



UNIVERSITY OF CENTRAL FLORIDA

Determine and Develop Recharge Centers

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Goals for Today's Session

- Define a Service/Recharge Center and its characteristics
- Discuss Uniform Guidance, 2 CFR, Chapter II, Part 200, Subpart A,
- Identify what to budget in the billing rate
- Learn the different rate bases that can be used to calculate the rate
- Identify key compliance issues
- Learn about the recent audit findings on service centers

Recharge Centers



It isn't dark magic

By: Caleb Koogler



Service/Recharge Center Definition

An operating unit within the Institution that provides a service, or group of services, or product, or group of products, to users – principally within the institution for a fee.

Federal Definition of a “Recharge” Ctr.?

- **Definition of “Recharge Centers” ***
 - “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 nonprofit businesses, funding operations through fees from users.”

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

Important Considerations

- **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
 - What portion of our users will be internal vs. external?
 - High external user volume may result in tax implications
 - UBIT (unrelated business income tax)

Regulations Governing Service / Recharge Centers

Federal Service Center Guidance

- **Uniform Guidance, 2 CFR, Chapter II, Part 200, Subpart A, Subsection 200.468 and Appendix V and VII to Part 200**
- **2 CFR, Chapter II, Part 200, Subpart A, Subsection 200.521 Management Decisions Appendix V**
- **HHS Review Guide for Long-Form University Indirect Cost Proposals**
- **Cost Accounting Standards (CAS) DS-2**
- **Audit Guide: Adequacy and Compliance Audits of Disclosure Statements Submitted by Educational Institutions (HHS OIG)**
- **Federal Audits of Recharge Centers (HHS OIG)**

Uniform Guidance, 2 CFR, Chapter II, Part 200, Subpart A, Subsection 200.468

➤ **Specialized Service Facilities**

- “the costs of services provided by highly complex or specialized facilities operated by the institution, such as computers, wind tunnels and reactors”
 - 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.
- **No mention of “service/recharge centers”**

Specialized Service Center

- **Cost of service includes direct and F&A**
- **Cost will be charged directly to users**
 - based on actual use
 - using rates that do not 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)**

Other Sources of Federal Guidance

- **Uniform Guidance, 2 CFR, Chapter II, Part 200, Subpart A, Subsection 200.468** (also for OMB Circular A-122: Cost Principles for Non-Profit Organizations)
 - “Specialized Service Facilities”
- **2 CFR, Chapter II, Part 200, Subpart A, Subsection 200.521 Management Decisions Appendix V**
- **“Billed Central Services”**
 - “a working capital reserve of up to 60 days cash expenses is considered reasonable...”

Recharge Center Accounting

Recharge Center Accounting....

- **Revenues should equal costs, over time**
- **Accurate accounting for service center costs and revenues is critical**
 - Service Center operating account must “match” revenues with expenses
 - Inaccurate accounting will distort the financial picture and create a deficit or surplus in the service center account

Typical Recharge Center Operating Costs

- **Salaries and Wages**
- **Fringe Benefits**
- **Depreciation expense**
- **Materials and Supplies**
- **Outside services**
- **Repairs and Maintenance**
- **Carry-forward surplus/deficit**

Calculating Recharge 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 other costs associated with service center operations**
 - Salary of service center administrator / billing personnel
 - General supplies

Calculating Recharge Center Rates

- ***Step 4 - For specialized service facility, identify University-wide indirect costs to be included in billing rates in accordance with University policy***
- **Step 5 - Identify and segregate unallowable costs in accordance with the cost principles**
- **Step 6 - Add prior period variances (surplus /deficit) in accordance with University policy**

Calculating Recharge Center Rates

- **Step 7 - Develop a reasonable method to assign service center operating costs to each service**
- **Step 8 - Accumulate/estimate future usage for each service to establish the rate base(s) i.e., billable units**
- **Step 9 - Calculate cost-based rate for each service**
- **Step 10 - Determine the rate that will actually be charged**

Rate Calculation



Comparison of Service Center Rate Calculations (Specialized vs. Regular)

Service Center

Estimated expenses:

| | |
|------------------------|----------------|
| Technicians (2) | 200,000 |
| Supplies | 50,000 |
| Maintenance contracts | 50,000 |
| Equipment depreciation | <u>150,000</u> |

Total expense budget: 450,000

Estimated units of service: 2,000

Rate per unit of service = \$225

Specialized Service Facility

Estimated expenses:

| | |
|------------------------|-----------|
| Technicians (10) | 1,000,000 |
| Supplies | 250,000 |
| Maintenance contracts | 250,000 |
| Equipment depreciation | 750,000 |

Add'l expenses in "fully loaded" rate:

| | |
|--------------------------|---------|
| Building depreciation | 30,000 |
| Building loan interest | 400,000 |
| Operations & Maintenance | 200,000 |

Total expense budget: 2,880,000

Estimated units of service: 10,000

Rate per unit of service = *\$288

***Note:** That \$288 may be a rate that the users of the facility will be unwilling to pay, in which case the SSC may have to charge a lower rate and the unit "owning" SSC will underrecover.

