Agenda

- Definitions
- Federal Guidance
- Rate Calculation
- Accounting and Roles & Responsibilities
- Audit Findings
- Service Center Rate Submission Timeline
- Discussion – Q & A
SERVICE CENTER DEFINITION

An Activity that performs specific technical or administrative services primarily for the internal operations of the University and charges users for its services. A service center must have annual operating costs in excess of $5,000.

See Service Center Policy Section II, part K
**OTHER DEFINITIONS**

**Equipment**: An item of tangible personal property having a useful life exceeding one year and an acquisition cost of $5,000 or more. Purchases under this amount are considered supplies.

**Internal User**: Users who pay for goods/services using URI’s general ledger account coding. This would include grants. Account 4510 is used to record internal revenue which is recorded through internal banks.

**External User**: An entity or person that is legally separate from URI that usually purchases goods/services for reasons of convenience, quality, or uniqueness of goods/services offered. Account 4504 is used to record external revenue.
FEDERAL GUIDANCE
Federal Guidance

- Service Center activities can result in charges to federally sponsored grants and therefore must comply with the Uniform Guidance. Instances with non-compliance may result in pay backs to the government as well as adverse publicity which could impact future sponsored funding.

- Rates are designed to recover only the aggregate costs of the services.

- Rates must be adjusted at least biennially.

- Rates should take into consideration surplus/deficit of the previous period.
RATE CALCULATION
What to include in your rate

- Salaries and Wages
- Fringe Benefits
- Materials and Supplies
- Outside Services
- Repairs and Maintenance
- Surplus / deficit
- Depreciation Expense (not applicable to equipment purchased with federal funds)
  - Depreciation expense must be associated with equipment purchased with departmental funds (non-federal)
UNALLOWABLE COSTS

- Advertising
- Alcoholic beverages
- Bad debt or uncollected billings
- Capital equipment purchase
- Donations, gifts and contributions
- Entertainment
- Fines or penalties
- Memberships
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 – Add surplus / deficit greater than 10% operating expenses
- Step 4 – Include any subsidies
- Step 5 – Estimate billable units for each service
  - Labor hours
  - Machine hours
  - Unit cost
  - Number of samples
  - Any other unit of measurement appropriate to the type of activity
- Step 6 – Develop a reasonable method to assign service center operating costs to each service
- Step 7 – Calculate rate for each service by dividing costs by the billable unit
- Step 8 – Document the calculation and submit for review
# Example Rate Calculation

**Billing rate** = \( \frac{\text{Budgeted operating costs} \pm \text{prior year carry forward and subsidy, if any}}{\text{Expected units of activity}} \)

<table>
<thead>
<tr>
<th>Budgeted Expenses:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Technicians</td>
<td>$ 200,000</td>
</tr>
<tr>
<td>Supplies</td>
<td>50,000</td>
</tr>
<tr>
<td>Maintenance Contracts</td>
<td>50,000</td>
</tr>
<tr>
<td><strong>Total expense budget</strong></td>
<td>$ 300,000</td>
</tr>
</tbody>
</table>

- Less:
  - Subsidy                           | $(20,000) |
  - Surplus                            | $(5,000)  |
  - **Total budgeted expenses**        | $(25,000) |

**Estimated units** 2,000

**Rate per unit** $138
ACCOUNTING AND ROLES AND RESPONSIBILITIES
SERVICE CENTER ACCOUNTING

- Revenues should equal expenses, over time
- All revenues, expenses and subsidies should be accounted for in the service center chartfield string
- Costs must be reasonable, allocable, allowable and treated consistently and conform to University policy
- Invoices should be prepared monthly based on activity (hrs, unit cost, etc) * approved billing rate
- External users may be charged a higher rate than internal users
BILLING

• Billing should be performed at least monthly

• Internal revenue is billed through credit statements. A blanket PO should be prepared for each job. Each month the Service Center submits a credit statement to the Controller’s office (Linda Fournier). The billing takes place utilizing internal banks. Service Centers must track the revenue that needs to be billed monthly (i.e tracking lab use, etc)

