



SOCIETY OF
RESEARCH
ADMINISTRATORS
INTERNATIONAL

Service Center Overhaul

A Discussion on Strengthening Internal Controls and Guidance over Recharge Centers

Overview



The purpose of this presentation is to give a brief introduction to service centers and the federal requirements associated with maintaining them.



We will also give participants a brief overview of our journey for overhauling the processes and internal controls of service centers at the University of Maryland College Park.

Agenda



- Federal Regulations
- Establishing a Service Center
- Rate Development
- Operating a Service Center
- UMD Journey
- Q&A





Federal Regulations Governing Service Centers

Federal Definition of a Service Center

“Recharge centers at universities, also known as specialized service centers, operate as in-house enterprises that provide goods or services to individual users or other operating units. These centers function as non-profit businesses, funding operations through fees from users.”


- *Summary Report on Audits of Recharge Centers at 12 Universities ~ HHS Office of Inspector General, January 1994.*

Uniform Guidance 200.468 Specialized Service Facilities

(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.



Uniform Guidance 200.468



(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.



Uniform Guidance 200.468

(2) (cont'd) 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.

Other guidance



- [DCA Best Practices Manual For Reviewing College and University Long-Form Facilities & Administrative Cost Rate Proposals \(2006\)](#)
 - Section on Specialized Service Facilities
 - Section on Animal Research Facilities
- [Cost Analysis and Rate Setting Manual for Animal Research Facilities \(CARS\) - May 2000](#)
- [Cost Accounting Standards \(CAS\) Disclosure Statement—DS-2, section 3.2.0](#)
- [Audit Guide: Adequacy and Compliance Audits of Disclosure Statements Submitted by Educational Institutions \(HHS OIG\)](#)
- [Federal Audits of Recharge Centers \(HHS OIG\), particularly the “Summary Report on Audits of Recharge Centers at 12 Universities \(A-09-92- 04020\),”1994](#)

Important Considerations Before Establishing a Service Center

Is this service available elsewhere on campus?	Consider whether duplication of services justifies added investment
Is the need short or long term?	For short term needs, it may be preferable to develop an allocation of costs methodology versus establishing a new business unit.
Does this service meet the revenue threshold?	If you do not generate more than \$XX,XXX in revenue from sponsored services, you do not qualify to establish a service center. You should direct charge for services.
Does the majority of projected revenues come from sponsored sources?	If the majority of revenues are from non-sponsored sources, please work with your Accounting office for guidance on non-service center revenue-generating activities.
What portion of our users will be internal vs. external?	<p>A service center with all external customers may function as an auxiliary operation.</p> <p>Note that high external user volume may result in tax implications under UBIT (unrelated business income tax) and should notify the controller office.</p>

Guidance for Service Center Rate Development

Rate setting should consider the **proposed cost of operations** and be **offset by past performance and identified institutional investments**.

- Proposed costs should **consider historical costs** adjusted for inflation and expected growth or decline.
- Service centers without a history should build an operating cost budget based on **expected costs and usage of the services**.
- As a rule, rates for internal users **should never exceed the identified cost per unit**
- Rate calculation should consider the following steps:



Compliance - Rate Development

Not Based on
Actual Cost

Budget Not Based
on Reasonable
Estimates

Use of Market
Rates or
Percentage

Departmental
Surcharge in Rate

Unallowable costs
in rate

Depreciation on
federal equipment
in rates

Not factoring in
non-paying
customers or
subsidies

Inclusion of
renewal costs in
rates

Inclusion of
Equipment Costs

Operating a service center - Checklist

Service Center must develop standards which describe how the service center will:



- Identify personnel time in support of service center activities
- Assign non-salary expenditures to service center activities
- Track and document usage of services
- Evaluate ongoing operations against the annual plan
- Charge or invoice users in a timely, transparent manner
- Adjust rates for significant changes in volume or costs



Documentation of schedules and usage of services



Documentation of charges, invoices and corrections



Documentation of discounts, subsidies or waivers



Documented calculation of rates



Publicly posted rate schedule

Unallowable Costs

Unallowable costs ***must be excluded*** from the budget and may not be charged to the service center operating account :

- Alcoholic beverages
- Airfare in excess of coach
- Bad debt or uncollected billings
- Capital Equipment Purchase (only depreciation expense on non-fed is allowable)
- Donations, gifts and contributions
- Internal Interest
- Entertainment
- Fines or penalties
- Memberships
- Salaries over the NIH cap
- Sales Tax
- Unrelated food and beverage expenses

Allowable Costs for Rate Calculation

Labor – Salary and fringe (percentage of effort)

Operational Expenses

- Equipment (Under \$5,000)
- Maintenance Cost (MRI, computers, servers, peripheral equipment, software license fees)
- Supplies associated with usage (masks, earphone covers, table paper, laundry service, cleaning supplies, water service for participants, telephone, etc.)
- Staff training – travel to training
- Depreciation - if it is NOT included in the University's F&A rate
- Billing system annual cost

NOTE:

- Costs must be reasonable, allocable, allowable, and consistently treated
- Costs must benefit the final cost objective – the delivery of service center goods and/or services
- Consider inflation and salary increases when estimating expenses for next fiscal year.

