Service Centers – Questions and Answers

Caroline Beeman, MS, CRA
Senior Manager

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Where can I find service center administrative tools?

- I've done a lot of research online, read all of the Federal Uniform Guidance, however I have not located any effective tools (i.e. worksheets, costing spreadsheets, etc.) to implement in assisting the service centers with their rate development, financial review, etc.
- I also have found a limited number of standard operating procedure manuals for service centers.
- With your years of experience in this area, would you be able to direct me to any guidance such as these to review and use to develop for my University's purposes?
- Search "recharge centers.edu" on the web

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Amortizing start up costs

- Is it permissible to defer costs in the start-up period for a center (when costs are high and revenue volume is low) and later amortize these costs as part of the cost of the service or product as revenues grow?
- Defer – No.
- Amortize - Yes – but document it well, make sure it is allowable, allocable, reasonable, and consistently applied.

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One time Cost

- When projecting cost, what about one time versus recurring cost?
- If the cost is significant you could/should amortize it.
- If the cost would not materially affect that year's users compared to other years' users, then expense it.

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Motor Pool Wants to Change Basis

- Currently, we estimate the operating costs by service by cat class, add in depreciation by cat class, and then divide those costs by the estimated # of days/weeks/or months rented or leased to determine a billing rate for that class of vehicle.
- Our motor pool would like to spread the total operating costs (for the entire fleet) over the total original acquisition cost of the fleet to arrive at a percentage that they call the mileage rate. Then multiply the mileage rate by the purchase price of a vehicle to determine the monthly/weekly/daily rate for that vehicle…

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For example:

Annual operating costs of fleet = $1.9M
Total original acquisition cost of fleet = $9.5M
Mileage rate = 1.9/9.5 = .2
Original acquisition cost of a vehicle = $17,600
Annual billing rate = 17600 x .2 = $3520
then divide this annual rate by days or weeks to determine respective daily or weekly rates

- Is a base of fleet acquisition costs permissible as annual usage?
- Only if the acquisition cost relates to the operating cost.
  - Half of operating cost is maintenance
  - Does it cost more to maintain an expensive car?

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Cost of reruns

- In Genome Sciences, we calculate the fees based on what reagents, equipment & staff time are used for each of the services (bottom-up unit costing). This does not reflect the loss if there is staff or equipment error and the process must be rerun.
- Add a percentage to the cost to offset the losses due to reruns
  - You could start by using an estimate.
  - Then you will need to start keeping track of the losses so that you can demonstrate that the percentage is based on the actual cost of the losses.
  - While it would be most accurate to track the loss constantly, you could instead use a statistically valid sample conducted periodically.
- FAR includes a clause regarding discounts plus it specifically tells you that you can include loss in the cost that you charge contracts at 31.205-26.

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Applicable Credits

- We have been looking at using list price for the consumables instead of the discounted prices we receive from vendors in the calculations
- You could not use the list price instead of your discounted price because 2CFR Part 200, Uniform Guidance, tells us

  §200.453 Materials and supplies costs, including costs of computing devices.

  (a) Costs incurred for materials, supplies, and fabricated parts necessary to carry out a Federal award are allowable.

  (b) Purchased materials and supplies must be charged at their actual prices, net of applicable credits…

  §200.406 Applicable credits.

  (a) Applicable credits refer to those receipts or reduction-of-expenditure-type transactions that offset or reduce expense items allocable to the Federal award as direct or indirect (F&A) costs. Examples of such transactions are: purchase discounts…

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Accounting for Salary Costs

Some of our large centers (40-50 staff members) work on federal grants, private contracts, teach, etc. All staff are exempt employees, so they are not tracking hours worked.

When a federal contract is executed, the PI determines what percentage of time each person will spend on the federal grant and then that allocation is made directly in our payroll system. We use an automated system for time and effort reporting. If the person works more or less than allocated, payroll corrections are made in the payroll time system so the federal records are accurate.

Recently, we've been successful at negotiating contracts based on deliverables, not on specified people and/or hours – which is great – except that it then becomes very difficult to know if a person is allocated more than 100% of their available hours. And honestly, even when all of it was done through payroll it was still a problem and we were constantly making payroll corrections to account for all of the hours. Since the staff ARE exempt, even if we had timesheets, they might record more or less than 40 hours in week.

Do you have thoughts on how to document, oversee, manage this? We've played with various spreadsheets, and the center directors are considering requiring timesheets, but both options have issues.

- Use the same method that you use for direct charges to federal grants

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Accounting for Salary Costs

- Our "centers" sometimes include faculty who are performing work outside the lab, such as teaching. For the development of a labor rate, we are trying to include only the hours the faculty member is expected to expend in the lab and then that portion of the salary is paid by the lab.
- But, since faculty are exempt, we believe they are spending more times on contracts/grants than was included in the labor rate. This is causing the center to have a large net profit and when we rerun the labor rate, the rate plummets.
- Any thoughts on how to handle this?
- Include the center in your effort reporting/project confirmation process.
- Handle as you would any other instance of faculty not reporting time accurately

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Can we subsidize service centers?

- When we develop a rate, if the amount we 'want' to charge is significantly less, is it ok to do so as long as we always give the lowest rate to the feds?
- For example, the rate calculates out at $75/hour, but we know the market won't bear more than $50 for this type of project. Can we charge $50?
- Yes. This is a subsidy.
- What type of documentation would be needed?
- The best practice is to document the subsidy in your rate calculation and record accounting/budget entries that show the subsidy.

