



SERVICE CENTER POLICY

10/1/2021

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.

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 specific 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 benefiting 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 is physically and functionally stands alone, has an acquisition cost of \$5,000 or more, and a useful life of more than one year is considered capital equipment. The purchase price of capital equipment may not be recovered through service center rates, but the depreciation costs of the capital equipment is an allowable cost that can be included in the service center rates charged provided the conditions discussed in this policy are met. Service centers interested in including equipment depreciation in their billing rates will need to contact to Cost Studies Office to get approval to include equipment depreciation expense in their billing rates.

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 and not used for cost sharing purposes. 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.

High-Risk and Low-Risk Service Centers

Service centers will be reviewed through a formal risk assessment process to determine if a center is a high-risk or low-risk service center. High risk service centers are subject to a more detailed review while low risk service centers are reviewed at a higher level. Service centers with significant changes compared to the previous review cycle, cost over recoveries, multiple services, and billing rates, and/or major inadequacies noted in the prior review process are some of the characteristics used to determine a center being high risk. Service centers with no significant changes in the prior audit cycle, cost under recoveries, single services and billing rates, and no major inadequacies noted in the prior review process are generally going to be considered low risk. There may be cases that are exceptions to this guideline if there are other factors that can be taken into consideration in the risk assessment. Schedule 1 provides additional details used in performing the service center risk assessment.

Schedule 1- High and Low Risk Service Centers

Criteria	Low Risk Service Centers	High Risk Service Centers
1 Income From Sponsored Awards	Less than or Equal to \$100K	Greater than \$100K
2 Current Year (CY) Percent Cost Recoveries	Less than or Equal 105%	Greater than 105% in more than 2 consecutive years
3 Inception-to-Date Percent Cost Recoveries	Less than or equal to 100%	Greater than 100%
4 Number of Services or Billing Rates	Single Service, or Multiple Services with Less than or Equal to 65% CY Cost Recoveries	Multiple Rates with Greater than CY 65% Cost Recoveries
5 Significant Changes Since the last Review Cycle	No Significant Changes, and Had Acceptable Billing Rates in the Last Review	Had Significant Changes or Applied Rates that Exceeded the Breakeven Rates in the Last Review
6 Major Inadequacies Since the Last Review Cycle	Did not have Major Inadequacies that Resulted in Application of Unacceptable Billing rates in the Last Review	Had Major Inadequacies that Resulted in the use of Unacceptable Billing rates in the Last Review

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 a 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 a 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 is in rare cases where a “flat fee” represents the minimum level of service that is required to be provided to all customers, without exception. In these cases, the service center will need to provide adequate support documentation to Cost Studies to show that is the case.

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 cost 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. Institute subsidies that the service center received during the year are included in calculations to determine under or over recoveries.

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 research 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.

Risk Assessment

Specific relevant information is considered during the service center risk assessment process and all service centers are identified as high risk or low risk after the assessment is completed. The information considered includes but not limited to the following: 1) Questionnaire responses, 2) Any changes in services provided by the center, 3) New billing rates applied or material changes in the previous billing rates over and beyond adjustments to bring rates closer to the break-even rates, 3) Number of billing rates, 4) Changes in service center's financial profile compared to profile compiled during previous review process, 5) Center's percent cost recoveries including adjustments for prior year under/over recoveries and external user activities, 6) Inadequacies in billing rates, business practices, or accounting practices identified during the previous review process. Schedule 1 provides additional details as to what is considered during the risk assessment process.

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 or reduce the unrecovered costs 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 usage log or record must be established and maintained by the service center to record all actual usage of services and includes activities that may or not be billed to the users. This log can be a handwritten log, or an electronic log created with spreadsheet software or from software used for this specific purpose. This usage log may need to be provided to the Cost Studies Office to support the determination of a break-even billing rate for the specific service.

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 for all work regardless of whether the work is billed or notbilled to the users.

POLICY

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 will be reviewed initially through a biennial risk assessment process to identify service centers that are low risk and those that are high risk. High risk service centers are subject to the formal detailed 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 determine if the billing rates need to be adjusted.

Although a formal detailed service center review will not be performed at Caltech for low-risk service centers, these low-risk 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 determine if the billing rates need to be adjusted.

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 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 handwritten, 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 can be reviewed by the Office of Cost Studies, upon request, 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 break even rates, revenue must be imputed and included in the calculation for the any free services that the center provides at the billing rate for the services received if the group of users was not charged at all or for the difference between revenue that would have been recorded

had the group been charged at the full billing rate for their use of the services less the revenue recorded at the discounted billing rate. 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, if they have a sound cost and 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 adjusting 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 high risk service centers 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 Office of Financial Services 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.

ROLES AND RESPONSIBILITIES

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 if rates should be adjusted or practices should be changed.
- Provides report on biennial service center review results to the Provost Office if requested

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 are familiar with the Service Center Policy and Service Center Procedure.
- Ensures that adequate information is available and can be provided to the Cost Studies Office to support the determination of breakeven costs associated with each service provided and each billing rates charged to their users. Adequate information includes but not limited to the following:
- Coordinates the rate review process with the Office of Cost Studies.

RELATED REFERENCES

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

This policy is issued by the Office of Financial Services.

EFFECTIVE DATES AND UPDATES

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 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.
Revised Policy	06/01/2019	Revised due to implementation of a risk-based approach to the biennial service center review process. Service centers scheduled for review will be reviewed as part of a risk assessment and identified as high risk or low risk using relevant information. High level biennial reviews will be conducted for service centers considered low risk and detailed reviews will be conducted for service centers considered high risk. Reviewed and revised by the Office of Financial Services. Approved by the Office of Financial Services.
Revised Policy	10/01/2020	Revised definitions of "High Risk" and "Low Risk" service centers subject to biennial reviews. Reviewed and revised by the Office of Financial Services. Approved by the Office of Financial Services on 10/01/2021.