

21.01.05 Service Departments or Centers



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Next Scheduled Review: March 17, 2027

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Regulation Summary

State law authorizes the Board of Regents (board) of The Texas A&M University System (system) to establish service departments or centers for the purpose of supplying goods or services to internal users (departments and/or members). This regulation provides guidelines for service departments/centers to define accounting practices as well as to comply with state and federal laws.

Definitions

Click to view [Definitions](#).

Regulation

1. GENERAL

- 1.1 The primary purpose of establishing ‘service departments’ is to allow departments within the member to recover costs incurred for goods or services required to support operations, sponsored research programs and/or academic needs.
- 1.2 Service departments (centers) are units within a member and they provide goods or services at approved rates or assessed amounts to other departments within the member and/or to other members. Services may be provided incidentally to external or individual users (faculty/staff, students, non-member users). The term *service departments* is used to collectively refer to the four types of service departments defined below.
 - (a) **Department Recharge Centers** normally operate within an academic division at an institution, providing goods or services internally within their own departments. The service center manager must review rates at least annually.
 - (b) **Member-wide Service Departments** are operated by the member providing goods or services internally and/or to other members.
 - (1) These service departments normally have rate studies completed to determine if the existing rates are sufficient to cover the costs, which may or may not include a portion of depreciation expenses.
 - (2) The service center manager must review rates periodically, at least annually.
 - (3) If the service department charges federal grants for its goods or services, it must

follow additional federal requirements under the Uniform Guidance.

(4) Some of these service departments are set up to allocate costs and they do not perform a rate study; they define allocation methodologies. These types of service departments must:

- define how the costs are allocated;
- define how overages/shortages will be handled;
- ensure residual fund balances or reserves are reasonable (if applicable); and
- comply with annual operational and budget reviews.

(c) **Specialized Service Facilities** are defined in the Office of Management and Budget's (OMB) Uniform Guidance Code of Federal Regulations (CFR), Part 200.468 as highly complex or specialized facilities to provide specific, unique services such as computing facilities, wind tunnels, reactors, etc. The service center manager must review rates at least annually. There are additional federal requirements for specialized service facilities as defined in the Uniform Guidance.

(d) **Administrative Service Departments** are used to allocate member benefit costs to departments in order to collect funds to pay for claims. For these type of service departments, when payroll is calculated, a percentage of certain types of benefit expenses are charged to the department accounts and revenue is posted in the service department account. When claims occur, the claims are paid from the service department. Members who charge salaries and wages to local funds must have service departments for two benefits types, listed below.

- (1) Unemployment compensation insurance (UCI) which is an estimate for future workers unemployment claims. An unemployment claim refers to a request for cash benefits made by an individual after they have left employment.
- (2) Lump-sum vacation reserves – an estimate for lump-sum vacation payments to employees who resign and are due a payout for their earned vacation balances.

These two types of administrative service departments must analyze the percentages being charged to the departments to pay the claims. During the annual budget process, the percentages charged, annual balances and budget reviews are analyzed. A rate study is not required for administrative service departments.

There are also worker's compensation insurance rates that are established by the System Office of Risk Management based upon past claims.

1.3 Auxiliary enterprises are **not** subject to this regulation.

2. RESPONSIBILITIES OF MEMBERS FOR SERVICE DEPARTMENT OPERATIONS

2.1 Each member is responsible for developing guidelines for establishing user rates, maintaining proper documentation of rate calculations and periodically reviewing operations for compliance with member-defined guidelines. Guidelines must conform to the federal Internal Controls listed in 2 CFR 200.303.

- 2.2 Each member chief financial officer (CFO) or designee is responsible for creating a process to review billing rates, approve transfers of funds out of service departments, and recommend to the chief executive officer (CEO) the closing of unnecessary service departments.

3. UTILIZATION OF SERVICE DEPARTMENTS

Service departments are established in order to obtain efficiency and economy of operations through purchasing frequently used items in large quantities, eliminating duplication of effort in the acquisition of goods and services from suppliers, making it more convenient for user departments to obtain goods and services, and specialization of skills.

4. USING STATE FUNDS (held in the State Treasury) FOR SERVICE DEPARTMENT ACTIVITIES

- 4.1 Members are allowed to purchase goods and services from an on-campus service department if the member pays for the goods and services with state funds held in the State Treasury; however, the member must set up the service department on the Texas Identification Number System (TINS) of the Comptroller's Office with a unique mail code.
- 4.2 If the service department is funded with state funds in the State Treasury, the rate may only be based on expenses funded from local funds.

