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Service Centers: Set for Success - Best Practices for Developing Rates and Maintaining Compliance

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Guiding FRA *from Theory to Practice*



Service Centers - Introductions

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Roadmap

- The Basics – Definitions/Examples
- Cost Allowability/Allocations
- Fully Costing
 - Case Study
- Building Rates
 - Examples



What Is a Service Center?

An operating unit within the University that provides:

- goods or services
- to customers, principally within university
- for a fee.

Cost Accounting Standards (CAS) Disclosure Statement (DS-2)

Section 3.2.0

“**Service centers** are departments or functional units which perform specific technical or administrative services primarily for the benefit of other units within a reporting unit. Service centers include ‘recharge’ centers and the ‘specialized service facilities’ defined in 2 CFR 200.468.”

- Disclosure for service center with annual operating budgets exceeding \$1 million

What is a Recharge Center?

“**Recharge centers** at universities, [*also known as specialized service CENTERS*], operate as in-house enterprises that provide goods or services to individual users or other operating units. These centers function as non-profit businesses, funding operations through fees from users.”

From: Summary Report on Audits of Recharge Centers at 12 Universities ~ HHS Office of Inspector General, January 1994

What is a Specialized Service Facility?

- Provides services to a specific sub-group
- Indirect costs are a significant portion of institution's total
- Rates must include both **direct and indirect costs**

What is a “Core Facility?” (per NIH)

- “**Core facilities** can be defined as centralized shared resources that provide access to instruments, technologies, services, as well as expert consultation and other services to scientific and clinical investigators.
- The typical core facility is a discrete unit within an institution and has dedicated personnel, equipment, and space for operations. In general, core facilities recover their cost of providing service in the form of user fees that are charged to an investigator’s funds, often NIH or other federal grants.”

Examples:

Service Centers (general)

- Facilities Management
- Campus IT/Computing Services

Recharge Centers/Core Facilities (specific)

- Electron Microscopy
- DNA Sequencing
- Nuclear Magnetic Resonance (NMR)
- High-Speed Computing

Specialized Service Facilities (specific + high IDC)

- Animal Care

Other examples?

Cost Allowability/Allocations

- Basic Service Center Cost categories
 - Personnel/Labor
 - Capital Depreciation
 - Other (Materials/Supplies, Travel, Services, etc.)
- Unallowable costs for your rates
 - Anything in your F&A cost pools
 - Unrelated activities
 - Look to 2 CFR 200 (Subpart E) for guidance on federal costing principles
- Sales/services vs. other activities – separate accounting with appropriate allocations required

Cost Allowability/Allocations

- Avoid the mess, whenever possible.
- Use a template for developing rates!
- Rate structures –
Reasonable
Transparent
Consistently Applied



Fully Costing?

Can you fully recover your costs?

- Rates = Total Direct + Allocable Portion of Indirect
 - Institutional indirect can be budgeted as SC direct costs, if removed from F&A
 - Space – not required that you include space costs in recharge center rates (or even for SSF)
 - Cannot include any SSF costs in F&A rate
- Note: Federal customers should never be charged a higher rate than any other external or sponsored customer.

Fully Costing?

- Overhead (F&A) rate vs. *Premium*
 - F&A rate (as applied on sponsored projects) is negotiated with federal cognizant agency or 10% de minimis
 - *Premium constitutes an additional fee or mark-up, charged to external (non-federal) customers only, to achieve full cost recovery for service center related activities. Look at market rates when determining.*
- ✓ Internal – Institutional (apply neither)
- ✓ Internal – Sponsored (F&A applied on award)
- ✓ External (depends – can be negotiated)



Case Study #1 (10 minutes)

Dr. Smith receives a very large DOE award for a 3 year study on biofuels. The grant funds salaries of 3 grad students, 1 technician, and a project manager, who is responsible for managing the budget. After year 2, Smith's group has completed all of the analyses that will require use of the state-of-the-art EPR equipment funded by the grant. Several other colleagues within Dr. Smith's department, three colleagues at other universities, and two local companies are interested in having Smith's lab analyze bio-diesel samples using the EPR, the only one of it's kind in the state.

Dr. Smith approaches you for help setting up a recharge center to service these various clients. What do you advise regarding cost allowability?



