UNIVERSITY OF MIAMI
SPONSORED PROGRAMS POLICIES AND PROCEDURES

Section F: Cost Principles
Policy F7: Cost Centers and Service Departments

PURPOSE:

To establish the principles and to define the university regulations by which costs may be charged for the goods and services of specialized institutional facilities.

DEFINITIONS:

Cost Center: A unit within the university that regularly supplies goods or services at a charge to other units of the university and has a separately budgeted account for the accumulation of operating costs.

Service Department: A department established for the sole purpose of providing goods or services to other departments. Service departments that regularly charge for goods or services should be established as cost centers.

POLICY:

Any department or section of the university that desires to establish a cost center or regularly charge for a product or service must have prior approval from the Controller’s Office. The request will be submitted to the Controller for approval of the proposed charge rates at inception and annually thereafter. See University of Miami Financial Policies and Procedures B20.

REFERENCES:

None

PROCEDURES:

1. The following guidelines are to be followed in the preparation of financial information in support of a request to establish a service department or cost center:
   - realistic cost and volume estimates are to be submitted to support all charges for services;
   - if more than one type of service is proposed with different rates, each is to be separately supported. The costs associated with all of the services being performed must agree with the total cost center expenditure budget;
   - legitimate costs include salary charges and charges for supplies, expenses, and services (including interdepartmental charges), all of which must be necessary to carry on the activity;
– maintenance agreements covering equipment are properly included as legitimate costs provided that only the appropriate share of such costs is included if the equipment is also used for other activities;
– depreciation or a provision for replacement of capital equipment is included as an element of cost, exceptions to be made for major service departments by the prior written approval of the Controller;
– a general administrative overhead may be included in the rate;
– charges for services rendered must be consistent, regardless of the type of account being charged or the source of funds;
– all costs, except depreciation and overhead, to be included in the rate are to be directly charged to the cost center expenditure account. This specifically includes salaries (including faculty salaries, if applicable), if they are to be included as an element of cost.

2. Interdepartmental charges made by a journal entry are to be billed on the basis of services rendered.

3. A unique object code in the ‘4xxx’ series must be used for both the charge to the department receiving the service and the credit to the operating account of the cost center, unless the service is provided by the hospitals (UMHC or ABLEH).

4. The cost center must initiate reviews and submit to the Controller’s Office for approval, at least annually, to verify the continuing validity of charge rates.

6. Significant deviations from established cost or volume projections may require a revision in the charge rates. In such cases, a request for a charge rate revision is to be submitted for approval to the Controller.