



2019 ANNUAL MEETING

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Service Centers: How to Comply with Regulations and Monitor Activity

2019 SRAI Annual Meeting October 19-23

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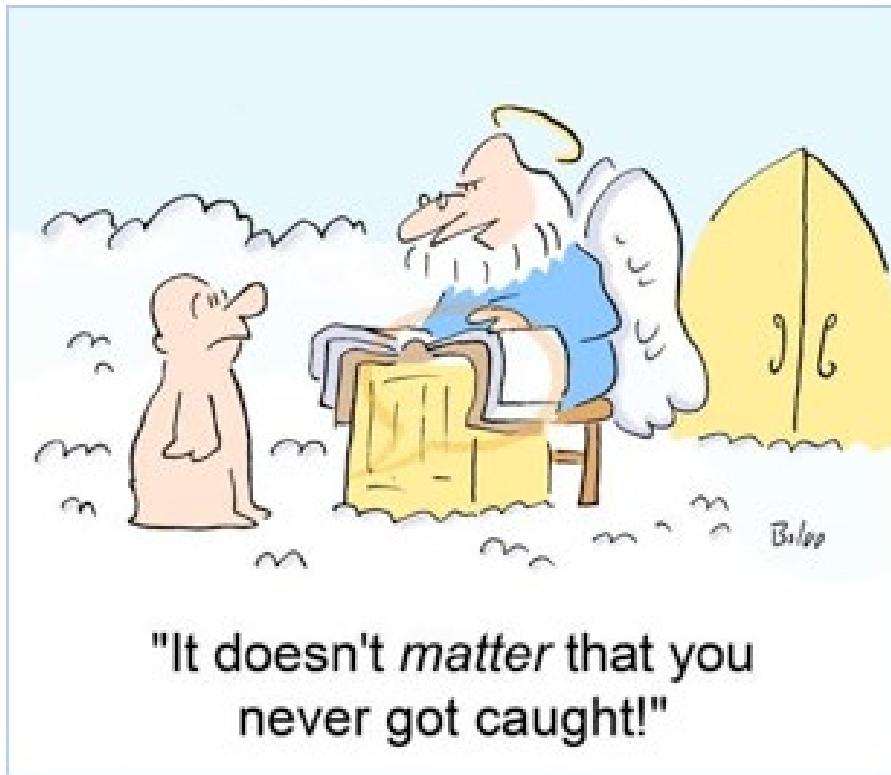
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Agenda

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1	Introductions
2	Why We Care?
3	What are Service Centers and Do We Need One?
4	Brief Compliance Primer
5	How Do We Set a Service Center Billing Rate?
6	Components of a Billing Rate
7	Maintaining the Rate Setting Program
8	Roles and Responsibilities
9	Questions Answered

Why We Care?



"It doesn't *matter* that you
never got caught!"

Why We Care?

- Compliance is always a hot topic with the federal government and typically part of the annual DHHS Office of Inspector General (OIG) Audit Work Plan.
- Recent findings related to rate setting:
 - A University - April 2014 - \$6.4M refund to the federal government requested- multiple issues including animal billing
 - The University argued that animal per diems were charged to projects in accordance with the proportional benefit each project received. Underlying argument: the design is sound
 - Federal government rebutted that the allocation methodology was still lacking. Underlying argument: simply writing %'s on the bill does not constitute an allocation methodology
- There is very little concrete guidance as to how to operate service centers making compliance requirements challenging to achieve.

What are Service Centers and Do We Need One?

- An operating or business unit within the Institution that provides:
 - goods or services
 - to customers, principally within Institution
 - for a fee.

What are Service Centers and Do We Need One?

- What is a *specialized service facility* and how does it differ from a service center? According to the Office of Management and Budget (OMB), it is highly complex or specialized facilities such as computer labs, wind tunnels, etc.
 - Research Core Facilities such as genomics, imaging, or cell sorting facilities
 - Animal Research Facilities follow a special rate setting guide called: “Cost Analysis and Rate Setting Manual for Animal Research Facilities (aka CARS)
- *Recharge centers* are not specialized, e.g., copy centers.

