the surplus or deficit should not exceed 10% of annual operating expenses.

Departmental Units. Service centers, which reside in academic departments (Departmental) may decide whether or not to recover these overhead items in the rate.

Deficit. A deficit occurs when the service center’s expenses exceed revenues for a given fiscal year. To the extent that the deficit is within the 10% break-even range, that deficit must be carried forward and the rates adjusted in the following period. Deficits beyond the 10% break-even range must be funded by another non-federal source and transferred into the service center account.

Direct Operating Costs. Outflows or charges relating to the rendering of services and related support undertakings (i.e., administrative activities) that can be identified specifically with the service center. Direct operating expenses include salaries and wages, employee benefits, supplies and non-capital equipment, and equipment depreciation and interest expenses. This does not include institutional overhead costs such as building depreciation and general administration.

Federal Facilities & Administration ("F&A") Rate. This percentage is applied to the expenditures of federally sponsored projects in order to recover University overhead costs related to building and equipment depreciation, interest and general administration.

Long-term break-even agreement. OMB Circular A-21 Section J.44 provides the opportunity for service centers to establish a plan for recovering its operating costs over a multiple-year period. Such arrangements must be agreed to by the University’s cognizant federal agency. The need for such an agreement must be presented to and reviewed by the School Finance Officer and the Office of Cost Analysis.

OMB Circular A-21 Cost Principles for Educational Institutions. This Circular provides the principles for determining the costs applicable to research development, training, and other sponsored work performed by colleges and universities under grants, contracts, and other agreements with the Federal Government.

Operating Costs. Outflows or charges relating to the rendering of services and related support undertakings (i.e., administrative activities). Operating expenses include salaries and wages, employee benefits, supplies and non-capital equipment, interest expenses, space and occupancy, and depreciation. Note that principle payments are not expenses.

Surplus. A surplus occurs when the service center’s revenues exceed expenses for a given fiscal year. To the extent that a surplus is within the 10% break-even range, that surplus must be carried forward and the rates adjusted in the following period. Surpluses beyond the 10% break-
even range must be eliminated through retroactive adjustments to users, unless a long-term break-even agreement has been established.

**Unallowable Costs.** The federal Cost Principles for Educational Institutions, OMB Circular A-21, establishes guidelines for the allow ability of costs in Section J. Costs that are “unallowable” may not be recovered in the service center rates. Examples of allowable costs include alcohol, internal interest, lobbying and advertising.

**Working Capital.** Operating funds available to cover current needs and to maintain reasonable stability in user charges when fluctuations in expenditures occur. Service centers may establish and maintain a fund balance for working capital needs not to exceed 60 days of annual operating expenditures.