Calculating Expenses

FY	Salaries	Operations	Total Expenses	University Support	Dean Support	EXPENSES less SUPPORT
13	369,593	220,529	590,122	-	(210,000)	380,122
14	395,793	183,138	578,931		(120,000)	458,931
15	435,822	199,902	635,724		(120,000)	515,724
16	434,641	190,435	625,076		(120,000)	505,076
17	385,197	213,245	598,442		(130,000)	468,442
18	464,066	200,833	664,899		(130,000)	534,899
19	526,137	188,364	714,501	(6,219)	(130,000)	578,282
20	565,863	181,118	746,981	(32,599)	(130,000)	584,382
21	566,686	183,843	750,529	(45,013)	(130,000)	575,516
22	520,655	115,987	636,642	(57,418)	(130,000)	449,224
23	757,488	95,857	853,345	(247,100)	(120,000)	486,245
24	836,469	198,208	1,034,677	(288,199)	(120,000)	626,478
			8,429,869			6,163,321

Rate Calculation w/out Subsidies

FISCAL YEAR	SCAN REVENUE	EXPENSES*	SCAN RATE	ACTUAL SCAN HOURS	Hrly RATE to BREAK EVEN
FY13	211,800	590,122	\$600	353	\$1,672
FY14	265,250	578,931	\$600	442	\$1,310
FY15	386,231	635,724	\$600	637	\$998
FY16	447,812	625,076	\$600	729	\$857
FY17	604,981	598,442	\$600	980	\$611
FY18	714,668	664,899	\$600/\$620	1127	\$590
FY19	491,582	714,501	\$632	743	\$962
FY20	235,965	746,981	\$645	335	\$2,230
FY21	82,665	750,529	\$645	122	\$6,152
FY22	382,602	636,642	\$645	571	\$1,115
FY23	334,369	853,345	\$645	504	\$1,693
FY24	533,576	1,034,677	\$658	738	\$1,402
Average rate	4,691,501	8,429,869		7,281	\$1,158
* See Expense Calculation Actual for Expense Detail					

Rate Calculation with Subsidies

FISCAL YEAR	SCAN REVENUE	EXPENSES*	SCAN RATE	ACTUAL SCAN HOURS	Hrly RATE to BREAK EVEN
FY13	211,800	380,122	\$600	353	\$1,077
FY14	265,250	458,931	\$600	442	\$1,038
FY15	386,231	515,724	\$600	637	\$810
FY16	447,812	505,076	\$600	729	\$693
FY17	604,981	468,442	\$600	980	\$478
FY18	714,668	534,899	\$600/\$620	1127	\$475
FY19	491,582	578,282	\$632	743	\$778
FY20	235,965	584,382	\$645	335	\$1,744
FY21	82,665	575,516	\$645	122	\$4,717
FY22	382,602	449,224	\$645	571	\$787
FY23	334,369	486,245	\$645	504	\$965
FY24	533,576	626,478	\$658	738	\$849
Average rate	4,691,501	6,163,321		7,281	\$846

*NOTE: See expense calculation tab for expense breakout.

