



**TACUA  
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**SERVICE CENTERS, RECHARGE  
CENTERS, A-21 AND AUDIT**

Jim Carter – Huron Consulting Group



## Service Centers What We Will Cover

- **Overview of Regulations**
  - What are they?
  - Where do you read about them?
  - What is the difference between an SSF and a recharge center?
  - What do the cost principles say?
  - Can you give me some examples?
  - How do I develop rates?
  - What are the Government concerns
- **Cost Analysis and Rate Setting**

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## Service Centers

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- Described in the DS-2, Part III, item 3.2.0 as “Service Centers”
- Described as “departments or functional units which perform specific technical or administrative services for the benefit of other units within a reporting unit.”
- Service centers include “specialized service facilities” and “recharge centers”.

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## Service Centers

- **Specialized service facilities (2CFR, Part 220, J.47). We will refer to A-21.**
- **University-wide recharge centers**
- **Departmental recharge centers**

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## Service Centers

### DS-2 Examples

- **The disclosure statement specifically lists**
  - Scientific Computer Operations
  - Business Data Processing
  - Animal Care Facility
  - Other Service centers with annual operating budgets >\$1,000,000 or that generate significant charges to federally sponsored agreements as direct or indirect
- **Examples of others include:**
  - Telecom/intranet/Fax services
  - Linear accelerators
  - Magnetic centers
  - Air quality testing lab
  - Cell sorters/flow cytometers

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## Service Centers

### DS-2

- **Under the DS-2, institutions are required to answer the following for each service center.**
  - Who are billed for the costs (direct & indirect)?
  - Full, partial or no burden of rates?
  - Rates based on historical, projected, combination or actual costs?
  - Same rate to all users or different rates?
  - Compare revenue to actual at least once a year or less frequently than annually?
  - How are variances between billed and actual costs treated?
    - Prorated to users
    - Used to adjust future billing rates
    - Charges or credited to indirect costs
    - Other?

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## Specialized Service Facilities

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## Specialized Service Facilities

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- **OMB A-21, Section J.47 addresses Specialized Service Facilities (SSF)**
  - The costs of services provided by highly complex or specialized facilities operated by the institution, such as computers, wind-tunnels, and reactors are allowable, provided the charges...meet the conditions of subsections b. or c."...and include applicable credits.

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## Specialized Service Facilities

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- **Subsection b. – When costs of the SSF are material, they must be directly charged based on actual usage of the services based on established rates that:**
  - Don't discriminate against Federal activity
  - Are designed to recover only the costs of service including direct and indirect costs
  - Rates to be adjusted at least biennially.

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## Specialized Service Facilities

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- **Subsection c. – Where the costs of the SSF are immaterial, they may be allocated as indirect costs. (no definition of materiality is provided)**

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## Specialized Service Facilities

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- **Subsection d. –Under some extraordinary circumstances, where it is in the federal governments best interest, alternative costing arrangements may be made with the cognizant federal agency.**

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## Specialized Service Facilities

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- Space associated with the SSF must be identified and assigned to the SSF or to OIA.
- If assigned to the SSF, the O&M costs should be included in the billing rates. If you choose not to burden the billing rates, then the space must be assigned to OIA. (If impact to F&A rate is 1/10th of a percentage point of less, may be put in F&A).
- SSF space related costs will not be allowed to be allocated based on revenue generated. (Allowed on recharge centers only)
- GA does not need to be allocated to the SSF during the allocation of GA. GA will be allocated to the SSF costs as they appear as part of the MTDC base where they were direct charged.

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## University-wide Recharge Centers

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## University-wide Recharge Centers

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- **These service centers are not a SSF, but are operated by the university to provide support to both the university and possibly the non-university community. They might include:**
  - Copy/duplicating center
  - Mail distribution center
  - Central stores
  - Facilities repair and maintenance

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## University-wide Recharge Centers

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- **Partial versus full cost rates:**
  - Institutions sometimes charge only the costs of the materials and supplies through the billing rates. The salaries of the personnel that operate the center or provide the service are not included in the billing rate. They are usually allocated as GA.
  - Government views this as CAS 502 violation, similar costs in like circumstances as both direct and indirect.

