



## SERVICE CENTER POLICY

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### SCOPE

This policy sets forth the California Institute of Technology's (Caltech) policy on service centers. This policy applies to all Caltech service centers. Auxiliary services are not considered service centers and therefore are not subject to this policy.

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### DEFINITIONS

As used in this policy:

#### **Administrative Staff**

Salaries, wages and fringe benefits of administrative staff in direct support or management of a service center. The costs of administration staff benefiting more than one service center activity should be allocated to the benefiting services on a reasonable basis.

#### **Allocable Costs**

A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or other cost objective in accordance with relative benefits received. A cost must meet the following in order to be allocable: 1) be incurred specifically for the Federal award; 2) it benefits both the Federal award and other work of the non-Federal entity and the cost can be distributed to the benefitting activities in proportions that may be approximated using reasonable methods; and 3) is necessary to the overall operations of the non-Federal entity and is assignable in part to the Federal award in accordance with the principals in subpart E. See § 200.405, Allocable costs, of 2 CFR 200 Subpart E Cost Principles for additional information.

#### **Allowable Cost**

A cost must meet the following general criteria to be allowable under Federal awards: 1) be necessary and reasonable for the performance of the award as well as allocable; 2) conform to any limitations or exclusions set forth in the Uniform Guidance or the Federal award; 3) be consistent with policies and procedures that apply uniformly to both Federal funded activity and other activities of Caltech; 4) be accorded consistent treatment; 5) be determined in accordance with general accepted accounting principles; 6) be adequately documented. See § 200.403, Factors Affecting Allowability of Costs, of 2 CFR 200 Subpart E Cost Principles.

#### **Auxiliary Services**

An auxiliary service 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 charges a fee for the use of

goods and services.

### **Consistent Treatment**

Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect (F&A) costs.

### **Direct Cost**

Costs that can be identified specifically with a particular final cost objective, such as a Federal award, or other internally or externally funded activity or that can be directly assigned to such activities relatively easily with a high degree of accuracy. A service center can be a final cost objective. Identification with a final cost objective rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect. See § 200.413, Direct costs, of 2 CFR 200 Subpart E Cost Principles.

### **Direct Personnel**

Salaries, wages and fringe benefits of all personnel directly related to service center activity (e.g., lab technicians or machine operators). If an individual works on more than one activity, the costs associated with that individual should be allocated to those activities on a reasonable basis.

### **Equipment**

A moveable item that stands alone, has an acquisition cost of \$5,000 or more, and a useful life of two years or more is considered capital equipment. The actual purchase price of capital equipment may not be recovered through service center rates but depreciation costs for the capital equipment is an allowable cost that can be include in the service center rates charged.

### **Equipment Depreciation**

Depreciation is a method of allocating the cost of a tangible asset over its useful life. Allowable equipment depreciation includes depreciation on capital equipment purchased with non-sponsored funds. Note that the purchase price of capital equipment may not be recovered through service center rates.

### **External Users**

An external user is an entity or person that is legally separate from Caltech that typically purchases goods or services for reasons of convenience or uniqueness of the goods or services offered.

Examples of external entities include but are not limited to:

- Commercial entities or other for-profit companies
- Affiliated entities such as HHMI
- Non-affiliated not-for-profit organizations such as other hospitals, other universities, or government agencies
- Students, faculty, or staff acting in a personal capacity rather than in their role of student or employee within Caltech

## **Facilities & Administrative (F&A) Costs**

Facilities & Administrative or indirect costs include campus provided operations and maintenance services, building depreciation and general administration costs.

## **Internal Users**

Internal users are the primary service center customers. A Caltech department (including academic, research, administrative, and auxiliary departments) that purchases goods or services to support an Caltech program or activity. Internal users also include investigators whose research is funded by grants to the Caltech, since these grants represent Caltech activities. Service centers bill internal users by posting charges directly to an Caltech account; cash sales are typically not appropriate for internal users.

## **Materials and Supplies**

Materials and supplies required to operate a service center.

## **Membership Fees**

Memberships Fees are charged to the customers based on a flat fee which is independent of the nature or volume of services that customers receive. Membership fees are an unacceptable basis on which to charge Federal awards. Federal regulations require that the billing rates and customer charges be established based on the proportional relationship between the customer charges and the benefits received by the customer. The only exception are in rare cases where a “flat fee” represents the minimum level of services that is require to be provided to all customers, without exception. In these cases, the service center will need to provide adequate support documentation showing that the “flat fee” represents the cost of providing the minimum level of service that is require to be provided to all customers.

## **Necessary and Reasonable**

A necessary and reasonable expense is one for which a clear business reason exists and for which the cost is not excessive.

## **Other Expenses**

Other expenses required for the operation of the service center including, but not limited to, equipment maintenance costs, rental and service contracts, equipment operating leases, and professional services.

