



The Mystery of Service Centers Unraveled

Experience. **Redefined.**[™]

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***The Society of Research Administrators
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Faculty

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Paul has more than 35 years of experience in auditing, accounting, and management consulting with a heavy emphasis on facilities and administrative costs. He has established a professional presence in the higher education and non-profit organization grantee research community. Paul is recognized by professional organizations and peer groups as a national expert in cost allocation and federal compliance. Prior to joining Huron, Paul was the National Director for the Division of Cost Allocation with the U.S. Department of Health and Human Services in Washington DC. He has written several published articles on indirect costs and is a contributing author to a book published by Jones and Bartlett titled Research Administration and Management. Paul is an SRA Distinguished Faculty member, is the recipient of numerous awards and is a past President for the Western Section.

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Service Centers

What We Will Cover

- ◆ What are they?
- ◆ Where do you read about them?
- ◆ What is the difference between an SSF and a recharge center?
- ◆ What do the cost principles say?
- ◆ Can you give me some examples?
- ◆ How do I develop rates?
- ◆ What are the Government concerns?
- ◆ A Case Study

Service Centers

- ◆ Described in the DS-2, Part III, item 3.2.0 as “Service Centers”
 - Described as “departments or functional units which perform specific technical or administrative services for the benefit of other units within a reporting unit.”
 - Service centers include “specialized service facilities” and “recharge centers”.

- ◆ Specialized service facilities
 - 2CFR, Part 220, J.47 (A-21)
 - 2CFR, Part 225, Attachment B, paragraph 46 (A-122)

- ◆ Recharge Centers
 - Institutional-wide recharge centers
 - Departmental recharge centers

Service Centers

◆ Examples in the DS-2

- Scientific Computer Operations
- Business Data Processing
- Animal Care Facility
- Other Service centers with annual operating budgets >\$1,000,000 or that generate significant charges to federally sponsored agreements as direct or indirect.(Continue)

Service Centers

◆ Examples of others include:

- Linear accelerators
- Magnetic centers
- Air quality testing labs
- Cell sorters/flow cytometers
- Microscopy Core Facility

Service Centers

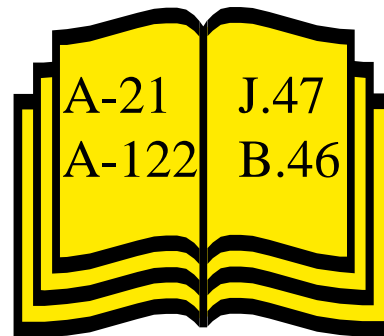
- ◆ A-21 institutions are required to answer the following questions for each service center listed in the DS-2.
 - Who do you bill for the services (direct activities only, indirect only or both)?
 - Do you fully or partially burden the rates or not at all?
 - Are rates based on historical, projected, a combination of or actual costs?
 - Do you bill the same rate to all users or do you use different rates?
 - Do you compare revenue to actual costs at least once a year or less frequently than annually? (Continue)

Service Centers

- ◆ A-21 institutions are required to answer the following questions for each service center listed in the DS-2.
 - How are variances between billed and actual costs treated?
 - Prorated to users
 - Used to adjust future billing rates
 - Charged as or credited to indirect costs
 - Other

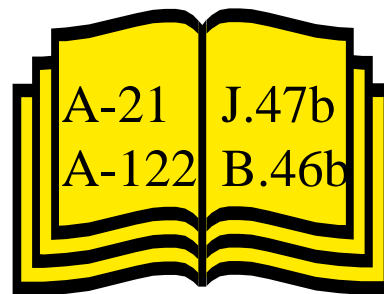
Specialized Service Facilities

- ◆ OMB A-21, Section J.47 & A-122, B.46 addresses Specialized Service Facilities (SSF)
 - The costs of services provided by highly complex or specialized facilities operated by the institution, such as computers, wind-tunnels, and reactors are allowable, provided the charges...meet the conditions of subsections b. or c.”...and include applicable credits.