5. PRICING OF GOODS AND SERVICES

- 5.1 For service departments where billing rates are required, they must be computed at least annually.
 - (a) Per federal guidelines, for service departments that charge federal grants/contracts, billing rates must be analyzed bi-annually and these rates must include only allowable costs and direct costs.
 - (b) Historical trends and projected costs are used to project future activity of the service department.
 - (c) Prior and current financial data for the service department is an integral part of the rate calculation and documentation.
 - (d) Indirect costs can be added to the rates for only specialized service centers.
- 5.2 Actual costs and revenues are compared at least annually. (Revenues do not include subsidies.) Normally, deficits or surpluses are carried forward as an adjustment to the billing rates for the following year or the next succeeding year. Where feasible and cost effective, the adjustments may be made by increasing or decreasing the actual charges to users for the completed year rather than through the "carry-forward" adjustment process.
- 5.3 Rates and charges for the sale of services must be set to recover the full costs of providing such services without exceeding actual costs each year.
 - (a) Service departments operate on a break-even basis using allowable costs for the year.

- (b) In some instances (e.g., when a new service is being provided), it may not be possible to establish billing rates to break-even on an annual basis. In those cases, the break-even objective may be established for a longer term, such as two or three years.
- (c) An appropriate reserve of operating costs (no more than 90 days) is acceptable and will not be considered a surplus.
 - (1) Federal Uniform Guidance requires a 60-day reserve. If the service department charges federal grants/contracts, the 60-day reserve must be used.
 - (2) The system allows the additional 30 days for analysis.
 - (3) A member can establish a reserve less than the 90 days.
- (d) **Under no circumstances will the rates charged to federal users be used to subsidize rates billed to private users.**
- (e) The rates and charges must not discriminate between activities under federal awards and other activities of the non-federal entity for internal purposes per Uniform Guidance 200.468.

5.4 Per federal rules, the rates for specialized service facilities can include a portion of the facilities and administration costs. If a member agrees to charge a rate with the facilities and administration portion, each member must establish guidelines.

6. COST ALLOCATION

- 6.1 When cost allocations are necessary, they must be made on an equitable basis to ensure the relative benefits each activity receives from the proportional costs.
- 6.2 Where separate billing rates are used for different services provided by a service department, the costs related to each service must be separately identifiable. Cost allocations are required where a cost partially relates to the operations of a service department and partially to other activities of a department.
- 6.3 Material costs of specialized service center services must be charged directly to applicable federal awards based on actual usage of the services on the basis of a schedule of rates or established methodology per 2 CFR 200.468. The costs of the specialized service center must consider applicable credits.
 - (a) Specialized service center operating costs and losses cannot be included in the proposed F&A cost proposal.
 - (b) Fund deficits and surpluses within special service centers cannot be transferred to or from F&A cost pools or diverted for other uses.

7. SERVICE DEPARTMENTS THAT PROVIDE MULTIPLE SERVICES

- 7.1 Where a service department provides different types of services to users, separate billing rates can be established for each significant activity or function the service department provides.
- 7.2 The costs, revenues, surpluses and deficits are separately identified for each service.

- 7.3 The surplus or deficit related to each service is carried forward as an adjustment to the billing rate for that service in the following year or next succeeding year.
- 7.4 Invoices to the end user may be based on multiple factors, but presented to the end user as one rate.

8. VARIABLE BILLING RATES

- 8.1 All system users normally charge the same rates for a service department's services, but it is possible to have several published rates.
 - (a) **The federal government must always be charged the lowest rate except when alternate pricing structures are in place as discussed below (item c).**
 - (b) If some users are not charged for the services or are charged at reduced rates, the full amount of revenue related to their use of the services must be imputed in computing the service department's annual surplus or deficit. This is necessary to avoid having some users pay higher rates to make up for the reduced rates charged to other users. This requirement does not apply to alternative pricing structures related to the timeliness or quality of services.
 - (c) Pricing structures based on time-of-day, volume discounts, turn-around time, etc., are acceptable, provided they have a sound management basis and do not result in recovering more than the costs of providing the services.
- 8.2 Surpluses and deficits associated with multiple service units within specialized service centers must be treated individually within each unit. One unit's surpluses and deficits may not be used to offset another unit of service.

9. CAPITAL PURCHASES

- 9.1 Capital expenses are not normally included in the costs used to establish service department billing rates. However, the rate can include depreciation of non-federally purchased equipment.
- 9.2 By including equipment depreciation in the billing rates, the service department will build a reserve to replace equipment in the future. The funds represented by depreciation are set aside in the service department or used to establish a replacement reserve account for future equipment purchases.
- 9.3 If the reserved amount is not sufficient to cover the cost of the new equipment, non-service department funds may be used to purchase the equipment with appropriate approvals.