Next: Deciding How To Charge

- Building Recharge Rates – **5 Steps**
 - Example 1 - Basic Rate Calculation
- Fee Structure Options & Strategies
- Rate Setting Complexities
 - Example 2 - Complex Rate Development

Building Recharge Rates – 5 Steps

5 Steps For Developing Rates:

1. Identify products & services
2. Identify customers
3. Estimate sales volume
4. Estimate costs
5. Calculate rate

Building Recharge Rates – 5 Steps

1. What product/service will you sell?

Analytical

- Microscopy Lab – Access to Microscopes
- Magnetic Resonance Lab – Sample analysis

IT/Computing

- Super Computing Facility – CPU Hours/Storage

Fabrication

- Machine Shop – Machinist/Design Labor

Commodities

- Stores Facility – Chemicals, Lab Supplies

Graphic Design

- Print & Imaging – Brochures, Posters, Logo, Webpage

Building Recharge Rates – 5 Steps

2. Who will be your customers?

Internal

- University Sponsored Program Areas
- University Departments

External

- Those who do not have a University account
- Industry
- Students, faculty or staff acting in a personal capacity

(This impacts approach to setting rates!)

Building Recharge Rates – 5 Steps

3. What is your expected sales volume?

- Historical use levels?

- Changes due to :
 - No longer free
 - New projects or projects ending
 - Expanded customer base
 - Expanded service
 - Competition

Building Recharge Rates – 5 Steps

4. What are your costs for each product/service?

- Salaries Wages & Benefits
- Service Contracts
- Supplies and Materials
- Subcontractors and Other Outside Services
- Repairs and Maintenance
- Depreciation
- Carry-Forward Surpluses or Deficits
- Unallowable

Building Recharge Rates – 5 Steps

5. Calculate Rate

$$\text{\$ Rate} = \frac{\text{Annual Costs}}{\text{Total Annual Usage}}$$



Example 1 - Basic Rate Calculation

Your department wants to start charging research groups for use of a centrifuge in a shared-use lab. The unit was purchased for \$45,000 on an NIH grant that ended 2 years ago and has a 10 year useful life. In addition to the \$5K/yr service contract, appx. \$2K/yr is typically spent on rotor and insert replacement. The department technician spends ~2 hours per week training users and maintaining the unit, which was used a total of 1,026 H last year. Her salary is \$50,000/year with benefits costing an additional 30%.



Example 1 - Basic Rate Calculation

Centrifuge Recharge Rate

	Estimated Annual Cost	% Allowed In Rate	Amount In Rate
Technician Salary	\$ 50,000	5%	\$ 2,500
Benefits @ 30%	\$ 15,000	5%	\$ 750
Service Contract	\$ 5,000	100%	\$ 5,000
Supplies (Rotor and Inserts)	\$ 2,000	100%	\$ 2,000
Equipment Depreciation	\$ 4,500	0%	\$ 0
	Total Annual Cost in Rate		\$ 10,250
	Total Estimated Annual Use		1,000 Hr
	Calculated Recharge Rate		\$ 10.25/Hr



Roadmap

- Building Rates, The Sequel
 - Fee Structure Options & Strategies
- Rate Setting Complexities
 - Example



Fee Structure Options & Strategies

- Per-unit (hour, sample, injection, setup)
- Combinations (flat setup fee + per-sample)
- Caps
- Membership

Allowability Concerns?

Fee Structure Options & Strategies

Goal: user-friendly + supportable

- What unit is most easily budgeted?

Ex. Hours vs. Samples

- ‘Packaged’ rates
 - **Component** rates – ease of calculating/documenting
 - **Package** – ease of marketing/budgeting
 - Flexibility for custom work

