



# Service Centers / Special Fund Research Recharge Centers

Caroline Beeman, MS, CRA  
Jennifer Smolnik, PMP

May 4, 2023



# Agenda

1. About Maximus
2. Training Objectives
3. Definitions
4. Policy and Procedure Requirements
5. Rate Setting Guidelines
6. Accounting Considerations
7. Equipment Replacement
8. Documentation Requirements
9. Past Audit Findings

# Maximus Higher Education Practice

## Organization and structure

- Established in 1985
- Headquartered in Northbrook, IL, with multiple satellite offices across the country

## Consulting services

- F&A proposal assistance, Space Survey, Negotiations
- Fringe benefit rate proposals
- Reviews of service/recharge centers

- Uniform Guidance Compliance Diagnostic
- Pre- and Post-Award Assistance

## Software Solutions

- Comprehensive Rate Information System (CRIS®) (used by 85 of top 100 universities)
- WebSpace® — Space Inventory and Survey System
- Effort Reporting System®

38+

Years of Experience

28

Full-time consulting and IT staff

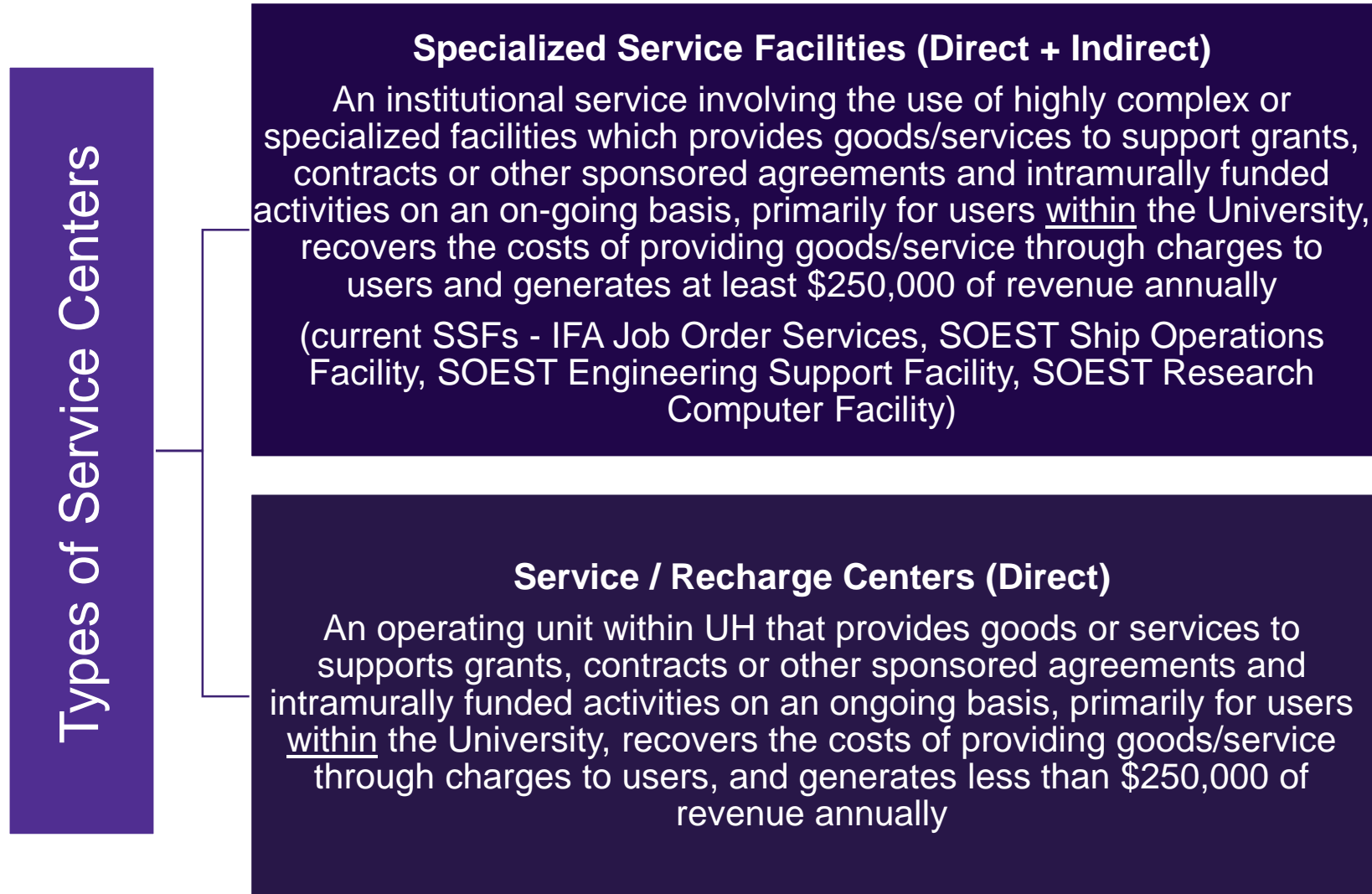
250+

Colleges and universities served

## Training Objectives

Provide a general overview on Service Centers / Special Fund Research Recharge Centers (SRRCs). Current RCUH Revolving fund projects that do not meet the revised definitions will be allowed to continue as an SRRC project account until further notice.

# Types of Service Centers at UH



## Federal Definition

- Described in the DS-2, Part III, item 3.2.0 as “Service Centers”
- “Departments or functional units which perform specific technical or administrative services for the benefit of other units within a reporting unit.”



## Per FAQs for Costing of NIH-Funded Core Facilities

“For purposes of these FAQ’s Core facilities”

- Are centralized shared research resources
- Provide access to instruments, technologies, services as well as expert consultation
- Typically are a discrete unit
- May have dedicated personnel, equipment and space
- Generally recover costs through user fees charged to investigator’s funds (often NIH / other Fed grants)

**Notice Number: NOT-OD-13-053**

# UG, 200.468 Specialized Service Facilities

## Excerpts

- 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
- 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).

[www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200\\_main\\_02.tpl](http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl)



# AP 12.204 Special Fund Research Recharge Centers

AP 12.204 Revolving Fund Service Orders to RCUH currently being updated for the Special Fund Research Recharge Centers and will include the following :

