Service Centers: How to Comply with Regulations and Monitor Activity

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# Agenda

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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

“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

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
“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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