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Service Centers: The Not So Simple Basics

NCURA Region I

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What you will learn today

- The characteristics of a service center – what is a service center?
- What to budget in the billing rate.
- Effectively operating a service center
- Compliance considerations

Agenda

- Overview
- Federal Regulations
- Do you Need a Service Center?
- Guidance for Calculating Service Center Rates
- Compliance Issues

01

Overview

What is a service center?

An operating unit within the University that provides:

- a service or group of services or
- product or group of products
- to users – principally within the university
- for a fee.

What's in a name?

- Service Centers, Recharge Centers and Core Facilities all describe service centers, although are often defined differently among institutions
- Distinction in terms tends to be based on:
 - the type of service provided, e.g., scientific vs. general use
 - management level, e.g., central vs departmental
 - billing complexity
- Some service centers rates are developed differently
 - Specialized Service Center
 - Animal Facilities
 - Federally subsidized cores

Federally subsidized cores

- Subsidy can be in the form of
 - Funding some population of users' usage
 - Funding costs of the service center
- Examples:
 - Program projects (P30s)
 - Use of equipment purchased on prior grants
- Costs recovered in service center cannot include costs already funded on grants or committed as institutional cost sharing
- See the NIH FAQs
 - <http://grants.nih.gov/grants/guide/notice-files/NOT-OD-13-053.html>

Specialized service facilities

- Cost of service includes direct and F&A
- Cost will be charged directly to users
 - based on actual use
 - using rates that don't discriminate between federal and non-federal users
- Rates don't have to equal cost during one fiscal year-reviewed and adjusted at least biennially
- Rates shall take into consideration over/under applied costs of the previous period(s)

02

**Federal Regulations &
Audit Guidance**



Uniform Guidance - 2CRF200

- Subpart E – Cost Principles (§200.468)
 - The costs of such services, when material, must be charged directly to applicable awards based on actual usage
 - Does not discriminate between activities under Federal awards and other activities
 - Is designed to recover only the aggregate costs of the services



Uniform Guidance - 2CRF200

- Subpart E – Cost Principles (§200.468) - (continued)
 - Costs of each service must consist of both direct costs and its allocable share of indirect (F&A) costs
 - Rates must be adjusted at least biennially
- Subpart F Audit Requirements (§200.500)
 - Service Centers are reviewed and tested annually as part of the Single Audit Act (old A-133 audits)



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)

03

**Do you Need a Service
Center?**

**If so, What are the First
Steps?**

Determine the need to establish a service center

- Is this service available elsewhere on campus?
- Is our need short-term or long-term?
- Is this service provided for or subsidized by a federal award? - Program income vs. service center
- Are the charges simply allocation of costs?
- What portion of our users will be internal vs. external?
 - High external user volume may result in tax implications UBIT (unrelated business income tax)

Establishing a service center

Institutions should develop well defined policies and procedures

Policies	Procedures
<ul style="list-style-type: none">• Key definitions• Roles and responsibilities• Basic principles<ul style="list-style-type: none">• Separate accounts• Rate development• Treatment of surpluses and deficits• Non-discriminatory rates• Subsidies• Review Process• Record retention	<ul style="list-style-type: none">• Business plan development• Rate calculation<ul style="list-style-type: none">• Budget and cost components<ul style="list-style-type: none">• Personnel• Materials & supplies• Capital equipment purchases• Other expenses directly associated with the service center operation• Burdening rates with general administration or space costs• Breakeven cycle - Accounting for deficits or surpluses• Billing process• Documentation requirements• On-going monitoring process

04

**Service Center Rate
Development**

Develop the rate

- Rate setting should consider the **proposed cost of operations** and be **offset by past performance and identified institutional investments**
- Should be based on **projected costs** - in general historical costs adjusted for inflation and expected growth or decline.
- Service centers without a history should build an operating cost budget based on **expected needs**.
- As a rule, rates for internal users **should never exceed the identified cost per unit**

Develop the rate

Define Product
/Service

Determine What You are Going to Sell

- Microscope Lab – Use of Microscope
- Zebra Fish Facility – Fish
- Super Computing Facility – Excess CPU
- Genome sequencing
- Stores Facility – Chemicals, Lab Supplies & Purchasing Services
- Technical Rate – Rack Space; 24 Hour Service; Connectivity Charge; Technical Labor

Develop the rate

Determine the
Customer Base

Determine Who Will Purchase The Service/Product and at the Level of Demand

Internal

- University Sponsored Program Areas
- University Departments

External

- Those who do not have a University account number
- Industry
- Students, faculty or staff acting in a personal capacity

Develop the rate

Measure
Usage

Determine How Usage will be Measured

Use the measurement which allocates costs equitably among all users

For example, a center that performs tests on samples has two possible units of measure; it could charge per test, or per hour. If some tests take twice as long as others, and labor is a large portion of the cost of performing a test it is not equitable to charge each user on a per test basis. In such circumstances, the user rate will be on a per hour basis.