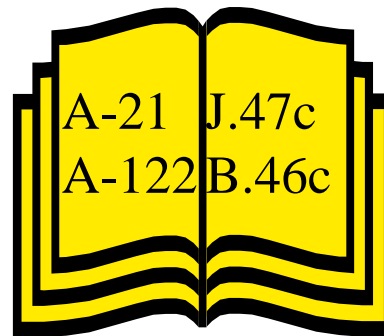
Specialized Service Facilities

- ◆ Subsection b. – When costs of the SSF are material, they must be directly charged based on actual use of the services using established billing rates that:
 - Don't discriminate against Federal activity
 - Are designed to recover only the costs of service including direct and indirect costs
 - Rates to be adjusted at least biennially.



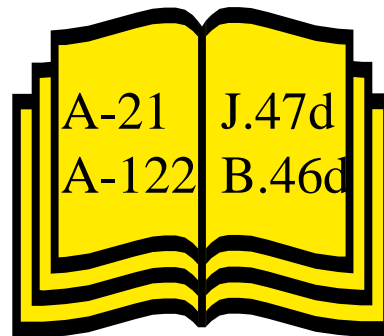
Specialized Service Facilities

- ◆ Subsection c. – Where the costs of the SSF are immaterial, they may be allocated as indirect costs. (no definition of materiality is provided)



Specialized Service Facilities

- ◆ Subsection d. –Under some extraordinary circumstances, where it is in the federal governments best interest, alternative costing arrangements may be made with the cognizant federal agency.

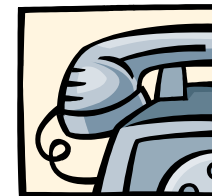


Specialized Service Facilities

- ◆ Space associated with the SSF must be identified and assigned either to the SSF or to Other Institutional Activities (OIA).
- ◆ If assigned to the SSF, all space costs should be included in the billing rates. If you choose not to burden the billing rates, then the space and associated costs must be assigned to OIA. Space related costs may be put into the Facilities & Administrative (F&A) rate calculation if the impact to the rate is 1/10th percentage point or less.
- ◆ SSF space related costs will not be allowed to be allocated to functional activities based on revenue generated. (May be allowed on recharge centers with DCA approval on a case by case basis)
- ◆ General Administration (GA) does not need to be allocated to the SSF during the allocation of the GA cost pool because GA will be allocated to the SSF as the recharges become part of the Modified Total Direct Cost base for developing the F&A rate. (most common)

Institutional-wide Recharge Centers

- ◆ These service centers are not an SSF, but are operated by an institution to provide general support to the institutional activities and possibly the out-side community. They might include:
 - Copy/duplicating center
 - Mail distribution center
 - Central stores
 - Facilities non-routine repair and maintenance



Institutional-wide Recharge Centers

◆ Partial versus full cost rates:

- **Institutions sometimes charge only the costs of the materials and supplies through the billing rates. The salaries of the personnel that operate the center or provide the service are not included in the billing rate. They are usually allocated as GA.**
- **Government views this charge methodology as a CAS 502 violation (similar costs in like circumstances charged as both direct and indirect costs), but has not raised this as a major negotiation issue.**

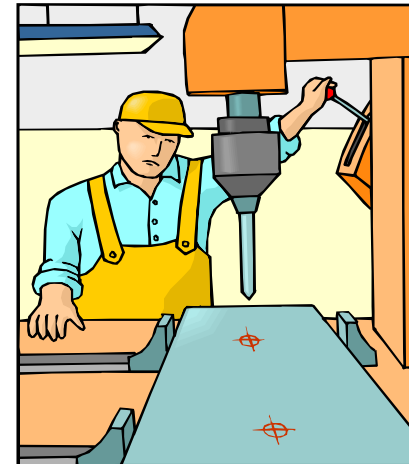
Institutional-wide Recharge Centers

- ◆ Space associated with institutional-wide recharge centers may be identified to the recharge center, GA or to OIA. The space related costs associated to the recharge center may be allocated to users based on the revenue generated by the recharge center. This is acceptable on a case by case basis. If the costs are not allocated to the users, then the costs must be assigned to either OIA and or to GA.

Departmental Recharge Centers

- ◆ Department recharge centers normally operate within an academic division or department and provide support to the division or department activities. Might include:

- Copy/duplicating
- Machine shop
- Equipment fabrication shop
- Electrical shop



Departmental Recharge Centers

- ◆ Department recharge centers are usually low dollar volume cost centers because they are usually small and benefit only department activities.
- ◆ Space occupied by these centers, if specifically measurable, are usually coded as DA.