For the F&A Rate Calculation - Addit'l costs not included in Service Center Rate: \$630,000.

Add to F&A numerator => higher F&A rate

Recharge Center Compliance Issues

Summary of Compliance Issues

- **Rates should recover no more than the cost of the good or service**
- **Rates must breakeven over time, not each year**
- **Rates don't discriminate between users, especially those paying with federal funds**
- **Surplus from Recharge Center shouldn't be used to fund unrelated activities**

Summary of Compliance Issues

- **Must maintain published price list**
- **Rates may include depreciation expense only, not the full cost of equipment**
- **Depreciation included in Recharge Center rates cannot be used in the F&A rate**
- **Service center subsidies should NOT be included in the F&A rate**

For Discussion

- **Must all users be charged the same rates?**
- **Can we charge F&A costs on service center charges made to grants?**
- **Can we include a “reserve” amount in the rate to purchase new equipment?**
- **Do we add F&A costs to service center charges made to external parties?**

For Discussion

- **Can we charge users based on “market” rates, or what other institutions charge?**
- **Can we charge external users more than the cost of the good or service provided?**
- **If we earn a surplus, do we have to give a refund to users in the same year?**

Top 10 Elements for Effectively Managing Service Centers

- 1. Be able to identify the active service centers at your university.**
- 2. Understand the mechanics behind service center accounting.**
- 3. Know the workflow (and the parties involved) in setting up a center.**
- 4. Recognize operations that may become service centers in the future.**
- 5. Have a solid (and realistic) business plan for operating the center.**
- 6. Have written policies and procedures in place for the management of service centers.**

Top 10 Elements for Effectively Managing Service Centers

7. **Templates should be made available to assist with rate calculations.**
8. **Rates should be reviewed and approved at least every two years.**
9. **External usage (sales to non-university customers) should be monitored and tracked.**
10. **Use software or some other means to invoice and collect regularly.**

Audit Finding: Past and Present

Summary of HHS OIG Audit Findings (1994)

- **Audits at 12 universities to determine whether recharge centers complied with “OMB A-21”**
- **OIG Identified \$3.2m in overcharges for:**
 - Surplus Balances (\$1.3m)
 - Duplicate and unallowable costs (\$1.2m)
 - Recharge costs and Indirect costs (\$0.4m)
 - Funds used for unrelated purposes (\$0.2m)
 - Inequitable billing (\$0.1m)

Summary of HHS OIG Audit Findings (1994)

➤ **Examples of significant issues**

- Six universities accumulated \$6.6m in surplus funds
- Five universities did not analyze and adjust billing rates resulting in overcharges (\$1.2m)
- Two universities didn't credit recharge accounts for interest earned on excess fund balances
- One university improperly classified \$0.7m inventory as expense; inventory not consumed in year of purchase is unallowable

HHS OIG Findings: Reasons for Overcharges

- **Universities did not:**
 - Establish or adhere to policies and procedures
 - Maintain adequate accounting records
 - Analyze and adjust billing rates, or monitor recharge centers on a regular basis
- **No specific instructions for when and how to adjust for surpluses and deficits in fund balances**

Florida State University

- **Specialized Service Centers' costs not charged in accordance with federal regulations**
- **11 transactions related to 2 specialized service centers.**
- **Animal Care facility rates for FY's 2009 and 2010**
- **OIG noted that the center's expenses included unallowable items such as memberships and office supplies**

HHS – OIG, July, 2012 (A-04-01095)

University of Connecticut

- **\$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

UMass Medical

➤ Recharge & Laboratory Supply Center Charges

- OIG could not determine who requested the recharge center services or laboratory supply charges and whether these costs were allocable to the NIH Grant. Records were not retained (Records should be retained for 3 years after the dated of the final financial status report).

08/23/05

10 Mistakes of Recharge Centers

1. Depreciation factors which don't correlate to rates
2. Inadequate policies, procedures and/or oversight
3. Billing rates do not represent actual costs
4. Surpluses are not always used to reduce future rates
5. Fund balances are not properly monitored
6. Customers are not invoiced in a timely manner
7. Unallowable costs are included in the billing rate (equipment replacement fee)
8. Depreciation included in rates used to determine organizations F&A rate
9. Surplus from recharge centers used to fund unrelated activities
10. Assume that they MAKE MONEY



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QUESTIONS