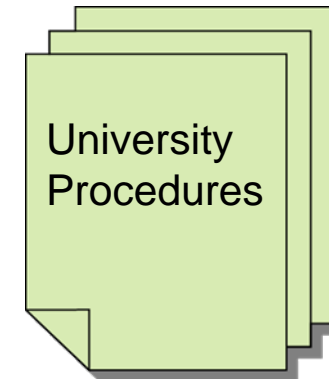
- Background / Purpose / Introduction
- Definitions
- Roles and Responsibilities
- Criteria for Establishing and Continued Operation
- Operational Requirements
  - Allowable Cost
  - Rate Setting
  - Equipment
  - Tax Implications
  - Record Retention



# Service Center Procedures

These topics will be included in the updated AP 12.204 and related guidance

- How to Establish a New Service Center
- How to Close a Service Center
- Rate Setting for Service Centers
- Annual Service Center Review
- Operating a Service Center
  - Should refer to existing Policies or Procedures
  - Billing and Cash Handling
  - Record Retention
  - Unrelated Business Activity (UBIT)
  - Sales Tax
  - Setting up a new activity code (project, Org code)
- Could be many more





# Process for Establishing a Service Center / SRRC

- The current Revolving Account Service Order Request will be replaced with an SRRC Proposal Request
- A form is being developed to capture the following information electronically:
  - Purpose of center / how it supports the University's 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
  - Operating budget
  - Separate account for each project

**Form #xxxx: Request to Establish a New Service Center**

**GENERAL INFORMATION**

**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.

**Email:** 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.

**Email:** 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.

**BUSINESS PLAN**

**Background and Purpose of Core:** 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?  
Click here to enter text.

# Rate Setting Principles

- Actual cost is the most the rate is allowed to recover
- Rates must be reviewed and approved on a regular basis
  - “Regular basis” means no less than every other year, i.e. biennially
- Surplus from recharge centers cannot be used to fund unrelated activities
- Rates must be adjusted when incoming funds exceed expenses (surplus balance) or else refunds must be issued
- Guidance is different for external user rates



## Subsidies (Institutional Support)

- Recharge centers have the option of not including all costs in the rates
- Any partial subsidy of a center needs to be identified as an unallowable cost for F&A rate calculation purposes
  - Could be included as part of the budget
  - Or amount absorbed as a deficit at year-end
  - Or just not charged to the center (not recommended)

