

**Responsible University Official:** AVP & Controller  
**Responsible Office:** Financial Reporting Services

**Implementation Guidelines for Establishing Service  
Centers and Recharge Centers Charging Sponsored Projects**

Departments are responsible for determining the need for a Service Center or Recharge Center, and for maintaining the appropriate records. This is handled in accordance with the university’s policy on [Service Centers and Recharge Centers Charging Sponsored Projects](#). Detailed procedural guidance is provided as below:

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**Section A: ESTABLISHING A SERVICE CENTER**

1. Deciding if a Service Center needs to be created.

Departments have the initial responsibility in determining whether a Service Center or Recharge Center is needed. Departments should consider the following questions in assessing their needs.

- a) Is the service primarily for customers internal to the University? If a service is principally for external customers, the activity is not a Service Center. In such cases, there may be unrelated business income issues that should be reviewed with the Tax Department.
- b) Is it cost effective to perform the service in-house? A cost/benefit analysis should be completed to ensure the Service Center is cost effective. It is unallowable to charge the government for a service that would cost less if purchased from an outside vendor. In some cases, an argument could be made about the convenience of allowing the more expensive service to be performed in-house, but that argument is rarely accepted by DHHS.

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- c) Will the Service Center bill all users for the service? Before a Service Center is established, a determination should be made that all the costs are going to be billed to all customers.
- d) Is there an advantage in treating these costs as indirect vs. charging them directly?

In theory, whether a cost is charged directly or indirectly should have little impact on the total cost of a sponsored project. However, because the university's indirect cost rates are capped by the federal government it may be advantageous to charge certain costs directly (where there is a direct relationship identified) to the benefiting project or department.

However, our indirect cost rates are predetermined, based on the cost accounting structure in place at the time our indirect cost rate proposal was submitted to the Department of Health and Human Services (DHHS). Any change in our costing structure, such as changing a cost from indirect to direct, requires notification to DHHS and possible changes to our indirect cost rates.

## 2. Process of Establishing a Service Center

If the department decides to establish a Service Center, a business plan should be submitted to Office of the Controller for the initial review. The business plan should include purpose of the Service Center, brief description of each major service, a list of potential customers, a projection of annual costs and revenues (i.e. annual budget), description of billing mechanism and projected rate.

## 3. Creation of a new Service Center account

The development of a new Service Center may require the creation of a new cost center (i.e. organization) to capture costs associated with the Service Center separately. The Office of the Controller and the Budget Office must approve any new cost center (i.e. organization).

## 4. Operations & Controls

### a. Separate Accounting

All Service/Recharge centers are required to maintain separate organization number to facilitate consistency in estimating, accumulating and reporting costs specific to the Service Center.

The costs charged to Service Center organizations are restricted to direct and indirect cost incurred in connection with the Service Center operation and these costs must be in accordance with the purpose for which the Service Center has been established.

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## b. Break-even Concept

Service/Recharge Center managers are responsible for rate calculation and it should be developed in a way that revenue generated from billing should offset expenses over a reasonable period of time. The Service Center must retain all documentation supporting the rate calculation.

## c. Review Process

Service Center managers and finance directors must ensure that costs and revenues are reported accurately and consistently. Service Center's financial performances must be evaluated annually to ascertain that there are no profits from its operations. Managers and finance directors must review Service Center billing rates periodically and adjust as conditions warrant in compliance with this policy. If a Service Center generates profit, the university Tax Department should be informed about any unrelated business income.

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## Section B: SERVICE CENTER RATE COMPUTATIONS

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### A. SUMMARY OF ADMINISTRATIVE PROCEDURE

Departments are responsible for the initial calculations of what the primary billing rate will be. Detailed steps in the development of the rates are outlined below. The Comptroller's Office is responsible for the initial approval of rates, and periodic review of the rates for compliance issues.

### B. GENERAL GUIDELINES

Federal Regulations Regarding Service Center Rate: All Service Centers, no matter how small, are subject to the cost principles and cost accounting standards outlined in Uniform Guidance published by Office of Management and Budget (OMB). In general, rates must be based on actual costs, applied consistently to all customers, and based on actual use of the services.

