



SERVICE CENTERS: The Not So Simple Basics

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Service Centers Agenda



- Federal Guidance, Definitions and Key Issues
- Institutional Policies
- Recharge Centers
- Specialized Service Centers
- Calculating Billing Rates
- Subsidies
- Other Issues
- Common Compliance Issues
- The Future
- Q&A

Service Centers Federal Guidance



GUIDANCE IS LIMITED

- OMB Circulars
 - A-21
 - A-87
 - A-122
 - A-133
- Cost Accounting Standards Disclosure Statement (DS-2)
- Health and Human Services (HHS) Review Guide for Long-Form University Indirect Cost Proposals
- Health and Human Services Office of the Inspector General
 - Federal Audits of Recharge Centers
 - Audit Guide: Adequacy and Compliance Audits of Disclosure Statements Submitted by Educational Institutions

Service Centers Federal Definitions



In the DS-2:

Service centers are described as “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" (SSF).

In A21 (only Specialized Service Centers are covered):

... services provided by highly complex or specialized facilities operated by the institution, such as computers, wind tunnels, and reactors

Terminology

Service Center = Recharge Center = Core Facility

Specialized service center (SSC) = Specialized Service Facility (SSF)

Service Centers Federal Guidance



KEY ISSUES

Goods or services are charged directly to users based on usage:

On a published rate schedule or established methodology

Using rates that do not discriminate between federal and non-federal users (including internal users)

Federal customers must never be charged more than other customers

Rates must equal cost over time:

Rates shall take into consideration over/under recovery of the previous period(s)

Only exception is when a unit or institution writes-off/subsidizes a loss

Service Centers Institutional Policies



- Every institution should have written policies and procedures for establishing, operating and accounting for service centers
- Institutions can provide specific definitions for
 - Academic Service Centers
 - Specialized Service Centers (usually a dollar threshold)
 - Auxiliary Service Facilities
- Policies can be separated from a more detailed Procedures Manual

Recharge Centers Definition and Examples



SAMPLE ACADEMIC RECHARGE CENTER DEFINITION:

Recharge Centers are units that charge for goods or services that directly support the research or academic mission of the University and recover costs through charges to internal and external users.

EXAMPLES OF SCIENTIFIC RECHARGE CENTERS

- Electron microscope facility
- Machine shop
- Glasswashing
- Computational services
- Sequencing facility

Recharge Centers Examples



EXAMPLES OF NON-SCIENTIFIC RECHARGE CENTERS

- Copy/duplicating center
- Mail distribution center
- Central stores
- Central IT support services
- Real estate related services
- Facilities repair and maintenance type activities

NOTE -NO COSTS THAT GET CLASSIFIED AS INDIRECT COSTS (F&A) SHOULD BE INCLUDED IN SERVICE CENTER CHARGES THAT GET CHARGED DIRECTLY ON GRANTS AND CONTRACTS

Recharge Centers Billing Rates



- What gets included in recharge center rates?
- Billing rate can be fully loaded or include only the direct costs
- Direct costs
 - Salaries, wages and fringe of staff working in the facility
 - Supplies/materials to operate facility
 - Repairs and Maintenance
 - Service contracts
 - Purchased services
 - Depreciation (depending on institutional policies/practices)

Recharge Centers Billing Rates



- Indirect costs (based on allocations)
 - Space related cost (facility costs)
 - Utilities
 - Operations and maintenance
 - Depreciation (of buildings or renovations)
 - External interest
 - Administrative costs (not commonly included)
 - Departmental administration and finance costs
 - IT costs

NOTE – ANY COSTS INCLUDED AS DIRECT COSTS OF THE RECHARGE CENTERS MUST BE EXCLUDED FROM INDIRECT COST/F&A RATE CALCULATIONS

Recharge Centers Unallowable Costs



The following costs are unallowable and cannot be included in recharge center rates

- Advertising, marketing or selling costs
- Bad debt or uncollected billings
- Equipment (over the institutional capitalization amount)
- Donations, gifts and contributions
- Fines or penalties
- Internal Interest
- Memberships
- Reserves
- Salaries over the NIH cap