Government Concerns

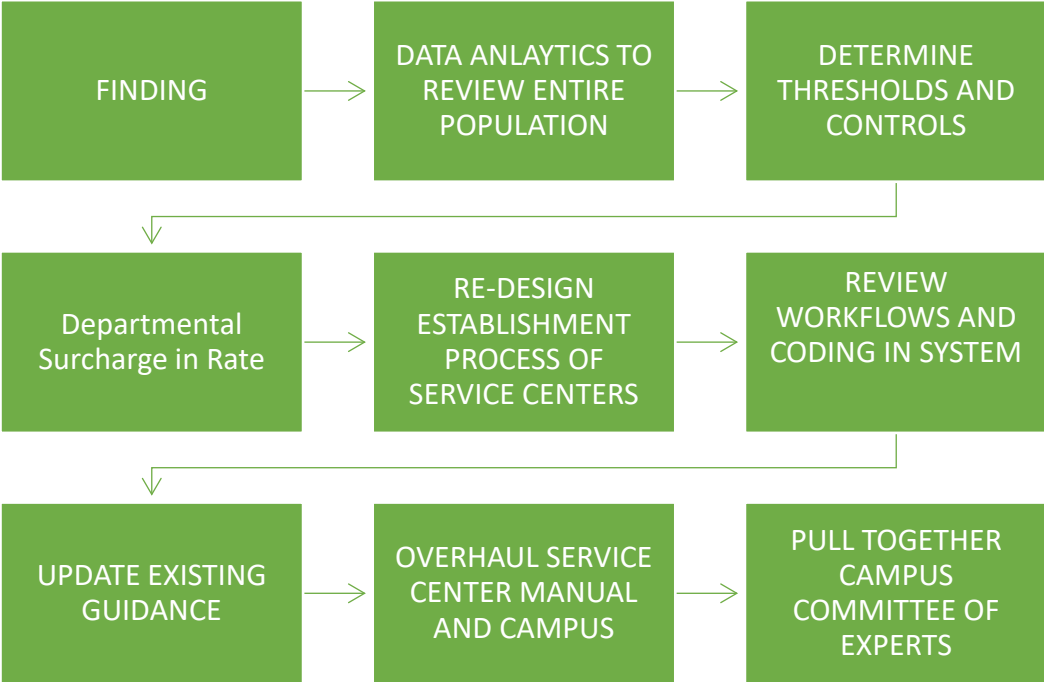


- Ensure equitable internal billing amongst customers.
- Prevent the use of recharge center funds on unrelated or unauthorized work and expenses.
- Prevent the duplicate charging of sponsors. (should be published)
- Awards are charged based on a schedule of rates.
- Documentation supporting the establishment of the recharge center billing accounts and object codes.
- Evidence of periodic reviews.
- Billing rates do not represent actual cost of operating the recharge center (supplies, salaries, etc.)
- All recharge center cost reimbursements (i.e., internal and external)
- Record retention for billings and cost for Lab are available.
- Inadequate policies, procedures and/or oversight
- Unallowable costs are included in the billing rate (equipment replacement fee)
- Surpluses are not always used to reduce future rates

What Can You Do?

- If not already in place, develop written policies and procedures concerning the different service operations (should have been part of the DS-2 process).
 - Definitions and expenditure thresholds
 - Allowable versus unallowable costs
 - Rate development example and process
 - Burden or not
 - One billing rate or multiple
 - Billing documentation
- Provide annual oversight for the rate development process to assure that the P&P are being followed.

UMD JOURNEY TO OVERHAUL



Service Centers Re-Defined

Service Centers or Specialized Service Facilities (SSF's) are units within UMD departments or centers 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.



For a unit to be considered as a service center it must:

Not be a auxiliary enterprises (dining, housing)

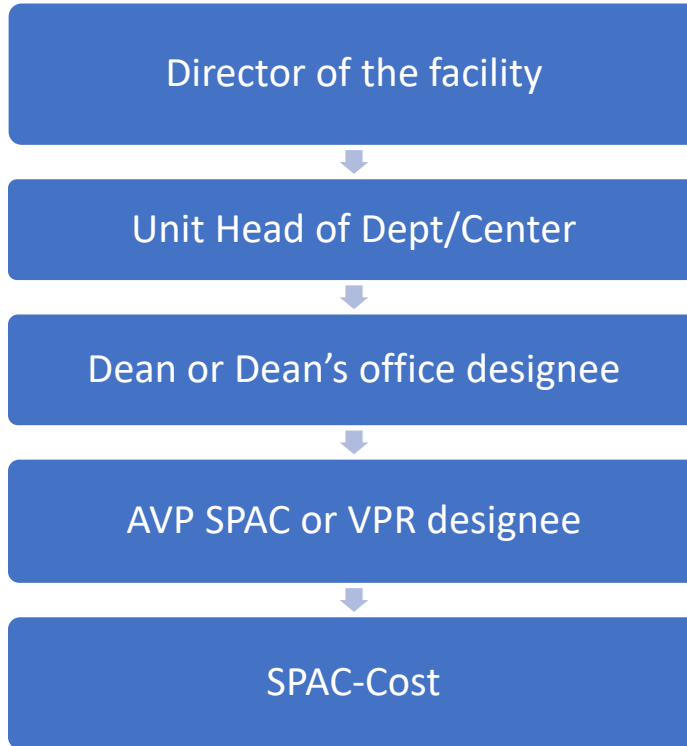
Not include central services (Utilities, Computing)

Have revenues primarily from sponsored awards.

Generate more than \$50,000 in revenues.

*SSF generate revenues more than \$1,000,000.

Approval process



Note: Department approval will depend on units' structure



CONTACT INFORMATION

Sandy Collier
Director of Operations and Finance
Maryland Neuroimaging Center
collier@umd.edu

Debra Murray
Assistant Vice President
Sponsored Programs Accounting
and Compliance
dymurray@umd.edu