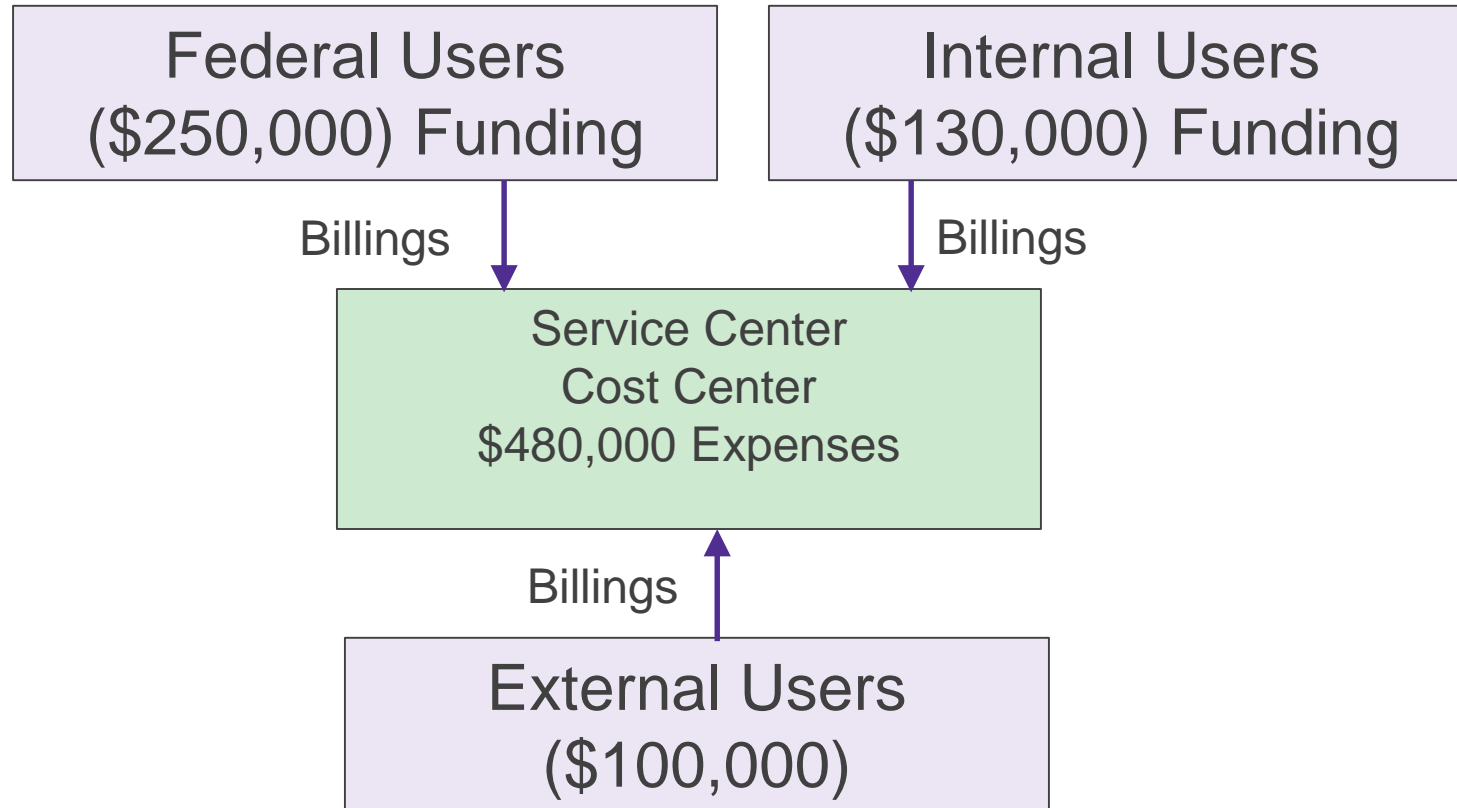
## Service Center Models – Internally Subsidized

- Subsidy – Support received from other sources (i.e. General or Special Funds, RTRF) to operate the Service Center / SRRC project
- Subsidies for Users
  - User is initially charged full price
  - Users may then be subsidized by Department
  - Service center not responsible for split billings
- If all users will be charged less than cost, then this subsidy must be recorded in a separate account, to be treated as unallowable cost for F&A rate calculation