## **Prior Year Under/Over Recoveries (Carry Forward)**

Under or over recoveries are the service center cumulative total expenses less revenues for each separate service that has a billing rate. An under recovery (deficit) occurs when expenses exceed revenue. An over recovery (surplus) occurs when revenue exceeds expenses. Under or over recoveries are carried forward from the prior period(s) and included in the calculation of breakeven service center rates.

## **Reasonable Costs**

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. Caltech is predominantly Federally-funded so the question of reasonableness is particularly important. Major considerations are: (a) whether the cost is necessary for the operation of the institution or the performance of the sponsored agreement; (b) whether the cost meets the restraints or requirements imposed by such factors as arm's-length bargaining, Federal and state laws and regulations, and sponsored agreement terms and conditions; (c) whether the individuals acted prudently, considering their responsibilities to the institution, its employees, its students, the Federal government, and the public at large; and (d) to what extent the individuals acted in accordance with established institutional policies and practices applicable to the work of the institution generally, including sponsored agreements. See § 200.404, Reasonable costs, of 2 CFR 200 Subpart E Cost Principles for items of consideration in determining reasonableness of a given cost.

## **Service Center**

A service center is an organizational unit that provides a specific service or product, or a group of services or products, to users principally within the Caltech academic and administrative community and recovers the cost of its operations through charges to users.

## **Subsidy**

To achieve a breakeven bottom line, service centers may require a service center subsidy. A service center subsidy is an amount applied to cover the operating costs of a center that are not recovered from the prices charged to users. Thus, a service center subsidy does not differentiate between users, it is applied to reduce the rates for all internal users.

Another type of subsidy that is specifically targeted to a certain group of users is a user subsidy. These subsidies are provided by departments or cost centers to obtain lower rates for specific users. For example, such subsidies may be provided by a certain department that wishes to subsidize only users from that department.

During the Service Center rate review process, the service center will need to provide the Office of Cost Studies with information on any form of subsidies that had been received by the service center during each of the years that are being reviewed. The information should include the source of the subsidy, the subsidy amount, dates as to when the subsidy was provided, and the intended use of the subsidy.

## **Tracking Log**

A written or electronic log or record must be established and maintained by the service center to record actual usage of services. This log can be a handwritten log or an electronic log created with spreadsheet software or from software used for this specific purpose.

## **Unallowable Expenses**

Unallowable expenses include but are not limited to bad debt expense, internal interest, and alcohol. Refer to Subpart E of Office of Management and Budget's Uniform Administrative Requirements, Cost Principles, and Audit for a list of unallowable expenses.

## Usage Base

The usage base is the volume of work expected to be performed, expressed in units such as labor hours, machine hours, CPU time or any other reasonable measurement. The usage base could be actual usage or budgeted projected usage.

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## POLICY

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This policy has been developed to ensure compliance with the Federal regulations including the cost principles for educational institutions contained in OMB Circular A-21 and the Uniform Guidance. The Federal cost principles establish guidelines as to allowability and allocability for all costs that may be recovered on Federal grants and contracts, including costs associated with service center activities.

Service center billing rates must be periodically formally reviewed and adjusted as appropriate. Service centers with annual operating expenses or revenues of \$100,000 or more are subject to the formal biennial review and verification process described in this policy. As part of the formal biennial review process, the Office of Cost Studies will work with the Service Center Directors to review and, if necessary, adjust their rates.

Although a formal service center review will not be performed at Caltech for service centers with annual operating expenses or revenues of \$100,000 or less, these smaller service centers must still comply with this service center policy. The Office of Cost Studies will perform a high-level review for these service centers to verify that the centers have not received annual income that exceeds their annual operating expenses (i.e., cost recoveries exceeding 100%). The Office of Cost Studies will also work with these Service Center Directors to review and adjust their rates, if needed.

Service Center rates should be based on the following breakeven calculation:

$$\frac{\text{Projected Expenses +/- Prior Year Under/Over Recoveries}}{\text{Projected Usage Base}}$$

Only the allowable direct cost of providing the services can be included in the service center expenses used to determine service center breakeven rates. Membership fees are an unacceptable basis for establishing service center billing rates or billings. The following projected expenses are allowable and may be included in the breakeven calculation:

- Direct Personnel
- Administrative Staff
- Materials and Supplies
- Other Expenses
- Equipment Depreciation

It is Caltech's intent to recover all equipment depreciation costs through the F&A cost rate. Service centers interested in including equipment depreciation expenses in the billing rate need to work with the Office of Cost Studies to identify the specific equipment assets to ensure that the

depreciation expenses for those assets have not already been included in Caltech's F&A rate. In general, service centers that want to recover for equipment depreciation expenses in the billing rates should be applying a billing rate close to the calculated breakeven rate.

Under or over recoveries from the prior period(s) should be included in the calculation of breakeven service center rates. Service Centers should be adjusting their break even rates to ensure that these prior year carryforwards are recovered over time. Typically, they should be recovered over no longer than a two year period.