Departmental Recharge Centers

◆ Partial versus full cost rates:

- Institutions sometimes choose to charge only the costs of the materials and supplies through the billing rates. The salaries of the personnel that operate the recharge center or provide the service are not included in the billing rate. They are allocated as DA.
- Government views this charge methodology as a CAS 502 violation (similar costs in like circumstances charged as both direct and indirect costs), but has not raised this as a major negotiation issue.

Developing Rates – The Services

- ◆ Identify the various services for each center for which billing rates will be developed
- ◆ Each service should have it's own recharge rate
- ◆ Recharge rates should be determined for different services and logic
- ◆ Each service will need to stand alone on revenues and expenses

Developing Rates – The Costs

- ◆ Use only allowable costs for each service
 - Salaries and fringe benefits
 - Operating supplies and materials
 - Travel
 - Equipment repair & maintenance
 - Equipment depreciation
 - Space related costs
 - Other appropriate allowable costs

Developing Rates – The Costs

◆ Do not include

- Equipment purchase costs
- Equipment replacement reserve factor
- Insurance (usually GA)
- Bad debt allowance
- Alcohol
- Entertainment
- Other unallowable costs

Developing Rates – The Billing Unit

- ◆ Each service will need to have a billing unit
- ◆ The billing unit should be a fair and reasonable representation of the service
- ◆ Careful analysis must be made to assure accurate rate setting (same with the cost)
- ◆ Historical usage adjusted for anticipated changes should be used and monitored through out the year

Developing Rates – The Billings

- ◆ Billings should be based on units of service
- ◆ Billings should be based on allowable costs
- ◆ Billings should be consistent to all users
 - Where reduced rates are used for non-federal users, imputed revenues must be used when carry-forward calculations are made
 - Where higher rates are used for non-federal users, the excess revenue need not be included in the carry-forward calculation
- ◆ Billings for all services should be documented for every user, either through an actual accounting transaction or an internal memo billing

General Comments

Equipment

- ◆ The actual cost of equipment used in the service centers is not an allowable cost. However, equipment depreciation using estimated useful life is allowable.
- ◆ Equipment used in service centers may have a different useful life than those in general institutional operations within the same asset class. (Must defend shorter life).
- ◆ Service center equipment should be flagged in the asset management system to ensure the depreciation is not claimed as a cost in both the service center billing rate and in the F&A rate calculation.

General Comments

Equipment

- ◆ An equipment replacement reserve factor is not an allowable cost for a federal billing rate. However, the allowable equipment depreciation returned to the center via the billing rates can be set aside into a reserve for future equipment purchases.
- ◆ Non-federal billing rates may include a cost factor for creating an equipment replacement reserve.

General Comments

- ◆ Determining profit or loss should include all revenue (actual and lost) including imputed revenue for unbilled and discounted services. Service center losses should not be included in the F&A rate.
- ◆ Excess (accumulated) reserves in service centers should be used to adjust future billing rates.
 - They should not be used to purchase equipment
 - They should not be used to fund other service units within the recharge center operating at a loss
 - They should not be used to fund salary increases

Government Concerns

- ◆ Inadequately written or no written policies and procedures.
- ◆ Lack of monitoring and oversight
- ◆ Billing rates do not represent expected actual operating costs
- ◆ Unallowable costs are included in the billing rates (equipment replacement factor)
- ◆ Fund balances are not properly monitored and/or managed
- ◆ Surpluses are not always used to reduce future rates
- ◆ Some users are billed at reduced rates and the federal programs are subsidizing the difference. This is not acceptable. It is OK if the feds are subsidized.
- ◆ Duplicate costs are included in the development of the service center billing rate and the F&A rate calculation (equipment depreciation)

What Can You Do?

- ◆ If not already in place, develop written policies and procedures concerning the different service center operations (should be 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 policies and procedures are being followed.



The End



The image features the text "The End" in a highly decorative, cursive script. The text is rendered in a vibrant purple color with a thick, dark purple outline. It is centered within a light blue, circular gradient background. Above and below the text are symmetrical, ornate flourishes in shades of purple and blue, featuring intricate scrollwork and floral motifs.