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## University-wide Recharge Centers

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- **Space associated with university-wide recharge centers may be identified to the recharge center or to OIA.**
- **If space related costs are assigned to a recharge center, but not included in the billing rate, how should they be treated?**
  - Allocate to functions based on revenue (under alternate space methodology)
  - Become part of the University subsidy

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## Departmental Recharge Centers

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## Departmental Recharge Centers

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- **Dept. recharge centers normally operate within an academic division or department and provide support to the division or department activities. Might include:**
  - Copy/duplicating
  - Machine/electrical shop
  - Equipment fabrication

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## Departmental Recharge Centers

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- **Dept. recharge centers are usually low dollar volume cost centers because they are usually small and benefit only department activities.**
- **Space occupied by these centers, if specifically measurable, are usually coded as DA.**

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## Departmental Recharge Centers

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- **Partial versus full cost rates:**

- Institutions sometimes choose to charge only the costs of the materials and supplies through the billing rates. The salaries of the personnel that operate the center or provide the service are not included in the billing rate. They are allocated as DA.
- Government views this as CAS 502 violation, similar costs in like circumstances as both direct and indirect.

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## General Commentss

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## General Comments

- **Service center rates developed for federal programs must be developed in compliance with the A-21 cost principles and the costs must be allowable costs.**
- **Different rates may be developed for federal programs and non-federal programs. The federal rate will normally be the lower rate because of the unallowable costs.**

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## General Comments

### Rates

- **The same rate does not have to be charged to every user.**
  - However, if some users are billed using a lower rate than the federal rate, or not being billed at all, you must impute the revenue for the subsidy when calculating the profit or loss at year end so the government does not share in the subsidy.
- **The DCA will normally allow a 60 day operating reserve as an excess balance. Must prove that 60 days is needed, if actual is 5 days, feds will usually only allow the 25 days.**

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## General Comments

### Subsidy

- **If a federal subsidy is received for a specific service center, costs must be reduced accordingly when developing the federal billing rate. The reduced billing rate must be applied to all federal programs, not just those related to the granting agency providing the subsidy.**

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## General Comments

### Equipment

- **The actual cost of equipment used in the service centers is not an allowable cost. However, equipment depreciation using estimated useful life is allowable.**
- **Equipment used in service centers can have different useful lives than those in general university operations. (Must defend shorter life).**
- **The equipment should be flagged in the asset management system to assure depreciation is not also claimed in the F&A rate calculation.**

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## General Comments

### Equipment

- **An equipment replacement reserve is not an allowable cost for a federal billing rate. However, the allowable equipment depreciation returned to the center via the billing rates can be set aside into a reserve for future equipment purchases.**
- **Non-federal billing rates can include a cost for an equipment replacement reserve.**

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## General Comments

- **Determining profit or loss should include all revenue including imputed revenue for unbilled and discounted services. Service center losses should not be included in the F&A rate.**
- **Excess (accumulated) reserves in service centers should be used to adjust future billing rates.**
  - They should not be used to purchase equipment
  - They should not be used to fund other service units within the recharge center operating at a loss
  - They should not be used to fund salary increases

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## Government Concerns

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## Government Concerns

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- Inadequate policies, procedures and/or oversight
- Billing rates do not represent actual cost
- Unallowable costs are included in the billing rate (equipment replacement fee)
- Fund balances are not properly monitored
- Surpluses are not always used to reduce future rates
- Space costs not included in rates, but are assigned to functions based on the revenue generated



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## Government Concerns

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- **Some users are billed at reduced rates and the federal programs are subsidizing the difference. It is OK if the feds are subsidized.**
- **Duplicate costs included in rate development and F&A calculation (equipment)**
- **Service centers used significantly by federal programs are treated as SSFs, but those used for non-research activities are treated as GA, DA or OM.**

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## What Can You Do?