**Examples of
billable units:**

- Labor hours
- Machine hours
- Unit costs
- Test performed
- Number of samples

Develop the rate

Determine
Operating
Costs

Direct
Costs



F&A Costs*



Unallowable

- Labor
 - Materials and supplies
 - Subcontractors and other outside services
 - Repairs and maintenance
 - Equipment rental
 - **Capital equipment depreciation** - depreciation for non-federally purchased equipment, not purchase price
-
- **Facilities costs** - associated with service center and not otherwise included in F&A rate
-
- **Removed from costs included in rate calculation**

** Inclusion of indirect costs may be dependent on individual institutional practices*

Develop the rate



Allocate
Costs

Allocate Costs Identified Above to Individual Services or Products (in Budget)

A service center may have different measurable units for the different types and classes of products it offers.

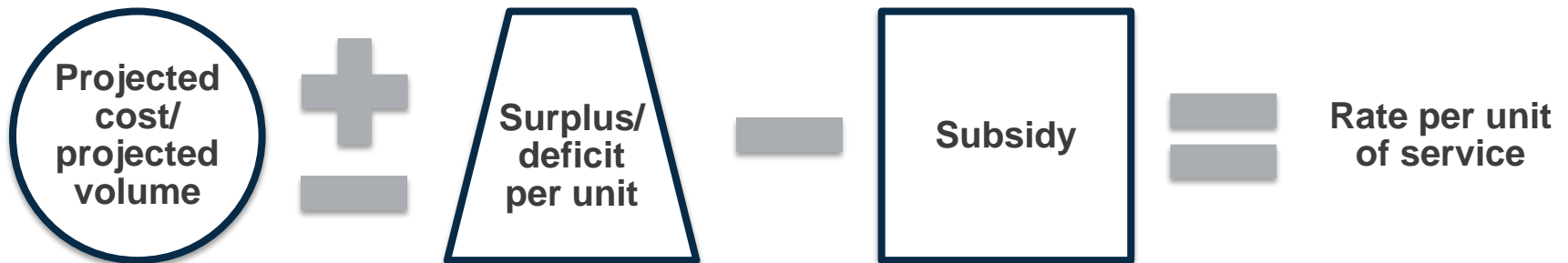
One product may not subsidize another.

Develop the rate

Calculate
Rate

Rates are based on budgeted projections of operating expenses, including a carryforward surplus/deficit, divided by projected levels of activity or revenue.

$$\frac{\text{Budgeted Expenses +/- Cumulative Carryforward Surplus/Deficit +/- Subsidy}}{\text{Budgeted Billable Units}}$$



Calculating service center rates

- Step 1 - Identify all services provided
- Step 2 - Determine direct costs associated with each service, regardless of how it is funded
- Step 3 - Identify indirect costs associated with service center operations. Ensure they are excluded from the University indirect cost rate (consistent with policy)
- Step 4 - Identify University-wide indirect costs to be included in billing rates in accordance with University policy (if applicable)
- Step 5 - Identify and segregate unallowable costs in accordance with Subpart E – Cost Principles (§200.420 - §200.475)
- Step 6 - Add prior period variance in accordance with University policy

Calculating service center rates

- Step 7 - Develop a reasonable method to assign service center indirect costs to each service (i.e., effort, total costs, FTEs, etc.)
- Step 8 - Accumulate/estimate usage for each service (i.e, number of units) to establish the distribution base. All usage must be included, regardless of whether discounts or free service is provided
- Step 9 - Calculate cost-based rate for each service
- Step 10 - Determine the rate that will actually be charged and if it reflects less than cost-based rate, exclude subsidy from indirect cost calculation

Can I put it in the rate?



Yes

No

- 5% of Deans
Administrative staff time
- Travel
- Marketing of center to
get more customers
- Maintenance agreement
- Purchase of equipment
- Replacement cost of
equipment

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Compliance

Compliance guidelines

- Rates should recover no more than the cost of the good or service
- Rates must break-even over time, not each year
- Rates do not discriminate between users, especially Feds
- Surplus from service center cannot be used to fund unrelated activities
- Must maintain published price list
- Rates may include depreciation expense only, not the full cost of equipment
- Depreciation included in SC rates cannot also be in the F&A rate
- Service center subsidies should NOT be included in the F&A rate (e.g. NOT as a Departmental Administration cost)

Compliance challenges

- **Issue with Rates**

- Not based on actual cost
- No cost study performed
- Use of percentage or market rates
- Use of flat user costs
- Departmental surcharge in rate
- Unallowable costs in rate
- Depreciation on federal equipment in rates
- Not factoring in non-paying customers

- **False Claims**

- Failure to utilize proper basis for setting and updating billing rate structure as required by federal law (UConn EPA settlement)

Compliance challenges

- **Consistent Costing Violations**
 - Depreciation factor used to adjust rate
 - Direct charging department administrative costs - 26% cap from Uniform Guidance
 - Claiming additional costs that should have been included in indirect cost recoveries
 - Program Income - developing recharges for outside users when using federally purchased equipment such as testing equipment or samples.
 - Including unallowable costs (selling marketing/advertising of the service center) in the rate

Summary and conclusions

- Service centers should be developed wherever an institution believes it is appropriate based on clear and concise institutional written policies and procedures
- Service centers should not be created for faculty because they want to make money
- Administration and leadership should:
 - Know the rules governing service center operations—it's not just Uniform Guidance
 - Be prepared for an audit of your service centers
 - Work with your service center/indirect cost staff; view them as an asset, not an impediment
 - Involve faculty, administrators and service center personnel
 - When in doubt, ask for assistance

QUESTIONS



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