

Service Centers: Internal Control, Direct Costing and Responsible Management

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2 CFR 200.468 Specialized Service Centers

(a) The costs of services provided by highly complex or specialized facilities operated by the non-Federal entity, such as computing facilities, wind tunnels, and reactors are allowable, provided the charges for the services meet the conditions of either paragraphs (b) or (c) of this section, and, in addition, take into account any items of income or Federal financing that qualify as applicable credits under §200.406 Applicable credits.

(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 between activities under Federal awards and other activities of the non-Federal entity, including usage by the non-Federal entity for internal purposes, and
- (2) Is designed to recover only the aggregate costs of the services. The costs of each service must consist normally of both its direct costs and its allocable share of all indirect (F&A) costs. Rates must be adjusted at least biennially, and must take into consideration over/under applied costs of the previous period(s).

(c) Where the costs incurred for a service are not material, they may be allocated as indirect (F&A) costs.

(d) Under some extraordinary circumstances, where it is in the best interest of the Federal Government and the non-Federal entity to establish alternative costing arrangements, such arrangements may be worked out with the Federal cognizant agency for indirect costs.

Recharge and Service Center Guidance

NIH Core Facilities FAQs

https://grants.nih.gov/grants/policy/core_facilities_faqs.htm

HHS Cost Allocation Services Best Practices Manual

<https://rates.psc.gov/fms/dca/S&L%20Best%20Practices%20Manual.pdf>

HHS Cost Allocation Services FAQs

<https://rates.psc.gov/fms/dca/faq.html>

What's the Risk?

National Institutes of Health OIG University of Alabama at Birmingham

- **Chilled water and netting of revenue generation.** UAB included \$8.6 million in chilled water costs that were not in accordance with Federal requirements that costs must be reduced by applicable credits. Specifically, UAB officials did not reduce chilled water cost
- UAB acknowledged that they did not net \$8.6 million in chilled water revenues that it received from various users against costs included in its FY 2010 F&A cost proposal. As a result, UAB's negotiated F&A rate was inflated by 1 percent per year for FYs 2012 through 2015, and it potentially received as much as \$5.9 million in overpayments from the Federal Government.
- UAB acknowledged that it overstated chilled water costs in its proposal and commented that it had taken steps to ensure that appropriate officials review future proposals for compliance prior to submission. However, UAB contended that it included \$16.5 million in chilled water costs in the proposal, that it overstated chilled water costs by \$3.6 million, and that its costing model identified overcharges made to Federal awards of \$1 million. After reviewing UAB's comments and additional information, we agreed that UAB included \$16.5 million in chilled water costs, composed of \$7.9 million incurred costs to produce chilled water and \$8.6 million in chilled water costs billed to user accounts, in its proposal. After analysis of the additional information, the auditors maintained that UAB overstated chilled water costs by \$8.6 million in costs not reduced by revenues (applicable credits) and that it received as much as \$5.9 million in overpayments.

DOI Audit of the University of Rhode Island

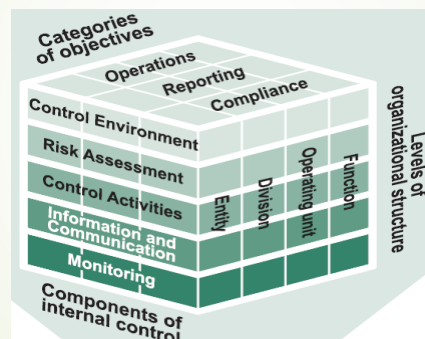
- **Cost Center Charges - Computer Supplies and Software: Failure to net resale revenue.** The University claimed computer supplies and software charges for an Apple MacBook Pro purchased from the University bookstore. A number of other laptops, data backups, servers, and other computer supplies were purchased through the EDC where expenses are subsequently passed on to its users. We classify the amount as unsupported.

University of South Florida Service Center Charges

- **Service Center Charges:** The University did not provide a schedule of rates or a cost basis for its telecommunications center and did not always document the allocation of animal center costs on the basis of usage.

What Defines Internal Controls for an Organization?

Relationship between the Entity's Objectives, Compliance Expectations, Organizational Structure, and Internal Control's Foundational Components



GAO – Standards for Internal Control in the Federal Government

What Defines an Organization's Control Environment?

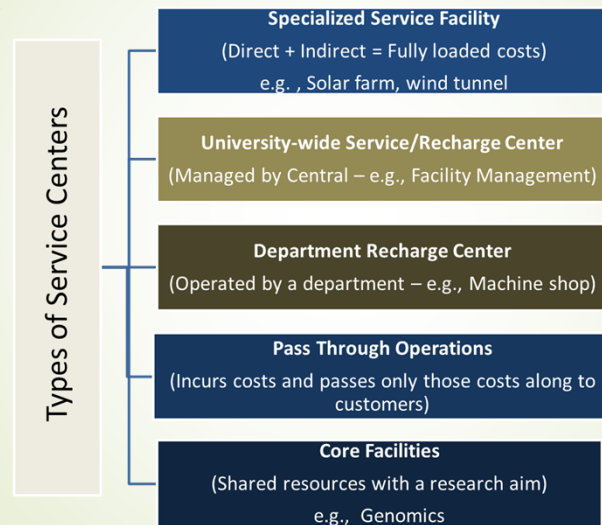
The **control environment** refers to the overall tone of the organization. This tone reflects the attitude, awareness, and actions of the board of directors, management, and owners who influence the **control** consciousness of its people.