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- **If not already in place, develop written policies and procedures concerning the different service operations (should have been part of the DS-2 process).**
  - Definitions and expenditure thresholds
  - Allowable versus unallowable costs
  - Rate development example and process
  - Burden or not
  - One billing rate or multiple
  - Billing documentation
- **Provide annual oversight for the rate development process to assure that the P&P are being followed.**

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## Cost Analysis and Rate Setting

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## Cost Analysis and Rate Setting

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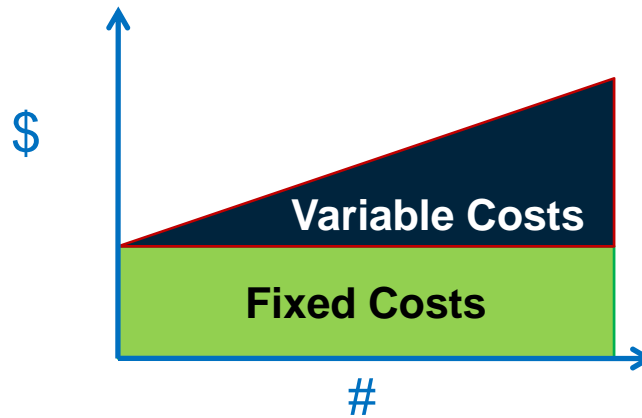
- **Total Costs Comprised of Fixed and Variable Costs:**
  - Fixed Costs—not contingent on service center volume ; obligations predictable with high degree of certainty.
  - Variable Costs—change in proportion to volume or activity in the service center; obligations can only be estimated based on analysis of historical and prospective service center volume or activity

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## Cost Analysis and Rate Setting

- **Total Costs Illustrated:**



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## Cost Analysis and Rate Setting

- **Typical Fixed Costs**

- Salaries (Exempt staff)
- Fringe Benefits
- Equipment Maintenance Contracts
- Equipment Lease Payments
- Equipment Depreciation
- Telecommunications/ISP Charges

- **Typical Variable Costs**

- Hourly Wages (Non-exempt staff)
- Fringe Benefits
- Outside Services (e.g. sub-contractors, outside personnel, and one-time service contracts)
- Supplies (e.g. raw materials, inventory, and consumable supplies)

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## Cost Analysis and Rate Setting

- **Issue for a New Service Center**

- Fixed costs should be estimated by knowledge of what resources (staff, equipment, etc) will be needed to run the service center.
- Variable costs should be estimated based on volume estimates.

- **Issues for Existing Service Centers**

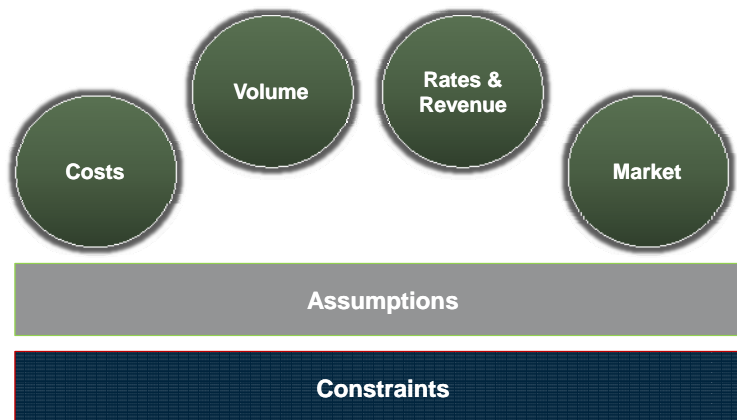
- Use historical information as starting point for cost analysis
  - Variance analysis between Last Fiscal Year Budget vs. Last Fiscal Year Actual financial performance
  - Re-visit assumptions made last year and compare them to the actual outcomes
  - Look for trends in financial data
    - (e.g. calculate supply cost as a percentage of revenue, or utilization of staff if using a billable hours model)