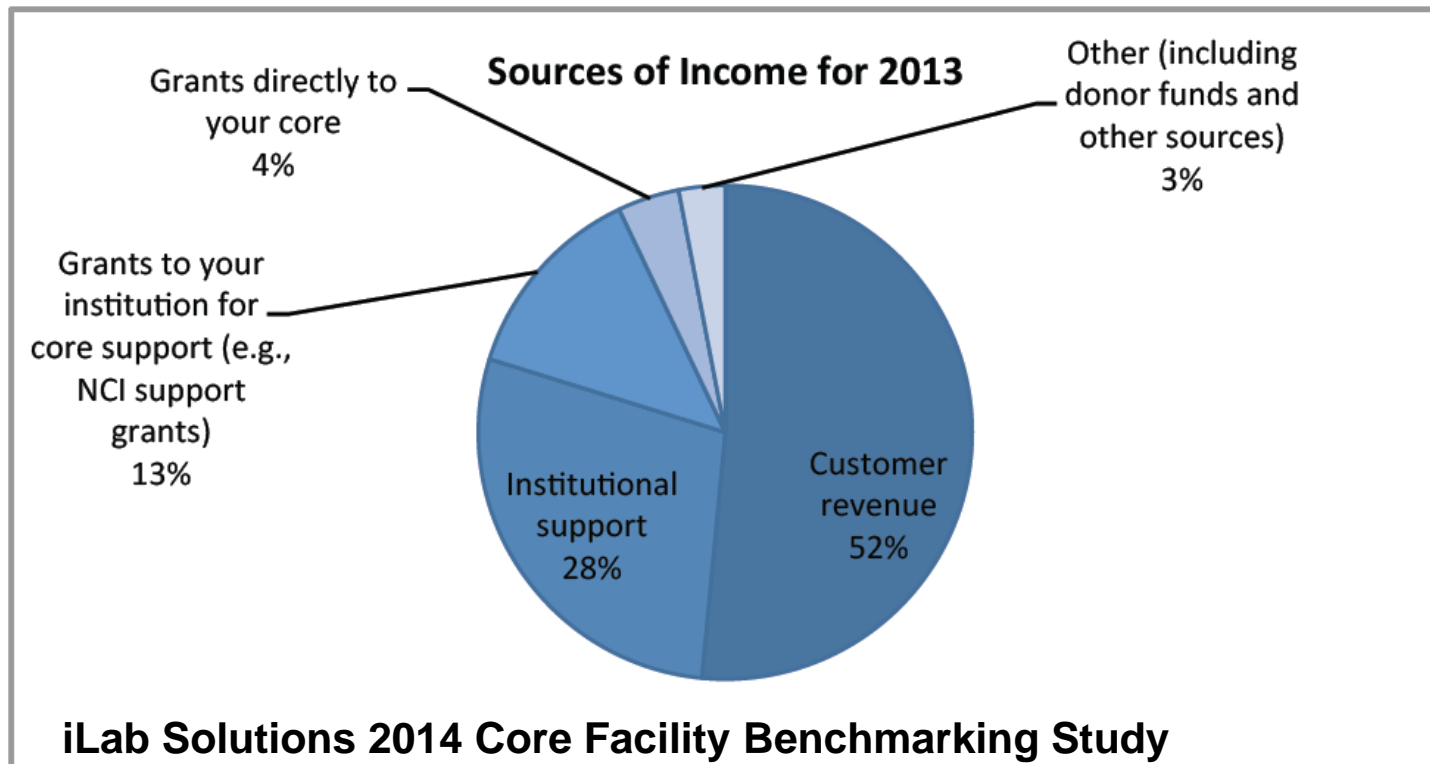
Rate Setting Complexities

Full Recovery vs. Institutional Subsidy

- Most service centers are subsidized
 - <25%?
 - 25 – 75%?
 - >75?
- Degree of Subsidy driven by?
 - Demand
 - ‘Market’ competition
 - Staffing efficiency
 - Nature of services

Rate Setting Complexities

Full Recovery vs. Institutional Subsidy



Rate Setting Complexities?

- Targeted Discounts
 - Junior faculty, grant PI's, recruits
 - Should not exceed subsidy (NIH FAQ)
 - Considered 'imputed revenue'
- Carry forward / Reserve Limits
 - Feds allow 60 days equivalent
- Premiums – External Users



Example 2 – Complex Rate Development

ASU High Resolution Mass Spec Facility



ASU HRMS Rate
Worksheet

Worksheet Template can be found here:

<http://researchadmin.asu.edu/recharge-centers>

> Related Documents

> Recharge Cost Tool



What would you do?

- A service center would like to provide discounted rates to those users who have already contributed financially to the center's operations. How might this be documented? What issues might arise?
 - Required that you document discounts
 - Variable internal rates



Roadmap

- Rate Reviews
- Compliance
- Case Study

• Break

Rate Reviews

- Preliminary questions – discuss with department
 - What is the business case?
 - Is it sustainable?
 - Does a recharge center meet the needs of your institution?

Rate Reviews – Take Care...

