

Introduction to Service / Recharge Centers



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Agenda

- Overview
- Types of Service Centers
- Do We Need a Service Center?
- What are the Rules?
- Cost Determination
- Service Center Rates and Billing
- Best Practices
- Government Audit Focus
- Questions???



Overview

- A service center is an organizational unit which provides a specific service or product, or a group of services or products, to users principally within the academic and administrative community.
- A service center recovers the cost of its operations through charges to its users (internal and external).



Overview

- The cost of operating the service center facility or providing the product is charged to users on a “rate” basis. Rates are generally formulated to recover the costs of operations such as salaries, benefits, equipment depreciation, materials, and supplies expense.



Types of Service Centers

- Specialized Service Facility (SSF):
 - A large service center that provides specialized services to a select group of users rather than overall University operations (OMB Circular A-21 rules)
 - High direct and indirect operating costs (typically \$1,000,000 or more)
 - Examples include:
 - Animal Care Facilities
 - Specialized Computers
 - Wind Tunnels
 - Reactors



Types of Service Centers

- Recharge Center:
 - All service centers that do not fall within the definition of a specialized service facility and provide services the university and possibly outside users
 - Campus-Wide
 - Department Based
 - Examples of recharge centers may include
 - Telecommunications and copiers
 - Fabrication shop
 - Core services (electron microscope, labs, etc.)



Do We Need a Service Center?

- Can the activity can comply with the definition of a recharge operation?
 - Can we determine an actual usage in measurable units of output?
 - Are periodic billings feasible?
- A demand exists for the products / services to be provided by the center.
 - This demand should be estimated in advance.



Do We Need a Service Center?

- A significant volume of recharging, both in dollar amount and number of transactions, will occur.
- The product or service is provided on a regular and continuing basis.
- The service center will operate within:
 - Disclosed cost accounting practices (DS-2).
 - Existing finance and administrative policies and procedures.



Do We Need a Service Center?

- ❑ Significant accounting, monitoring and Federal rules must be considered.
- ❑ The allocation of costs to awards and other cost objectives will be more equitable using a service center than other methods.
- ❑ Establishment of SSF / recharge center should not be based on proportion of likely Federal funding.



What Are the Rules?

- Federal Cost Principles:
 - OMB A-21 (now 2 CFR Part 220) contains the cost principles related to service centers.

- Other Federal Sources:
 - HHS DCA Best Practices Manual for reviewing College and University Long- Form F&A Cost Rate Proposals.
 - Audit Guide: Adequacy and Compliance Audits of Disclosure Statements Submitted by Educational Institutions (HHS OIG).
 - Federal Audits of Recharge Centers (HHS OIG).
 - A-133 Compliance Supplement governing internal service, central service, pension, or similar activities.



What Are the Rules?

- Other Factors:
 - Cost Accounting Standards (CAS) Disclosure Statement (DS-2)
 - Current institutional policies and procedures



OMB Circular A-21

- OMB Circular A-21, Section J.47 addresses Specialized Service Facilities

“a. 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 for the services meet the conditions of either subsection 47.b. or 47.c. and, in addition, take into account any items of income or Federal financing that qualify as applicable credits...”



OMB Circular A-21

b. The costs of such services, when material, must be charged directly to applicable awards based on actual usage of the services on the basis of a schedule of rates or established methodology that

(1) does not discriminate against federally supported activities of the institution, including usage by the institution for internal purposes, and

(2) is designed to recover only the aggregate costs of the services. The costs of each service shall consist normally of both its direct costs and its allocable share of all F&A costs. Rates shall be adjusted at least biennially, and shall take into consideration over/under applied costs of the previous period(s).



OMB Circular A-21

- c. Where the costs incurred for a service are not material, they may be allocated as F&A costs.*
- d. Under some extraordinary circumstances, where it is in the best interest of the Federal Government and the institution to establish alternative costing arrangements, such arrangements may be worked out with the cognizant Federal agency.”*



Cost Accounting Standards

- Under Section 3.2.0, “Service Centers”, Organizations must disclose information for:
 - 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 costs



Cost Accounting Standards

- Institutions are required to disclose for each SSF:
 - How the service center costs are billed – direct, indirect, or both.
 - Whether the service center receives an allocation of:
 - All applicable indirect costs
 - Partial allocation of indirect costs
 - No allocation of indirect costs



Cost Accounting Standards

- Institutions are required to disclose for each SSF:
 - Whether the basis for billing historical, forecasted, or incurred costs.
 - If all users are charged at the same billing rates.
 - Whether billings (revenues) are compared to actual costs (expenditures) at least annually.
 - How annual variances between billed and actual costs are prorated to users:
 - Carried forward as adjustments to billing rate of future periods;
 - Credited to indirect costs



Cost Determination

- Overarching Principles
 - Allowable vs. Unallowable Costs
 - Unallowable costs may not be charged to service centers.
 - Allocable vs. Unallocable Costs
 - Only costs which directly benefit the center should be charged to service centers.
 - Direct vs. Indirect Costs
 - Service center charges may be charged directly or indirectly to sponsored agreements.



Cost Determination

- Direct Operating Costs: All costs that can be specifically identified with a service provided by a service center.
 - Salaries, wages and fringe benefits
 - Purchased services
 - Supplies and Materials
 - Equipment rental, fees, service contracts, etc.
 - Surpluses/deficits from prior periods
- Internal Service Center Overhead: All costs that can be specifically identified to a service center, but not with a particular service provided (different than F&A).
- Facilities and Administrative Costs (F&A Costs)



Cost Determination

- Unallowable Costs: Costs that cannot be charged directly or indirectly to federally sponsored programs:
 - advertising,
 - alcoholic beverages,
 - bad debts,
 - charitable contributions,
 - entertainment,
 - Interest on non-capital asset related debt
 - Selling and marketing, etc.