• External revenue is billed using the URI invoice form located at [www.uri.edu/controller/accounts_receivable/URI Invoice 2015](http://www.uri.edu/controller/accounts_receivable/URI Invoice 2015). This form is submitted to David Gentile in the Controller’s office.
ROLES AND RESPONSIBILITIES

See Service Center Policy, part XIV:

Controller’s Office
- Service Center Committee reviews and approves rates annually, makes changes to policy, approves new service centers and closures, and approves subsidies
- Office of Sponsored and Cost Accounting monitors service center surpluses/deficits during the year and reviews annual rate calculations. Available to provide technical assistance and advice on the financial management of service centers

Service Center Staff
- Prepare and submit rate calculation annually to Office of Sponsored and Cost Accounting
- Review operations during year ensuring expenses and revenues are recorded properly
- Alert Controller’s office if any significant events arise that may cause large deficits/surpluses. A new rate calculation and approved rate may be recommended
AUDIT FINDINGS
Summary of HHS OIG audit findings
SUMMARY HHS OIG AUDIT FINDINGS FOR SERVICE CENTERS

**Total Overcharges of $3.2 Million to Federal Projects by Type of Finding**

- Duplicate and Unallowable Costs: $1,187,804
- Surplus Balances: $1,280,107
- Recharge Costs and Indirect Costs: $471,906
- Funds Used for Unrelated Purposes: $167,191
- Inequitable Billing: $111,962
SURPLUS FUND BALANCE

- Six of the twelve universities accumulated $6.6 million in surplus fund balances.
- This resulted in a $1.2 m overcharge to federally sponsored research.
- Some universities used surplus fund balances for unrelated purposes.
DUPLICATE AND UNALLOWABLE COSTS

• One university reported a deficit balance when it improperly classified a purchase of $729k in inventory as expenses. Three large purchases were made near year end and resulted in overcharges to the Federal Government. According to university officials the purchases were made to take advantage of special discounts and to arrange for an uninterrupted supply of goods. However, the purchases were not needed as part of normal operations and not consumed during year of purchase. If $729k had been properly classified as inventory, the service center would have had a surplus balance at year-end.

• Equipment expensed rather than capitalized and depreciated- 3 universities recorded cost of equipment as an expense in year acquired as well as a portion of the cost as depreciation over the life of the asset
Service Centers at two universities included a markup in billing rates above cost to accumulate a total reserve of $2.1m for equipment replacement and additions.

Rates should be designed to recover not more than the aggregate cost of the services.

By including a markup the universities overstated amounts charged to users and recovered more than the actual costs incurred. As a result Federal projects were overcharged.
UNALLOWABLE COSTS

Three universities included $1.3m in unallowable costs including costs relating to:

- Entertainment
- Interest
- Bad Debt
RATE SUBMISSION TIMELINE
SERVICE CENTER RATE SUBMISSION TIMELINE

- Proposed new timeline for rate calculation submission dates
- Would like to coordinate with submission of budgets to budget office
- Service Center Report showing surplus/deficit sent in May
- Rate calculations due to Sponsored & Cost Accounting in June
- Updated Service Center report sent to business managers after fiscal year end closes
- If significant changes, rate would be re-calculated
- Service Center Rates approved in August
TOP 10 RULES OF SERVICE CENTERS

1. Rates should recover no more than the cost of the good or service
2. Rates must break-even over time
3. Rates do not discriminate between users, especially Feds
4. Surplus/deficit greater than 10% operating expenses are included in rate calculation
5. Rates may include depreciation expense only, not the full cost of the equipment
6. Permitted indirect costs (depreciation) must be charged to the service center account if included in the billing rate
7. Must reclassify significant unused supplies to inventory at year end
8. Rates are calculated at a minimum every two years
9. Users must be billed at least monthly based on actual usage
10. All costs included in the rate calculation must be charged to the service center account
Can we charge users based on “market” rates, or what other institutions charge?
   • No, rates must be based on actual costs.

Can we include a “reserve” amount in the rate to purchase new equipment?
   • No, equipment must be purchased through federal funds or departmental funds outside of the service center account.

Must all users be charged the same rates?
   • All internal users must be charged the same rates. External users may be charged at higher rates.