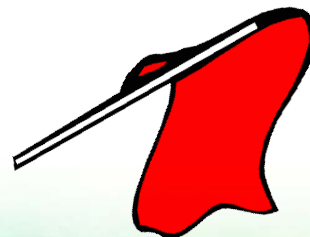
- Will the center be charging sponsored projects?
 - Be aware of federal costing guidance (2 CFR 200)
- Will there be a need for subsidy? Who will provide?
 - Obtain approval from appropriate parties
- *Costs – Allowable, Allocable, Reasonable*

Rate Reviews

Should transactions be handled as a sponsored project rather than a service/sales transaction?

Red Flags

- Creation of IP
- Special reviews (animal care or human subjects),
- Extent of scope of work (evaluate initially and on case by case basis),
- Federal flow-through





What would you do?

An industry customer wants to use your service center directly - no grant mechanism will be used. Their funds were received from a federal agency. What do you charge?

Rate Reviews

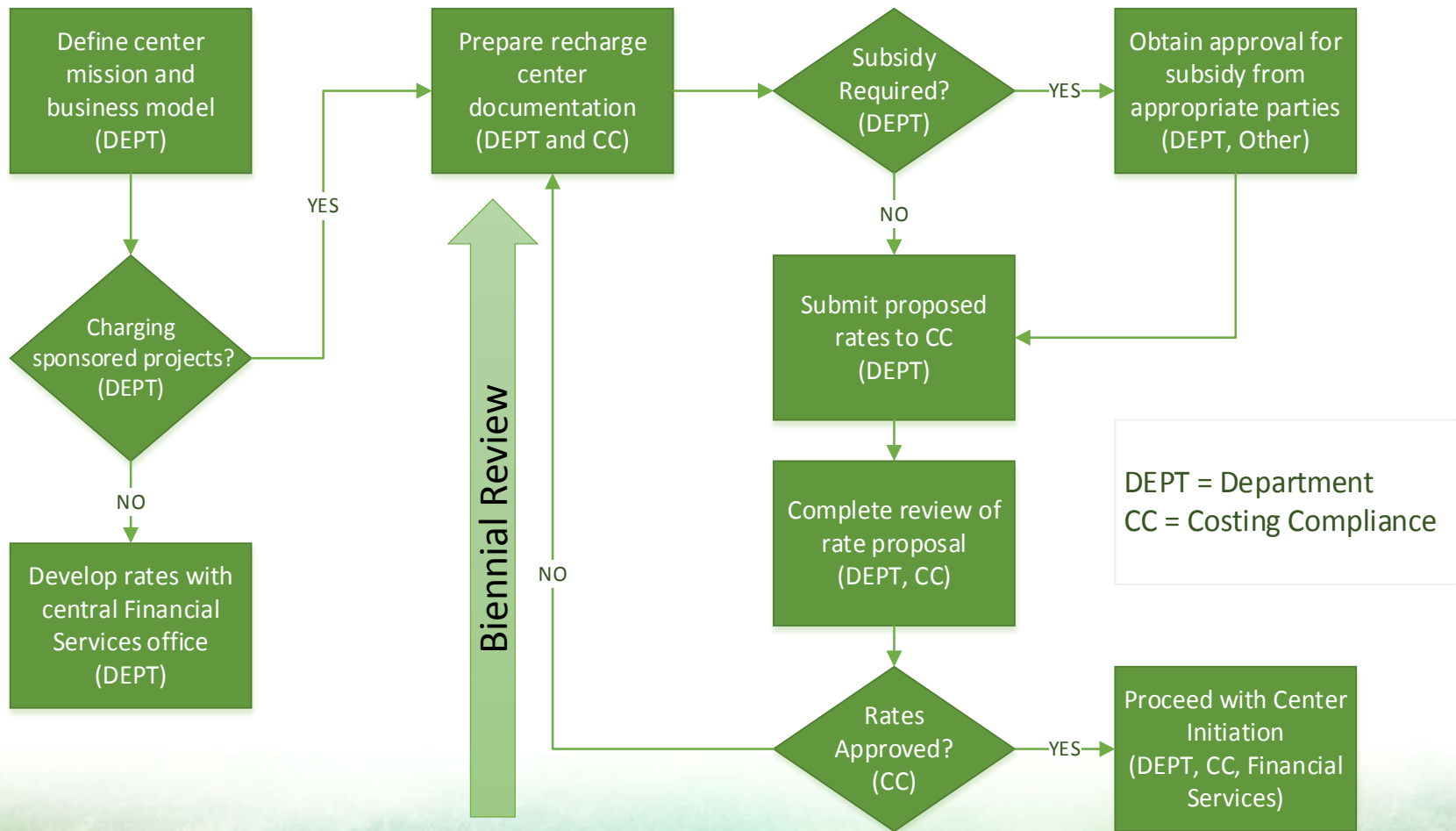
Cost Categories	Considerations
Personnel	<ul style="list-style-type: none">• Exclude any salaries paid from sponsored accounts• Exclude salaries associated with any non-SC effort• Include proportional cost of benefits• Include pay lines for current employees only
Depreciation	<ul style="list-style-type: none">• Include portion that is not externally funded• Depreciate in accordance with institutional property policy
Other (Materials/Supplies, Services, Travel, etc. – break out by cost category)	<ul style="list-style-type: none">• Fixed or variable?• Benefit activities outside of service center? – allocate appropriately• Provide justification for budgeted cost (audit purposes)
Space	<ul style="list-style-type: none">• Can be included; not required for recharge