1. **Communication and enforcement of integrity and ethical values**
2. **Commitment to competence**
3. **Participation by those charged with governance**
4. **Management's philosophy and operating style**
 - ▀ Approach to taking and managing business risk
 - ▀ Attitudes and actions toward financial reporting
 - ▀ Attitudes toward information processing and accounting and functions personnel.
5. **Organizational structure** - whether the company's organizational structure in terms of authority, responsibility and lines of reporting meet desired objectives.
6. **Assignment of authority and responsibility** -
 - ▀ qualified and experienced individuals.
 - ▀ adequate reporting relationships and hierarchical authorization
 - ▀ individuals need to be aware of their responsibilities and have the resources to carry out those responsibilities
7. **Human resources policies and practices**

A Strong Service Center Policy -

- ▀ Define service center in the policy
 - ▀ Provides a good/service or groups of goods/services
 - ▀ Operates on a recurring basis
 - ▀ Is primarily for users within the University
 - ▀ Recovers the costs of providing the good/service through charges to users
 - ▀ Meets a specified dollar threshold of either revenue or expense
- ▀ Assign Roles and Responsibilities
 - ▀ Oversight office
 - ▀ Service Center Director

A Strong Service Center Policy – Defines:



A Strong Service Center Policy – General Costing Principles

- Costs of providing services must be:
 - Allowable
 - Allocable
 - Consistently applied
 - Reasonable
- Unallowable costs not included in federal rate
 - Refer to 2 CFR, Part 200 Uniform Guidance, Subpart E - Cost Principles, Sections 200.400 – 200.475
- Applicable Credits

§200.453 Materials and supplies costs, including costs of computing devices.

(a) Costs incurred for materials, supplies, and fabricated parts necessary to carry out a Federal award are allowable.

(b) Purchased materials and supplies must be charged at their actual prices, net of applicable credits...

A Strong Service Center Policy - Rate Setting Principles

- ▀ Actual cost is the most the rate is allowed to recover
- ▀ Retain documentation of the rate calculation
- ▀ Rates must be reviewed and approved on a regular basis
- ▀ “Regular basis” means no less than every other year, i.e. bi-annually
- ▀ Rates must be adjusted when incoming funds exceed expenses (surplus balance) or else refunds must be issued
- ▀ Rates must be based on usage
- ▀ Rates should be published
- ▀ Rates may not discriminate against federal users
- ▀ Guidance is different for external users

Control Environment

- ▀ Do individual understand the requirements and their responsibilities and the implications for noncompliance?
 - ▀ Senior Leadership
 - ▀ Service Center Managers/Directors
 - ▀ Service Center Staff
- ▀ Are the individuals qualified to fulfill the duties of the positions to which they are assigned?
- ▀ Is training and professional development provided to the individuals charged in supporting and overseeing service centers?
- ▀ Does the organization have policies and procedures for the operation and management of service centers (including reconciliation expectations, billing and treatment of overage and underages).
- ▀ If appropriate, are expense codes being use to appropriate align costs with services? Are those codes communicated and is training provide on the appropriate coding
- ▀ Is testing carried out to make sure costs are allocated correctly.
- ▀ Do report on coding errors exist? Is this part of the communication to leadership expectation?
- ▀ Is action taken when noncompliance is identified?

Control Environment – Establishing a Service Center

- Establish responsibility for approval
- Develop a standard form or format
 - Purpose of center / how it supports the University mission
 - Services or products now and anticipated in the future
 - Competition - similar services/products in area
 - Customer base and mix (How much federal, external?)
 - Capital equipment/resources needed
 - Start up funding needs and source
 - Deficit funding source
 - Detailed operating budget
 - Separate activity code/project

Form XXXX: Request to Establish a New Service Center

Service Center Name: Click here to enter text.

Service Center Director/Manager: Who within the service center or within the department will be responsible for the day-to-day operations of the proposed activity?

Name: Click here to enter text. **Phone:** Click here to enter text.

Financial Administrator: Who within the service center or within the department will be responsible for monitoring the finances of the proposed activity?

Name: Click here to enter text. **Title:** Click here to enter text. **Phone:** Click here to enter text.

Department: Which department will the service center operate under? Click here to enter text. **Location:** Click here to enter text. **Startup Date:** Click here to enter a date.