10. INVENTORY RECORDS

Inventory records must be maintained and reported at fiscal year-end for consumable supplies and materials. This expense is not included in the rate calculation in the year purchased; it is included in the year in which it is used.

11. SERVICES PROVIDED TO OUTSIDE PARTIES (excluding specialized service facilities)

- 11.1 The service department's primary users are internal member departments. Use by private organizations is secondary or incidental to the operation of the service department. Service departments should not compete with established community businesses for private customers or users.
- 11.2 When services are provided to private organizations, the billing rates may be higher than for internal users. If there is a profit element, the profit does not have to be included in the over/under recovery in computing the carryforward for future billing rates.
- 11.3 Sales of goods and services to individuals or non-system organizations and entities are reviewed for federal income tax and sales tax considerations (i.e., unrelated business income tax).
- 11.4 The revenue from services provided to outside parties will be recognized on the financial statements as revenue. It is not appropriate to eliminate revenue from an outside entity.

12. SUBSIDIZED SERVICE DEPARTMENTS

With approval by a CFO or designee, a school or department within a member may elect to subsidize the operations of a service department. This may be accomplished either by charging billing rates that are intended to be lower than costs or by not making adjustments to future rates for a service department's deficits. Service department deficits caused by intentional subsidies cannot be carried forward as adjustments to future billing rates. Subsidies must be documented and provided only when there is a sound programmatic purpose.

13. ACCOUNTING AND RECORD RETENTION

Each service department is required to keep proper documentation (e.g., work papers) regarding the calculation of the billing rate and records that identify the services provided to each class of users. Accounting records must be maintained to account for the actual direct operating costs of the service department, overhead costs, revenues, billings, collections and surpluses or deficits.

14. TRANSFERS OF FUNDS OUT OF SERVICE DEPARTMENTS

- 14.1 Transfers of funds out of a service department account are not normally recorded for non-service department-related purposes; instead, the rates are adjusted to reflect these excess funds.
- 14.2 Transfers to a renewals & replacement fund group are appropriate to collect funds to purchase equipment for the service department.
- 14.3 Exceptions to these best practices must be approved by the member CFO or designee. Justification will be included for a transfer out of a service department account.
- 14.4 If a transfer involves accumulated funds from the service department account because of prior or current year surpluses, an adjustment to user charges to compensate for the surplus may be necessary.

15. CREATION, CONSOLIDATION OR SEPARATION OF SERVICE DEPARTMENTS

- 15.1 The chancellor must approve new service departments.
- 15.2 Each member must have a designated officer who has the responsibility to review all requests for the creation, consolidation or separation of service departments within its member. This individual reviews proposals for the impact on the system, its members and the citizens of Texas.
- 15.3 Requests for approval of the creation, consolidation or separation of a service department are submitted to the designated officer and must contain the following:
- (a) a description of the services to be provided and the users of the services;
 - (b) an analysis showing that the request is feasible and appropriate;
 - (c) the reasons the services can best be provided by an internal service department rather than by an external service provider;
 - (d) expected benefits/potential problems for the member;
 - (e) a projection of the costs and utilization of the services; and
 - (f) a billing rate calculation and, where possible, a comparison of the internal rates with the rates charged by external service providers.
- 15.4 After reviewing a request, the CEO or designee will indicate approval and establish the service department account in the accounting system or submit recommendations to the chancellor. The chancellor annually reports to the board a comprehensive listing of all such approved service departments.

16. CONTINUED AUTHORIZATION OF SERVICE DEPARTMENTS

Service departments, which may be operated by each member during ensuing fiscal years, are authorized by the board as part of the annual budget approval process.

17. CLOSING OF SERVICE DEPARTMENTS

- 17.1 If, at any time, it appears the goods and services of a specific service department are no longer needed (i.e., a service department is inefficient or too costly), the member CEO or designee may eliminate the service department.
- 17.2 If an eliminated service department has any remaining fund balances, the member CFO or designee determines where to allocate the funds.
- 17.3 If surplus funds are related to overcharging, it is recommended the service department return funds to users if practical.

Related Statutes, Policies, or Requirements

[Office of Management and Budget, 2 CFR, Part 200](#)

[Service Departments - eXpendit \(texas.gov\)](#)

[Texas Comptroller's Office, Accounting Policy 001, Sources of Revenue Required to Pay Benefit Cost](#)

[Disclosure Statement \(DS-2\) for The Texas A&M University System](#)

Member Rule Requirements

A rule is not required to supplement this regulation.

Contact Office

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