## Service Center Models – Federally Funded

- Resources initiated with Federal Funding
- Check award terms for program income implications
- Federal funding should not subsidize other users
  - Rates for federal users should be lowest
- If equipment is federally funded
  - Cannot charge depreciation cost on federally funded portion
  - Cannot charge depreciation cost on or cost share (match) portion

# Federal Funding Model





# Rate Development - General Costing Principles

- Costs of providing services must be:

- Allowable
- Allocable
- Consistently applied
- Reasonable

- Unallowable costs

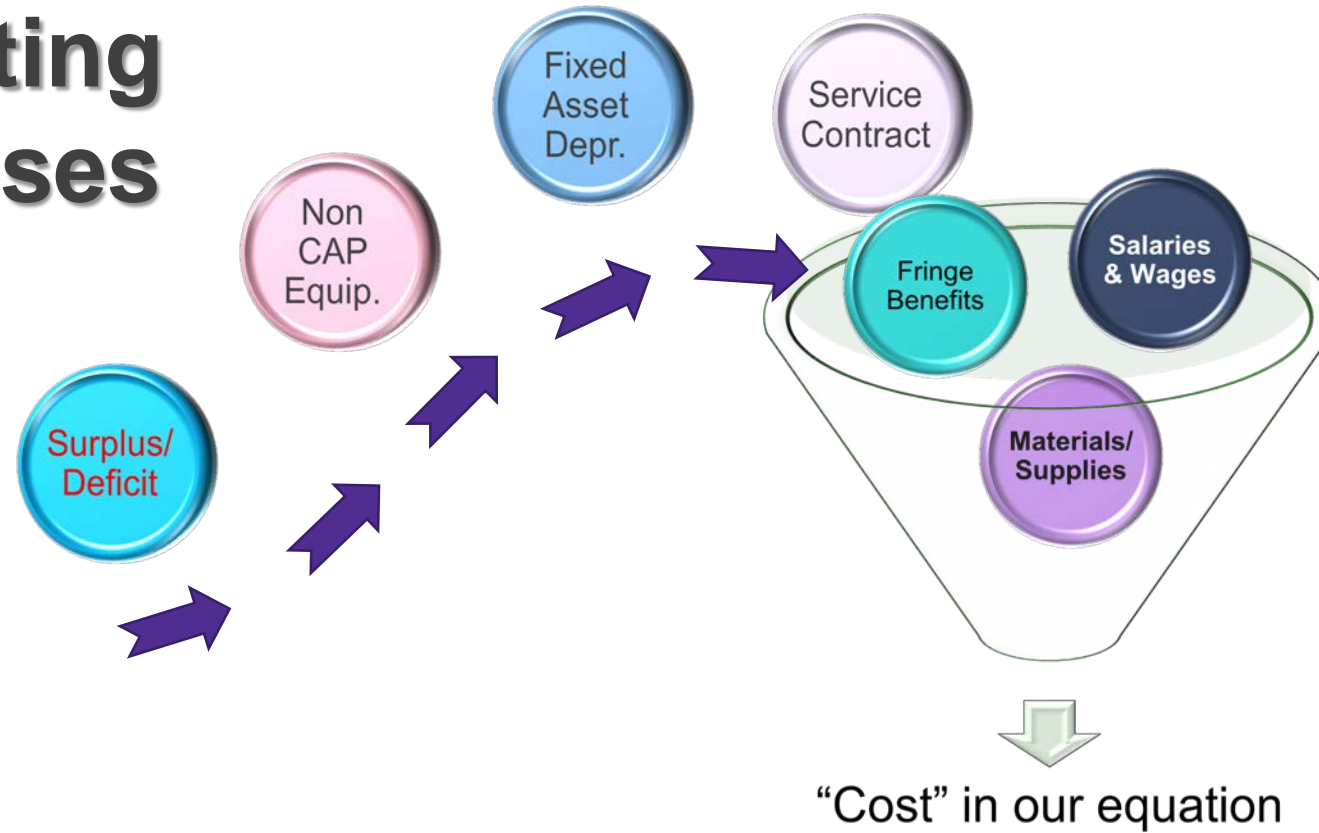
- Refer to 2 CFR, Part 200 Uniform Guidance, Subpart E - Cost Principles, Sections 200.400 – 200.475
- Examples include:
  - Salaries that will not be charged to the SRRC account (i.e. G or S funded positions) for actual work performed
  - Equipment – only applicable depreciation (e.g. include portion that is not externally funded and only depreciation that complies with UH's policy)
  - Entertainment costs
  - Goods or services for personal use
  - Selling and marketing costs