Background and Purpose of Center: Describe the proposed activity. How does the activity relate to the mission of XX University? What purpose will it serve? What is the benefit to XX University?

Control Environment – External Users Rules are Different

- The use of market prices may be appropriate
- Charges may include F&A plus “fee in excess of costs”
- This additional income is not used in the calculation of surplus/deficit balance
- Caution - Recoveries in excess of full cost might be Program Income or Unrelated Business Income (UBI)
- You may owe UBI Taxes and/or sales tax

Control Environment – Surplus Balances

- Among the set asides that could be allowed for surplus balances are:
 1. Up to 60 days of working capital for normal cash expenses
 2. Equipment replacement based on depreciation contained in recharge rates
 3. Difference between higher rates charged for external users as opposed to internal users
- Funds of service centers may NOT be used for unrelated purposes
- Solution is separate fund/project/department for external user billings

Control Environment – Equipment Depreciation

- F&A (Facilities & Administrative) type costs may be allowable in rates, in some cases
- Examples:
 - Allowable Depreciation for Non-Federal equipment
 - Equipment service contract (usually O&M)
- Only if NOT included in F&A rate calculation
- Can NOT include depreciation for portion of equipment purchased by Federal funds

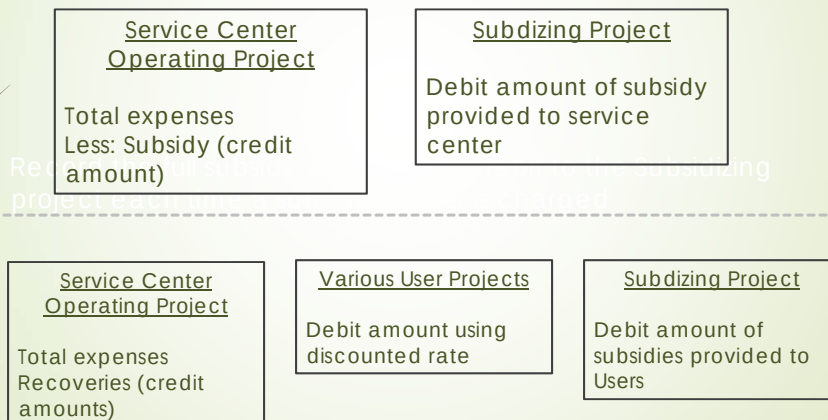
Control Environment – Space

- Service center space must be identified and designated as such during the space survey for F&A Proposal purposes
- Space which is occupied by service center equipment must be designated as service center space, not department space
- Service center space should be treated as “Other Institutional Activities” (OIA) for F&A rate calculation or functionalize based on billings



Control Environment – Recording Subsidies

Record the full subsidy amount as a debit to the Subsidizing project and a credit to the Service Center Operating Project



Risk Assessment

- ▀ Single Audit
- ▀ Internal Assessment
- ▀ External Assessment
- ▀ Review of monitoring activities
- ▀ Review of recent federal OIG audits
- ▀ Do it annually

Risk Assessment and Improvement

- ▀ Based on the risks identified what do we need to improve?
 - ▀ Policies & Procedures?
 - ▀ Training?
 - ▀ Delegation of authority?
 - ▀ Monitoring?

Information and Communicate

- Distribute new or changes to existing policies, if critical add an acknowledgement or confirmation of receipt requirement
- Are resources available on how to carry out the expectations?
- Are you providing training, what is the frequency?

Monitoring

What Can We Do to Monitor Compliance in Our Operations?



Monitoring – Proper Billing Procedures

- Service centers must bill their users in a timely manner based on actual usage
- Recommend monthly billing
- Bills must include sufficient detail to identify
 - The services provided
 - The actual usage
 - The rate used to calculate the charges
 - The time period
- Must follow cash handling policy, if accept cash

Monitoring – Subsidies

- Service centers have the option of not including all costs in the rates (from NOT-OD-13-053)
- Any partial subsidy of a center needs to be identified as an unallowable cost for F&A rate calculation purposes
 - Subsidy could be included as part of the budget
 - Subsidy could be deficit absorbed at the end of the year
- If formally committed (e.g. in NIH core proposal) this is “voluntary committed cost share” (from NOT-OD-13-053)

Monitoring Tools?

- Testing of the reconciliation
- Testing of the expenses allocated to the service center operations
- Testing of approval processes for charging
- Testing of electronic systems for reliability and security
- Oversight of the value and function of the service center in light of operational objectives and costs?
- Testing to ensure information is communicated?

Monitoring and Reporting

When issues are identified:

1. Who is notified?
2. Is corrective action taken?
3. Is corrective action consistently taken?

Making it Happen: Responsibility for Internal Controls



Enhancing Internal Controls

Getting Down to the Work of Improving Performance and Mitigating Risk

Risk	Written Guidance	Communication / Training	Monitoring	Corrective Action	Reporting
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Who	What	Why	How
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