Specialized Service Facilities



- Institutionally defined
- Often set at \$1MM of operating expenses
- Identified as “...highly complex or specialized facilities operated by the institution...”
- Examples of SSFs
 - Linear accelerators
 - Magnetic centers
 - Computational facilities
 - Cell sorters/flow cytometry
 - Genetic sequencing
 - Animal care facilities (special guidance)

Specialized Service Facilities



- Billing rates must include both direct and indirect costs
 - If these costs are not included in the charges to customers the cost are not covered by federal agencies
 - Federal requirement to review rates biennially
- Information on each SSF must be disclosed in the DS2
- SSF charges billed to federal awards DO take overhead/F&A
 - The indirect costs included in the billing rates are “local F&A”
 - Institutional F&A does not include the costs charged by SSFs
 - There is no duplicate charges to awards

Service Centers

Calculating Billing Rates



- **Step 1** - Identify all services provided
- **Step 2** - Determine direct costs associated with each service, regardless of how it is funded
- **Step 3** - Identify other costs associated with service center operations
 - » Salary of service center administrator / billing personnel
 - » General supplies
- **Step 4** - For specialized service facility, identify indirect costs to be included in billing rates
- **Step 5** - Identify and segregate unallowable costs in accordance with the cost principles



Service Centers Calculating Billing Rates

- **Step 6** - Add cumulative gain/loss (+/- 15%)
- **Step 7** – Assign service center operating costs and carryforward balance to each service
- **Step 8** – Estimate billable units for each service
 - Labor hours
 - Machine hours
 - Unit cost
 - Number of samples
 - Tests performed
 - Any other unit of measurement appropriate to the type of activity
- **Step 9** - Calculate cost-based rate for each service by dividing the costs by the billable units

Service Centers

Calculating Billing Rates



Recharge Center

<u>Estimated expenses:</u>	
Technicians (2)	200,000
Supplies	50,000
Maintenance contracts	50,000
Equipment depreciation	<u>150,000</u>
Total expense budget:	450,000

Estimated units of service: 2,000

Rate per unit of service = **225**

Specialized Service Facility

<u>Estimated expenses:</u>	
Technicians (10)	1,000,000
Supplies	250,000
Maintenance contracts	250,000
Equipment depreciation	750,000

<u>Add'l expenses in "fully loaded" rate:</u>	
Building depreciation	30,000
Building loan interest	400,000
Operations & Maintenance	<u>200,000</u>
Total expense budget:	2,880,000

Estimated units of service: 10,000

Rate per unit of service = **288**

Service Centers Subsidies



- Institutions can subsidize any recharge center
- Whenever possible subsidies should be recorded in the recharge center's operating account
- Proper accounting will ensure that any subsidies DO NOT shift costs to other users
- Types of subsidies
 - Lump sum
 - Specific users or groups of users
 - Year end write-offs
- Cross subsidization of services is not allowed

Service Centers Other Issues



- Charges to external customers
- Student Usage
- Carry forward of gain/loss (within institutional threshold)
- Recharge center support accounts
- ~~Profits~~
- Discounted rates
- Record keeping and record retention
- Tax issues
- Operating reserve

Service Centers Common Compliance Issues



- Inadequate policies, procedures and/or oversight
- Billing rates do not represent actual cost
- Unallowable costs are included in the billing rate
 - Cost of equipment
 - Replacement fees
 - Uncollected fees billed to customers

Service Centers Common Compliance Issues



- Carry forward balances are not properly recorded
- Surpluses are not always used to reduce future rates
- Some users are billed at reduced rates and the federal programs are subsidizing the difference.
 - It is OK if the federal accounts are subsidized.
- Costs are duplicated - included in rates and F&A calculation

Service Centers The Future



- Summary of changes to the regulations
- OMB has issued for response the combination of:
 - A-21, A-122, A-87
 - A-102 and A-110
- Will this impact the use of service centers?

Service Centers Ask your Questions



Any specific questions we can answer?