$$\text{Cost} \div \text{Usage} = \text{Rate}$$



# Rate Development - Develop the Budget

## Operating Expenses



$$\text{Cost} \div \text{Usage} = \text{Rate}$$

# Rate Development - Consistent Costing

- Government expects universities to charge both direct and indirect expenses allocable to the activity. Charge consistently, and do not include in F&A rates any staff labor/expenses allocated to center (General or Dept Admin)

Cost Categories	Considerations
Personnel	<ul style="list-style-type: none"> <li>• Exclude any salaries paid from sponsored accounts</li> <li>• Exclude salaries associated with any non-SC effort</li> <li>• Include proportional cost of benefits</li> <li>• Include pay lines for current employees only</li> </ul>
Depreciation	<ul style="list-style-type: none"> <li>• Include portion that is not externally funded</li> <li>• Depreciate in accordance with institutional property policy</li> </ul>
Other (Materials/Supplies, Services, Travel, etc. – break out by cost category)	<ul style="list-style-type: none"> <li>• Fixed or variable?</li> <li>• Benefit activities outside of service center? – allocate appropriately</li> <li>• Provide justification for budgeted cost (audit purposes)</li> </ul>

## Rate Development - Actual Usage

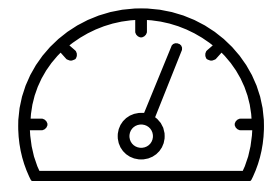
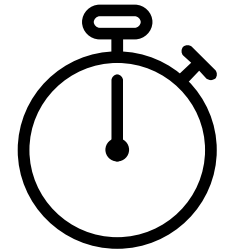
- Section 200.468 of 2 CFR Part 200 (Uniform Guidance – UG) requires the cost of each service be charged directly to users based on actual use of the service and that rates do not discriminate between federally and non-federally supported activities, including university internal activities

$$\text{Cost} \div \text{Usage} = \text{Rate}$$



# Rate Development - Usage Must be a Measurable Unit

- The measurable unit must allocate costs equitably among all users
- Requires a basic understanding of the science / activity
- Examples:
  - Per Rack Slot per Month
  - Labor hour
  - Machine hour
  - CPU Unit
  - Zebra Fish Facility – Fish
  - Super Computing Facility – Excess CPU
  - Per test



$$\text{Cost} \div \text{Usage} = \text{Rate}$$



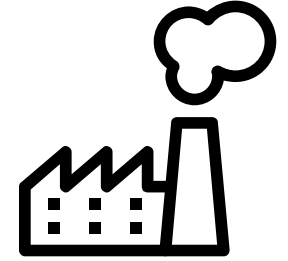
# Rate Development - Develop the Revenue Budget

- Estimate usage by type of user
  - Internal federal user
  - Internal non-federal user – e.g. departments
  - External user – includes students, faculty, staff personal usage
  - Will there be special consideration for other university users?
- Must show that total cost and total revenue (excluding reserve) will net to zero for the year
- Best practice – It is not sufficient to “build a rate” as this does not take number of units into account

$$\text{Cost} \div \text{Usage} = \text{Rate}$$



## Rate Development - External (non-UH) Users



- Another department or campus use would not be considered external
- Different rules than for Federal and Internal Users
- 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
- Recoveries from external users in excess of cost should be accounted separately (i.e. subaccount or separate account)
- Caution - Recoveries in excess of full cost might be Program Income



## NIH + University Funds to Support a Core

Total Allowable Direct Cost	\$110,000
NIH Direct Funding to Core	(\$ 60,000)
Institution's Funding to Core	<u>(\$ 10,000)</u>
Net Recoverable Cost	\$ 40,000
Number of service units	<u>÷ 1,000</u>
Net cost/unit	\$40 = Federal Rate

100 External User units                    \$110,000 ÷ 1,000 = \$110  
    plus F&A at 50%                        \$110 + \$55 = \$165  
    External User rate                      \$165  
    [May add “fee in excess of cost”]