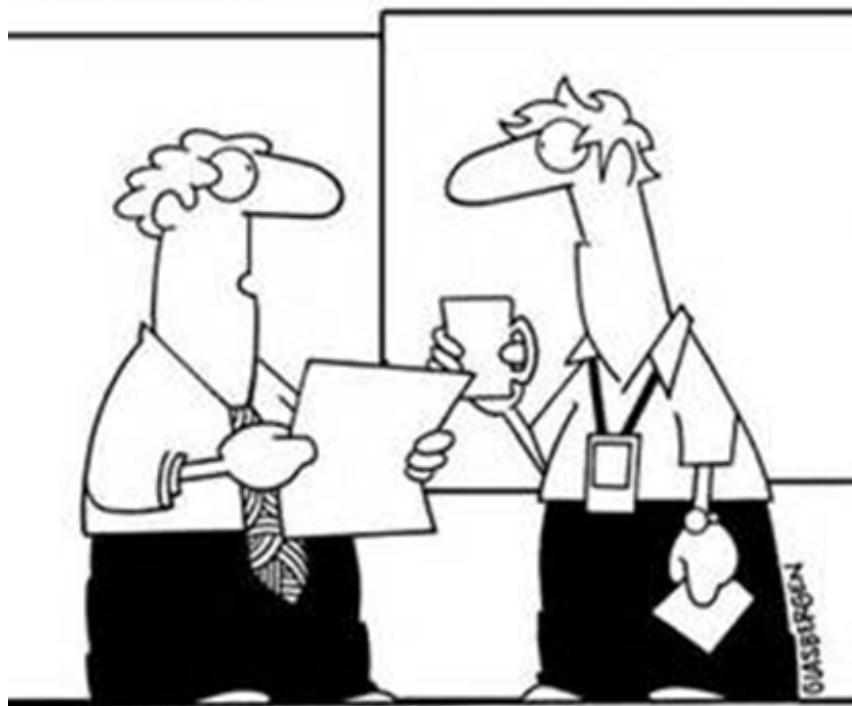
What are Service Centers and Do We Need One?

Do we even need a service center?

- Is this a **unique service**?
 - Is this a **homogeneous service** offered by competing firms?
 - What is the **quality of the service** provided by your service center? Is it considered cutting-edge technology or could it possibly be obsolete fairly soon?
- 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
- Do internal users have **funding sources** to pay for the services?

Primer on Fundamental Compliance Requirements

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"We need to prepare for our audit.
Organize a game of dodge ball!"

Uniform Guidance



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Part III

Office of Management and Budget

2 CFR Chapter I, Chapter II, Part 200, et al.
Uniform Administrative Requirements, Cost Principles, and Audit
Requirements for Federal Awards; Final Rule

Uniform Guidance

- ✓ The “Compliance Bible” - 2 CFR, Part 200 - OMB Uniform Guidance: Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Effective December 26, 2014)
- ✓ The “Gospel of service centers according to OMB” - The section related to service centers is §200.468 Specialized Service Facilities. Some of you may be familiar with the language as it was taken directly from the A-21.

“Commandments”:

- The costs of services are ***allowable as a direct-charge*** as long as you ***account for any items of income*** and ***apply credits*** for the portions of the operation the federal government supported
- If the costs are **material**, charge for *actual usage* based on a *schedule of rates* that:
 - Does *not discriminate* between activities under Federal awards and
 - Recover only the *aggregate costs* of the services.
 - Rates must be *adjusted at least biennially*, and must take into consideration *over/under applied costs* of the previous period(s).
- Where the costs incurred for a service are **not material**, they may be allocated as indirect (F&A) costs.

How Do You Create a Service Center Billing Rate?



- ✓ Learn the key compliance rules and regulations
- ✓ If this is an animal rate, learn CARS Manual!
- ✓ Ask peers and consultants about the allocation process

How Do You Create a Service Center Billing Rate? (continued)

- Decide what statistics are the right fit for your organization; i.e., time studies, records of feed and bedding costs, etc.
- Review the costs of the facility to determine the correct level of cost detail
 - At one institution that meant coding certain major and minor object codes into logical rate setting groupings
- Determine the allocation basis for each cost category
- Download the organization's costs into the models cost groups
- Set up the model structuring the flow of allocated costs into a logical order (like the order presented in the CARS manual)
- Include all costs and statistics in the model
- Run the model setting a rate for each unit

Components of a Billing Rate

- 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)

Estimating Costs

- **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/usage** estimates.
- Use historical information only as **starting point** for cost analysis
 - **Variance analysis** between Last Fiscal Year Budget vs. Last Fiscal Year Actual financial performance
 - 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)

Volume Analysis

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

Estimating 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

Estimating Revenue (continued)

- Perform **break-even** cost analysis
 - Sum of Rates 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 calculations** to allocate costs.
- Determine whether rates should be adjusted (i.e. increased or decreased).
- Incorporate any deficit or a surplus from the prior fiscal year.
- Provide updated rate schedule based on your final cost analysis.