- a. Service Centers should recover costs over a reasonable period. A reasonable period is usually defined as one fiscal year.
- b. The same rate schedule should be used for all internal users. Rates must not discriminate against federally funded users to the benefit of other internal users.
- c. Rates must be periodically reviewed for consistency and reasonableness by Service Center administrators.
- d. Service Centers must exclude unallowable costs (see [Policy on Identification and Treatment of Unallowable Costs](#)) from their billing rate calculations and the rates may only include the actual costs of performing the service.

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## C. DETAILED OPERATING PROCEDURES FOR SERVICE CENTER RATE

Service Center rate is the cost per unit of output used to recover the expenses of the Service Center. Service Centers should use the following formula to calculate Service Center rate.

$$\frac{\text{Budgeted Expenses – unallowable cost +/- prior year under/over recoveries}}{\text{Total estimated usage base}}$$

Budgeted expenses should include both direct and indirect cost to operate the Service Center and unallowable cost must be excluded from the rate calculation. Refer to OMB Uniform Guidance – General Provisions for Selected Items of Cost section for a complete list of unallowable expenses. The estimated usage base is the volume of the work expected to be performed in cost units such as labor hour, machine hours, CPU time or any other reasonable measurement. This rate is applied to actual activities when charging users.

### Instructions for preparation of a Service Center rate:

1. Identify all services provided. A separate rate must be calculated for each category of service
2. Determine the Service Center's direct costs that can be specifically identified with relative ease and a high degree of accuracy, such as:
  - a. Salaries and benefits of technical and other staff directly involved with operation of the service
  - b. Materials and supplies
  - c. Subcontracts, purchase services and professional fee
  - d. Equipment lease or rental
  - e. Maintenance and Repairs, machine supplies, including equipment maintenance agreements
  - f. Other directly related expenses
3. Identify Service Center indirect costs and determine if these costs need to be included in the rate, such as:
  - a. Salaries and benefits of administrative staff not directly involved in providing the service, who support the Service Center (such as service center manager and scheduling staff),
  - b. General office supplies,

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- c. Equipment
  - i. Equipment bought with federal funds must be excluded from the federal rate
  - ii. Allowable costs include only the current year's depreciation
- d. Debt Service
  - i. External interest may be charged with prior approval from the Office of the Controller
  - ii. Principal payments should not be included in billing rates as they are equity purchases, not current year expenses
- 4. Identify University-wide indirect costs to be included in billing rates. Before including these costs, consult with the Associate Director, GCAS Strategy and Compliance. This includes cost such as:
  - a. Facilities – General
    - i. Building and equipment depreciation (broad overhead not associated with the Service Center)
    - ii. Interest
    - iii. Operations and Maintenance
  - b. Administrative
    - i. General and administration (e.g., President, EVP&T, Controller, Purchasing, Human Resources, etc.)
    - ii. Department Administration (e.g., Dean's Office, Academic Department, Secretary)
    - iii. Sponsored project administration (e.g., Office of the Vice President for Research, Grants & Contracts Accounting Services, and Health Research Compliance & Technology Transfer))
    - iv. Student services (e.g., Student Affairs)
- 5. Identify and segregate unallowable costs specifically not allowed as rate components. The following are typical unallowable cost component:
  - a. Unallowable cost identified in OMB Uniform Guidance, (entertainment, bad debts, non-recruitment advertising, public relations, alcohol, etc.) must be excluded from rates
  - b. Any surplus or reserves to repay principal or interest or to fund future operations are unallowable
- 6. Develop a reasonable method to allocate Service Center indirect costs to each type of service provided.

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- a. Allocations should be based on a causal and beneficial relationship between the costs and service provided
  - b. Potential Allocation bases include:
    - i. Effort
    - ii. Usage (time)
    - iii. Costs
    - iv. Space – square footage
7. Accumulate or estimate annual usage for each service (such as number of units) to establish the distribution base. All usage must be included, regardless of the user/customer and whether services will ultimately be billed.
8. Calculate cost-based rate for each service.