Rate Reviews – Exclusions

Notes:

- Exclude anything that will be included in F&A rates
 - Equipment depreciation – flag (recharge/not)
 - Facility related costs – are these in your F&A rate?
 - Admin costs – requires separate accounting
- Exclude any costs/assets that have been cost shared or otherwise allocated to a project or other cost objective

Rate Reviews



Compliance

- Federal (if charging any sponsored accounts)
 - New Uniform Guidance – 2 CFR 200 (consolidated all OMB circulars, effective 12/26/2014)
 - Cost Accounting Standards Disclosure Statement (DS-2)
 - Review rates **at least** once every two years (2 CFR 200.468)
- Institutional and State
- DCA Best Practices Manual (audit criteria for federal reviewers)
<https://rates.psc.gov/fms/dca/C&U%20Review%20Manual.pdf>

Compliance - New Uniform Guidance

- What has changed for Service Centers?
 - Previously OMB Circular A-21, J.47
 - Now 2 CFR 200.468 Specialized service facilities
 - “Shall” verbiage changed to “must”
 - Updates in UG regarding allowable costs to sponsored accounts (i.e. previous CAS exceptions such as admin costs and computers) – these were already allowable within SC rates *as allocable to SC activities*
 - Additional emphasis on **internal controls** and sponsor approvals – opportunity to evaluate institutional practices and policies

Compliance – Resources

- DHHS FAQ (DCA/CAS), Section IV
<https://rates.psc.gov/fms/dca/faq-cu.pdf>
- SSF (material costs) vs. Recharge, double charging, higher rates for external customers, imputed revenue
- NIH FAQ for Core Facilities (8 Apr 2013)
<http://grants.nih.gov/grants/guide/notice-files/NOT-OD-13-053.html>
- Cost Analysis and Rate Setting (CARS) Manual for Animal Research Facilities
http://grants.nih.gov/grants/policy/air/rate_setting_manual_2000.pdf



Case Study #2 (10 minutes)

Two of your business school faculty have been approached by a public foundation, which is looking to support the faculty's collaboration with state and local government offices to make their operations more efficient. Once these collaborations are under way, the faculty are interested in providing similar services to local corporate and industry partners. The services they would be providing seem to be simple enough and repetitive. Costs of operation as a service center would really only include personnel costs.

What questions might you ask?

Do you have any concerns regarding creating a service center with this model?



Roadmap

- Internal vs. External Sales
- Dept. Accounting – FAQ's
- Unusual Circumstances
- Audits
- Other, Resources



External Sales Issues

- Sponsored vs. external determination

Triggers?

- Setting external rates
 - Minimum pricing / Market pricing
 - State requirements (non-compete)
 - Profit/UBIT
- For-profit use of tax-exempt space

IRS regs

- Legal – Contracts

Liability, Confidentiality



What would you do?

- A service center is proposing new rates for the current fiscal year, but they would like to backdate the rates to apply to the entire fiscal year, including any services that have already occurred and not been billed.
 - Contracting issues
 - Budgeting on sponsored projects

Dept. Accounting – FAQ's

- Should I use a separate account for each service?
- How can I pay for capital equipment if not from recharge account?
- How do I calculate imputed revenue?
- Should I use separate accounts for internal and external sales?