Cost Determination

- SSF must be considered in the F&A Rate
 - SSF Space may be included as part of the SSF or OIA. If in SSF the operations and maintenance assigned become part of the billing rate
 - If impact to F&A rate is nominal (1/10th of a percentage point of less) allocations are not required.
 - SSF space related costs will not be allowed to be allocated based on revenue generated.
 - GA will be allocated to the SSF costs as they are part of the MTDC base where they were direct charged (e.g., under costs of award).
 - Government Guidance – *“The allocation of facilities and administrative costs to a specialized service center is necessary to assure that these costs are assigned to the users of the services rather than to general overhead.”*



Cost Determination

- For recharge centers O&M costs are not required to be recovered in billing rates. Alternatively space related costs may be
 - Allocated to functions based on revenue (under alternate space methodology)
 - Become part of the University subsidy
- For small, department based recharge centers, O&M may be recovered through the department administration pool



Cost Determination

- *Labor costs* – allocable salaries and wages of personnel performing service should be included the costs of the service center
 - CAS requires that costs incurred for the same purpose in like circumstances be treated consistently (e.g. direct or indirect)
 - May be a factor when developing rates for recharge centers
- *Applicable Credits* – Transactions that offset or reduce costs, such as purchase discounts, rebates, allowances, refunds, etc.
 - For purposes of charging service center costs to federally sponsored programs, applicable credits also include any direct federal financing of service center assets or operations (e.g., the direct funding of service center equipment by a federal program).



Cost Determination

- *Equipment* – Capitalized equipment subject to institutional policy is not allowable as a direct service center charge.
 - Equipment under the capitalization threshold may be expensed.
 - Equipment costs are captured through depreciation.
 - Equipment used in service centers can have different useful lives than those in general university operations (must be documented).
 - Care should be exercised to avoid duplicate recovery of depreciation as direct service center and F&A costs.



Cost Determination

- *Working Capital* – Funds that are accumulated in excess of actual cost in order to fund future operating expenditures.
 - A recharge center surplus fund should not exceed 60 days working capital.
 - Service centers can acquire working capital through an existing surplus, adding surcharges to external users, or transferring funds from non-federal sources.
 - DHHS, DCA does monitor working capital when reviewing the F&A rate calculation.

- *Interest Costs* – Interest earned on excess balances must be credited to the appropriate service center and used in the determination of rates.



Service Center Rates and Billing

- *Billing Rate* – The amount charged to a user for a unit of service. Billing rates are usually computed by dividing the total annual costs of a service by the total number of billing units expected to be provided to users over the cost accounting period.
 - *Billing units* include hours of service, animal care days, tests performed, machine hours used, number of parts fabricated, etc.
 - Units should have beneficial and causal relationship to product or service provided.
 - Estimated rates should only be used when a new service center is established.



Service Center Rates and Billing

- Treatment of Variances
 - In accordance with A-21. *“Rates shall be adjusted at least biennially, and shall take into consideration over/under applied costs of the previous period(s).”*
- *Surplus* – The amount that the revenue generated by a service exceeds the costs of providing the service during the cost accounting period.
- *Deficit* – The amount that the costs of providing a service exceed the revenue generated by the service during a the cost accounting period.



Service Center Rates and Billing

- Determining profit or loss should include all revenue
 - Imputed revenue for unbilled services and discounts to users.
 - Service center losses should not be included in the F&A rate.
- Surplus and deficits for service centers should be used to adjust future billing.
- Use of surplus or deficits for other purposes is not generally allowed.
 - Equipment or other Purchases
 - Fund operating deficits of other services in the center (i.e., each service must be looked at individually)
 - Increases in staff salaries



Service Center Rates and Billing

- If the institution decides to subsidize the operations of a service center, deficits cannot be carried forward as adjustments to future billing rates.
- Federal rates must be based on incurred costs.
- External users may be billed at higher rates.
 - Revenue from outside parties may have Unrelated Business Income Tax (UBIT) implications.



Service Center Rates and Billing

- Federal rates may not be used to offset discounted rates offered to other users.
- Other rate Considerations:
 - A published rate list should be maintained.
 - Rates should not discriminate against any user group.
 - Rates set to break even over time, not each period



Best Practices

- Policies and procedures should be in place and include:
 - Approval for the establishment of service centers. Justification should include:
 - A description of the services to be provided and the users of the services.
 - Rationale for why the services can best be provided by an internal service center, rather than by an external service provider.
 - A projection of the costs and utilization analysis.
 - A billing rate calculation and, where feasible, a benchmark analysis of the proposed rates with those of accessible outside service providers.



Best Practices

- Policies and procedures should be in place and include:
 - Clear formats and examples of budgets, rate development and billing procedures.
 - Rules concerning maintaining records to document the direct operating costs of providing the service, revenues, units of service provided, billings, collections, and the annual surplus or deficit.
 - Records are required to be maintained for three years from the end of the fiscal year to which the records relate.
 - Budget guidance addressing cost development, allowability, internal overhead, F&A costs, treatment of variances
 - Internal and external rate setting and billing procedures – number of rates should be considered
 - Specific dates for rate reviews



Government Audit Focus

- Service Centers are an ongoing area of focus for F&A rates and government audits and investigations.
 - Over charging relating to rate setting – arbitrary or failure to use history or undocumented projections.
 - Inappropriate depreciation practices, including equipment reserve funds.
 - Double billing through charging costs both as a direct and indirect.



Government Audit Focus

- Inadequate billing support (invoice) documentation.
- Inadequate records and logs documenting services to ensure that all services are accounted for and billed.
- Double billing through charging costs both as a direct and indirect.



Questions

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