# Accounting Considerations - Payroll

- The service center should have a unique account code
- When working on service center activity, employees must charge the service center unique account code
- Required to accurately record costs
- Allows ability to track cost of operation

# Inconsistent Costing

- Institutions sometimes charge only the cost 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 allocated as either GA or DA.
- Government views this as CAS 502 violation, similar costs in like circumstances as both direct and indirect
- The salaries and fringes are unallowable costs

# Accounting Considerations

- Service centers must bill their users in a timely manner based on actual usage
- Best practice is at least monthly
- Create a natural account code specifically for internal recovery of cost (credit) (Best Practice)
- Credit should be recorded in the same account code as the operating expenses so that over/under recovery can be tracked
- Payments from external users are revenue
- Recommend create separate account code for external users (Best Practice)





# Accounting Considerations - Reserve Accounts

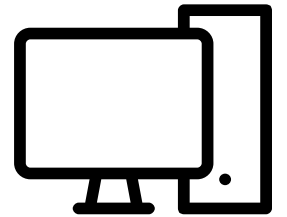
- Used to retain balances and record transactions that don't directly affect the rate
  - Recovered depreciation
  - Equipment replacement fee
  - “Fee in excess of cost” charged to external users
  - Depending on your policy, could be F&A\*
- Not used in the calculation of surplus/deficit at year end





# Equipment

- Can include only non-Federal depreciation in Federal rates
- Matching for federal award should be excluded from Federal rate
- Can include all depreciation plus an equipment replacement fee for non-Federal users
  - External users
- Maintain meticulous, current depreciation records
  - Clearly identify service center equipment to exclude from depreciation in F&A rate calculation
  - Clearly identify Federally-funded depreciation to exclude from both F&A rate calculation and center federal rate
  - Clearly identify Federal matching to exclude from both F&A rate calculation and center federal rate



# Documentation Must be Retained

- Documented price (rate) list
- Detailed equipment depreciation records
- Rate calculation documentation
- Original approval to establish the center
- Billing data as well as Usage Data
  - Activity/Account/Org/Project number
  - User or purchaser
  - Service performed or product sold
  - Rate charged
  - Date



# OIG Audit - 1994

## Summary Report of Audits of Recharge Centers at 12 Universities

Finding	Internal Controls
Billing rates were <u>not adjusted for accumulated surplus and deficit</u> fund balances	Review annually for surplus/deficit, capture actual usage; reserve funds from external fees do not have to be factored into annual adjustment.
Included <u>duplicate or unallowable costs</u> in the calculation of billing rates	Rate approval dependent on inclusion of allowable costs only; periodic review of service center accounts for unallowable expenses.
Included recharge costs in the <u>calculation of indirect cost rates</u>	Separate accounting for all service center costs; exclude all from F&A by account type.
Used funds of recharge center account for <u>unrelated purposes</u>	Educate staff managing service center accounting. Funds in account to be used for related expenses only.
Billed some users at reduced rates	Consistent billing by user type; record subsidy when provided. Federal rates should not be higher than other users.



## DOJ - University in New England

- \$2.5 Million Whistleblower; False Claims Investigation Settlement
- Specialized Service Centers: Overstated anticipated expenses, overcharged the government and billed for items not covered by the grants
- Billing Rates: Failure to revise and appropriately set its rate structure resulted in submission of numerous false claims
- *Newsday, January 9, 2006 (Associated Press); Hartford Current, January 10, 2006*





## Service Center Charges Not Allowable – July 2012

- The animal facility computed rates by averaging rates that other universities charged
- The University did not perform biennial reviews to adjust the rates based on actual costs
- The telecommunications center did not charge based on actual usage of the service provided
- Furthermore, it charged administrative fees that were not part of the aggregate cost of providing the service
- Originally \$5.8 million findings, eventually reduced

# Reasons Not to Start a Service Center

- a. They are an administrative burden to central
- b. They are an administrative burden to the department/center
- c. They most often require subsidies from departments or central
- d. They put the institution at risk in an audit
- e. All of the above



## Thank You for Attending

**Caroline Beeman, Director**  
[carolinembeeman@maximus.com](mailto:carolinembeeman@maximus.com)  
540.308.3170

**Jennifer Smolnik, Senior Manager**  
[jennifersmolnik@maximus.com](mailto:jennifersmolnik@maximus.com)  
480.828.2950