Audits – Safeguards

- **PI approvals**
- Avoid scheduling charges past project end dates
- Is prebilling allowed? (Sponsor stipulations)
- Reasonable allocation methods (capped/membership)
- External sales only (unless categorized as SSF) will most likely be held to different standards from those charging sponsored accounts

Audits with Findings on Service Centers

- **2012 Florida State University**
- 2006 University of Arizona Sahara Center
- **2006 University of Connecticut**
- 2005 Dartmouth
- 2005 University of Massachusetts Medical School
- 2003 Northeastern
- 1995 University of Colorado, Washington University-St. Louis, University of Utah, University of Iowa, University of California Berkley
- **1994 Review of Service Centers at 12 Universities**

Federal Audits of Recharge Centers

- Florida State University HHS OIG Audit:
 - Specialized Service Centers’ costs not charged in accordance with federal regulations;
 - 11 transactions related to 2 specialized service centers
 - Animal Care facility rates for FY’s 2009 and 2010
 - OIG noted that the audited SC expenses included unallowable items such as memberships and office supplies. (\$3 Million penalty for unallowables)
 - “...the University did not provide adequate oversight to ensure consistent compliance with Federal regulations” – not enough centralized internal controls*
 - HHS – OIG, July 2012 (A-04-11-01095)

Federal Audits of Recharge Centers

- DOJ – UCONN
 - \$2.5 Million Whistleblower; False Claims Investigation Settlement
 - Audit of 2 Specialized Service Centers: Overstated anticipated expenses, overcharged the government and billed for items not covered by the grants.
 - Billing Rates – Failure to revise and appropriately set its rate structure resulted in submission of numerous false claims. – lacking regular **internal control/review**
 - Newsday, January 9, 2006 (Associated Press); Hartford Current, January 10, 2006
 - EPA Report on Grant Fraud

Federal Audits of Recharge Centers

- HHS Office of Inspector General
 - “Summary Report of Audits of Recharge Centers at 12 Universities”
 - January 1994
 - <http://oig.hhs.gov/oas/reports/region9/99204020.pdf>

Summary of HHS OIG Audit Findings

- Audits at 12 universities to determine whether recharge centers complied with “OMB related A-21 regulations”
- OIG Identified \$3.2 in overcharges for:
 - Surplus Balances (\$1.3m)
 - Duplicate and unallowable costs (\$1.2m)
 - Recharge costs and Indirect costs (\$0.4m)
 - Funds used for unrelated purposes (\$0.2m)
 - Inequitable billing (\$0.1m)

Summary of HHS OIG Audit Findings

- Examples of significant issues
 - Six universities accumulated \$6.6m in **surplus funds**
 - Five universities **did not analyze and adjust billing rates** resulting in overcharges (\$1.2m)
 - Two universities **didn't credit recharge accounts** for \$34,224 of interest earned on excess fund balances
 - One university improperly classified \$0.7m inventory as expense; inventory not consumed in year of purchase is unallowable

Summary of HHS OIG Audit Findings

- Examples of significant issues (continued)
 - One university improperly included surpluses/ deficits of recharges in the calculation of IDC rates, overcharging Federal projects by \$0.4m
 - Four universities used \$3.5 of surplus funds for unrelated purposes; supplementing an athletic department, developing an accounting system, and renovating academic offices
 - One university charged inconsistent rates to users of computer services, subsidizing students and staff, **overcharging Fed research**

HHS OIG Findings: Reasons for Overcharges

- Universities did not:
 - Establish or adhere to policies and procedures
 - Maintain adequate accounting records
 - Analyze and adjust billing rates, or monitor recharge centers on a regular basis

INTERNAL CONTROLS



What would you do?

- A foreign sponsor is funding a grant and has asked for expedited processing of work. This requires staff to set aside all other projects and work extra hours to complete a deliverable. Can you charge higher than normal rates? Rates are salary based only.

Other Topics

- What doesn't fit the model or needs customization?
- Sponsored center – how do you allocate costs that are not in support of work on sponsored projects?
- Billing and scheduling systems (Recommendations?) – internally built vs. commercial
- Experiences from the audience

Additional Resources

- NCURA Collaborate
- ASU resources - recharge@asu.edu Listserv, Recharge Site - <https://researchadmin.asu.edu/recharge-centers>
- Recommendations?



Questions?

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