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## Service Centers in Practice

- **Cost Analysis is not limited simply to costs alone**



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## Cost Analysis and Rate Setting

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### ▪ Volume

#### ➤ Estimate Internal Users:

- List by PI, funding source, and likely volume in units and/or dollars (if available)
- Review users by grant activity

#### ➤ Estimate External Users:

- Types of users (universities, hospitals, independent research organizations, pharmaceutical companies, non-profit, biotechnology firms, and so on)
- Sources of funding (if available) and likely volume in units and/or dollars (if available)

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## Cost Analysis and Rate Setting

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### ▪ Volume

#### ➤ For existing Service Centers, has volume increased or decreased significantly; if so, why?

- Examples: PI transfer, New PI, Competing Service Center

#### ➤ For new Service Centers, what types of information can you rely on to make volume estimates?

- Examples: Existing PIs who already collaborate with the scientific director, potential users in your department, new collaborations with external users

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## Cost Analysis and Rate Setting

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### ▪ Rates and Revenue

#### ➤ Forecast Revenue

- Multiply (Anticipated Volume) times (Rate)
- Compare to historical Revenue figures
- Look for trends (upward, downward, or flat) to decipher solvency of the service center
- Determine volume of external users and indirect cost recovery from external users

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## Cost Analysis and Rate Setting

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### ▪ Rates and Revenue

#### ➤ Perform Break-even cost analysis

- Sum of Rates multiplied times Volume for each service should equal the total cost of operating the service center
  - For example, \$200,000 in total service center costs divided by 5,000 units will yield a rate of \$40 per measurable unit (hour, job, item, etc.)
- Multiple services or items require more complex calculation to allocate costs

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## Cost Analysis and Rate Setting

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- **Rates and Revenue**

- Remember the goal is to break-even at the end of the fiscal year
- Review rates in terms of costs, volume, and market considerations.
- Determine whether rates be increased or decreased
- Incorporate any deficit or a surplus from the prior fiscal year
- Provide updated rate schedule based on your final cost analysis

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## Cost Analysis and Rate Setting

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- **Market**

- Information to consider:
  - Is this a unique service with no basis for cost?
  - Is this a homogeneous service offered by competing firms?
  - Do internal users have funding sources to pay for the services?
  - Is the service provided by your service center considered cutting-edge technology or could possibly be obsolete fairly soon?

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## Service Centers in Practice

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### ▪ Best Practices for Operational Issues

- Invoice Promptly!
- Analyze Revenue and Expenditures at least Quarterly
- Re-visit Assumptions to Validate against Actual Trends
- Consider charging external users a higher rate that includes indirect cost recovery
- Never discriminate against federal awards by charging lower rates to users charging non-federal funding sources
- Never provide free service to any users
- Work with the scientific director and technical staff to consider all billable milestones
- Uncollectable A/R is not an allowable cost and must be excluded from your cost analysis

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## Service Centers in Practice

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### ▪ Roles and Responsibilities

- The clear delineation of roles and responsibilities is critical to the success of the Service Center
- Purpose to ensure efficient operations and oversight
- All roles and responsibilities should be documented in writing
  
- Functions of Responsibility:
  - Day-to-day Operations
  - Oversight, Support and Guidance
  - Institutional Oversight Offices

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## Service Centers in Practice

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### ▪ Roles and Responsibilities

#### ➤ Day-to-day Operations

- Service Center Administrator, Technical Staff, Scientific Director, Department Administrator, and Department Chair

#### ➤ Oversight, Support and Guidance

- School/College Business Office, Post-Award and/or Financial Compliance Office

#### ➤ Institutional Oversight Offices

- Sponsored Programs Office / Cost Analysis
- Internal Audit
- Provost / VP for Research

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Final Q&A

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