The following projected expenses should not be included in the service center expenses used to determine service center break even rates:

- Capital cost of Equipment
- Facilities and Administrative (F&A) costs
- Unallowable Expenses

Customers must be charged based on actual usage and the appropriate billing rate. A tracking log or record of all users should be established and maintained by the service center to track actual usage of services. The tracking log or record can be hand written, electronic, created using software designed to track usage, or some other documented methodology. These logs should include actual usage (i.e. quantity used), category, level or type of service provided, the billing rate charged, and the period for which the charge was incurred. This allows service centers to demonstrate to their users and auditors that the correct factors or values were used to calculate the amounts charged for each service center billing. Periodic internal or external audits may be conducted on this documentation.

Where a service center provides different types of services to different users, separate billing rates should be established for each service that represents a significant activity within the service center. The costs, revenues, surpluses and deficits should be separately identified for each service provided. The surplus or deficit related to each service should be carried forward as an adjustment to the billing rate for each separate service in the following period.

A service centers' primary function is to share resources and provide services for internal users. Situations may arise, however, where the nature of a service center's products or services and other factors justify allowing external users limited access to these products or services. A service center may charge a higher rate to an external user for the same type of service provided to internal users. External user rates typically include F&A costs and may include a margin for mark-up while internal user rates cannot include F&A or mark-up. Rates used for service provided by service centers through Facility Use Agreements or Technical Services Agreements must be reviewed by the Office of Cost Studies prior to the acceptance of these agreements.

A service center may elect to not charge a group of users for services (e.g. students) or to charge a discounted rate. However, when determining the surplus/deficit for the period and when calculating future breakeven rates the full amount of revenue related to their use of the services must be imputed into the calculation. This imputation is necessary to avoid the Federal Government subsidizing other users. Pricing structures based on time-of-day, volume discounts, turn-around time, etc. are acceptable, provided that they have a sound management basis and do not result in recovering more than the costs of providing the services. These types of pricing structures are not considered discounted pricing so the need to impute revenue for variances in pricing does not apply to alternative pricing structures related to the timeliness or quality of services.

In some instances, Caltech, or a division/center, may elect to intentionally subsidize the overall operations of a service center, either by charging billing rates that are intended to be lower than the calculated breakeven rate or by not making adjustments to future rates for prior year deficits. Service center deficits caused by these intentional subsidies must be clearly identified. Since subsidies result in a loss of funds to Caltech, they should be provided only when there is a sound programmatic reason.

New service centers must provide their methodology and procedures for determining service center charges to internal and external users to the Office of Cost Studies for review to ensure they are compliant with Caltech policy and Federal guidance prior to authorization of the service center.

Existing service centers with annual operating expenses or revenues of \$100,000 or more will work with the Office of Cost Studies to have their practices and rates reviewed and verified biennially and, if necessary, adjusted. The purpose of this review is to ensure that:

- Service center practices are compliant with Caltech policy and Federal guidance.
- Service center charges are supported, calculated correctly, and are appropriate.
- The Federal government is not being charged more than the cost of services provided, or subsidizing others.

The Office of Cost Studies will provide a report on all service centers reviewed to the Provost office after each biennial review cycle. The report will include information on relevant financial factors for each service center such as fiscal year revenue, Federal revenue, expenses, fiscal year over/under recoveries and inception-to-date over/under recoveries.

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## ROLES AND RESPONSIBILITIES

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### **Office of Cost Studies**

- Provides guidance and advice on Service Center Policy topics or service center practices.
- For new service centers, reviews the centers proposed methodology and procedures for determining service center charges to internal and external users to ensure they are compliant with Caltech policy and Federal guidance prior to authorization of the service center.
- Completes the biennial service center reviews and advises Service Center Directors when rates should be adjusted or practices should be changed.
- Provides report on biennial service center review results to the Provost Office.

### **Service Center Director, Principal Investigator, and/or Division Administration**

- Ensures compliance with the Service Center policy.
- Ensures the personnel under their direction, engaged in the financial administration of service centers that meet the threshold set out in this policy, are familiar with the Service Center policy.
- Coordinates the rate review process with the Office of Cost Studies.

## RELATED REFERENCES

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Office of Management and Budget's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 2 CFR, Part 200

Office of Management and Budget's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 2 CFR, Part 200 §200.468, Specialized Service Facilities

Caltech's Service Center Procedure

## POLICY ISSUED BY

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This policy is issued by the Office of Financial Services.

## EFFECTIVE DATES AND UPDATES

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Action Take	Effective Date	Description of Action
Original Policy	10/01/2003	Approved by Sharon Patterson, AVP Finance and Treasury.
Revised Policy	09/30/2016	Revised for to convert the original policy to the new policy format and to provide guidance on acceptable methodologies for determining charges to Federal awards for center services and to indicate that new service centers will be required to provide their methodology and related procedures for determining charges prior to the authorization of the service center. Definitions were also added for relevant terms that were not defined in the original policy.  Reviewed and revised by the Office of Financial Services. Approved by the Office of Financial Services.