Divide the total annual operating cost by the total estimated billing units to determine the billing rate per unit. For example,

- a. The billing unit for a Service Center that provides photocopies would be the number of copies
  - b. The billing unit for a Service Center which provides services would be the amount of hours of service
9. Review rates to adjust for prior year deficit or surplus.
- a. On an annual basis, revenues must be compared to the actual cost of providing each service.
  - b. Surplus or deficits which exceed the established threshold should be used to adjust future billing rates or be credited back to users. The only exception to this rule is that to the extent that the rate charged to any category of non-federal users (e.g., commercial users) exceeds the projected unit cost of the service provided, the surplus generated by that excess may be retained as intended profit and need not be applied to reduce future rates to cost-based users.
10. Document Retention. Maintain records for 5 years to support expenditures, billings and transfers. These records include:
- a. Documentation on how the rate was calculated
  - b. Published rate schedule
  - c. Usage statistics supporting utilization or level of activity
  - d. Effort reporting records for staff used to allocate time to multiple services
  - e. Billing records
  - f. Proof of rate approval

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## Section C: RECHARGE CENTER RATE COMPUTATIONS

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### A. SUMMARY OF ADMINISTRATIVE PROCEDURE

Purpose: This procedure outlines the process involved in developing Recharge Center rates within the George Washington University. This procedure assumes that the department has already determined that a Recharge Center is needed. Detailed steps in the development of the rates are outlined below.

### B. GENERAL GUIDELINES

Federal regulations regarding recharge center rates: All recharge centers, no matter how small, are subject to the cost principles and cost accounting standards outlined in OMB Uniform Guidance. In general, rates must be based on actual costs, applied consistently to all customers, and based on actual use of the services.

- a. Recharge Centers should recover costs during the year in which they are incurred.
- b. The same rate schedule should be used for all internal users. This rate schedule must not discriminate against federally funded users to the benefit of other internal users.
- c. Rates must be reviewed periodically for consistency and reasonableness by departmental staff administering the Recharge Center.
- d. Recharge Centers must exclude unallowable costs from their billing rates and the rates must include the actual costs of performing the service to all users.

### C. DETAILED OPERATING PROCEDURES

#### Instructions for preparation of a recharge center rate

1. Determine the direct costs that are specifically identifiable with recharge center operations with relative ease and a high degree of accuracy, such as:
  - a. Materials for resale needed for jobs
  - b. Equipment lease or rental
  - c. Repairs and machine supplies
  - d. Other directly related
2. Accumulate or estimate usage for each service (such as number of units) to establish the distribution base. All usage must be included, regardless to whether discounts or free service is provided.
3. Calculate cost-based rate for each service.

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Divide the total annual operating cost by the total estimated billing units to determine the billing rate per unit.

- a. The billing unit for a recharge center that provides photocopies would be the number of copies
  - b. The billing unit for a center which provides services would be the amount of hours of service
4. Determine the rate that will actually be charged.
- a. Federal users must be charged no more than the cost-based rate. Profits are allowed on external users. Cost-based rates must be used for all GW users.
  - b. Discounts provided to non-federal users must not be subsidized by federal users. The subsidy must be quantified and excluded from future billing rate calculations and the indirect cost rate.
  - c. If market prices have been approved for use by DHHS, they should be compared to actual costs to ensure that the rates do not result in overcharges to federal users.
5. Document Retention

Records supporting expenditures, usage, and billings of the recharge center should be maintained for 5 years. These records include:

- a. Documentation on how the rate was calculated
- b. Published rate schedule
- c. Usage statistics supporting utilization or level of activity
- d. Effort reporting records for staff used to allocate time to multiple services
- e. Billing records
- f. Proof of rate approval

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## Contacts

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**Direct Questions To:** Financial Reporting Services  
[financreporting@gwu.edu](mailto:financreporting@gwu.edu)

**Forward Completed Rate Material To:** Office of the Controller  
Financial Reporting  
Services  
[financreporting@gwu.edu](mailto:financreporting@gwu.edu)

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