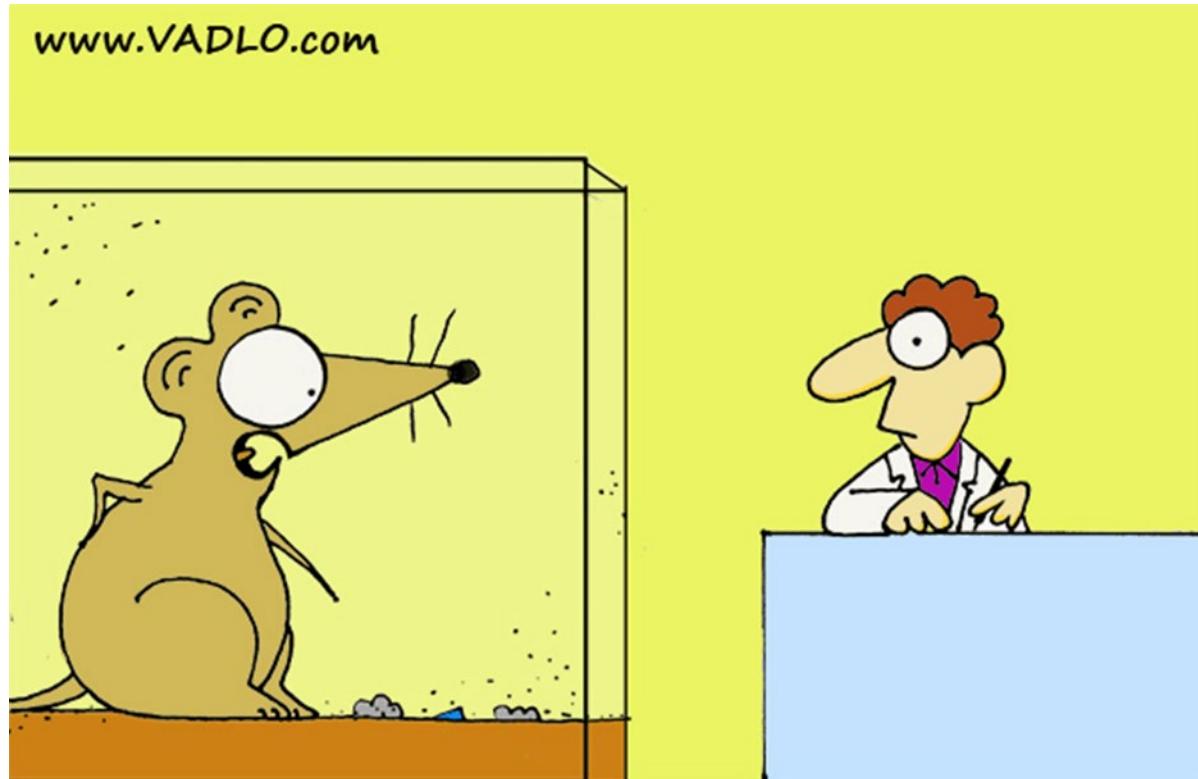
How Do You Maintain the Rate Setting Program?



How Do You Maintain the Rate Setting Program?

- ✓ Periodically during the year, ensure that the billing is not creating a surplus for the account (compliance issue)
- ✓ Again periodically during the year, check that the billing is not creating a greater deficit than anticipated (financial issue)
- ✓ On an ongoing basis, identify changes to the service center offerings, staff and their functions, cost categories, reasons for allocation basis or the space or space costs
- ✓ Has volume increased or decreased significantly? If so, why?
 - Examples: PI transfer, new PI, competing service center
- ✓ And always keep in mind that rates must be adjusted biennially to ensure the rates are current and compliant

Roles and Responsibilities



“Hey Postdoc, clean my house!”

Roles and Responsibilities (continued)

- Office of Sponsored Research
 - Primarily responsible for monitoring the operation of ALL Service Centers, which includes:
 - Setting policies and establishing biennial review procedures
 - Establishing accounts
 - Monitoring balances
 - Ensure cost reasonableness, timing and allowability
 - Assist PI's in the establishment of new service centers
 - Work with PI's/Core managers in the operation of existing service centers.
 - Periodic review/approval of billing rates

Roles and Responsibilities (continued)

- Service Center Manager
 - Primarily responsible for ensuring that the operation of the service center complies within Federal guidelines and Center policy and procedure.
- Service Center Principal Investigator
 - Primarily responsible for ensuring the service center is properly managed. For example: welfare of animals, personnel, budgets
- Fiscal Services
 - Primarily responsible for processing all accounting transactions in compliance with institution policies and procedures.

Questions

1. Is there a dollar threshold for establishing a service center?
2. Who should have oversight of service centers?
3. What is the difference between a service center and an allocation of costs?
4. Can a service center include direct charging of Administrative staff? What about part of an FTE?
5. Can F&A be charged to service center fees when they are incurred by a grant?

Questions Continued

6. Can the department that runs the service center arbitrarily discount its rates for itself?
7. Can you charge based on a subscription basis by semester, by month, or other frequency?
8. How often must we review rates? Can we re-price during a fiscal year?

Questions?

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