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A couple possible accounting methods

Record the full subsidy amount as a debit to the Subsidizing project and a credit to the Service Center Operating Project

Service Center Operating Project	Subsidizing Project
Total expenses Less: Subsidy (credit amount)	Debit amount of subsidy provided to service center

Record the subsidy amount as a debit to the Subsidizing project each time a subsidized user is charged

Service Center Operating Project	User Projects	Subsidizing Project
Total expenses Recoveries (credit amounts)	Debit amount discounted rate	Debit amount of subsidy provided to users

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Multiple Services

- A lab may do a hundred different kinds of tests. Some of them just require personnel and equipment use. Others require a significant amount of parts specific to that test. Is it okay to have several different "testing fees" within a lab?
- Yes, you may have several different testing fees within one service center.

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Lab fees and Consulting fees in same service center

- Sometimes we bill for "consulting fees" or "report writing", which does not involve use of the lab. Is that okay?
- Yes, you may bill for multiple kinds of services from one service center.
- You must establish an hourly rate (billing fee) for consulting or report writing when you calculate your rates.
- If there is a significant amount of use of the different services, it may be appropriate to establish a separate service center within the lab.
  - "Significant" is a risk-based determination that to be made at your institution

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F&A is included in our billing rates

- F&A – on some of our labs, F&A is built into the rate – and we can show/prove that the expenses, when billed to the federal grant do not have additional F&A charged. But, this F&A is given to the lab as "revenue" in their lab account.
- Should we be calculating the amount of true overhead (F&A) earned on each charge and when payment is made from the Federal grant, put the portion that is F&A into a separate fund?
- If the service center is not charged a cost for F&A, then the recovered F&A should be transferred or recorded in a separate fund
- If the service center is charged a cost for F&A, then the credits should remain in the service center operating fund

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External Users

- My understanding is that external academic users using federal funds to pay services should NOT be charged F&A cost. Is that correct?
- It is common practice to ask external academic users if the source of funds is federal and then not charge F&A if the source is federal. However, it is technically allowable to charge F&A to all external users, no matter where that external user received their funding.
- Also, would it be okay for external academic users using non-federal funds to be charged an F&A cost?
- Yes. However, there is often a quid prop quo arrangement between academic institutions to refrain from charging each other full external rates.

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External Users

- Are External Users only those who are not using federal funds to pay for the service?
- Anyone that does not provide an institutional charge code is an external user.
- Don't we have to give Feds the best rate whether Feds contract with us directly or indirectly?
- Do not confuse sub-recipient and vendor. Service centers charging fee-for-service rates are vendors. This is not federal pass-through.

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External Users

- We can charge our fully costed rate of $152.98/hour (plus our 50% F&A rate) to the external Department of Energy users – they are external to us. However, what if our external rate includes depreciation for federally purchased equipment? Should we back that out?
- For your Dept. of Energy external (non-award) users, you can include the federal depreciation in the rate.
- They can be charged the same rate as all external users. However, if Shared Facilities wants to establish a special, lower, rate that excludes federal depreciation, they certainly may.

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Equipment Replacement Fee

- Who are you charging the equipment replacement fee? Internal or External?
- This is an institutional decision.
- As long as the equipment replacement fee is not included in the federal rate, the rest is up to the institution

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Discounted commercial rate

- From your experience, have you seen an across the board discounted commercial rate to research/innovation park residents? Does the guidance allow this?
- It is allowable, as long as it is more than the federal rate.
- If the research office wants to charge a rate that is more than the internal (federal) rate and more than the academic rate, but less than the external rate, then that is a policy decision that has no compliance issues involved.

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Versi 1

Unfair Competition

- I've noticed the following language in the General Standards and Conditions for federal awards https://www.nsf.gov/pubs/policydocs/gc1/dec14.pdf:

7. Competition. The grantee shall not use equipment acquired with Federal funds to provide services to non-Federal outside organizations for a fee that is less than private companies charge for equivalent services, unless specifically authorized by Federal statute for as long as the Federal government retains an interest in the equipment in accordance with 2 CFR § 200.313(c)(3).

- Some of these services could be provided by equipment on an active federal grant. Would we be required to charge the full market rate (i.e. no discount) to private companies in those circumstances?
- Yes, you should charge the full market rate to avoid unfair competition.

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University funded equipment

- Is depreciation expense on equipment, that has been partially funded by the university (thru cost share or otherwise) and partially funded on a federal award, recoverable in the billing rate on the non-federal portion?
- Yes. From the COFAR FAQ:

200.436

.436-1 Depreciation and Cost Sharing

Section 200.436(c)(3) states the following is excluded from the acquisition cost of the asset: "Any portion of the cost of buildings and equipment contributed by or for the non-Federal entity, or where law or agreement prohibits recovery." This would suggest that the depreciation on the institutional/matching/cost sharing contributions to construction and major instrumentation is unallowable for recovery. FAQ .436-2 (previously IV-1) clarifies that this qualification is limited to instances of cost sharing or matching, but the language remains unclear, and could be interpreted inappropriately to reverse longstanding Federal policy allowing institutions to recover through their F&A rates their contributions to construction projects and instrumentation partially funded through Federal awards, unless prohibited by law or agreement. Is depreciation on the institutional contribution allowable, even in cases of cost sharing or matching?

Yes, depreciation on the institutional contribution is allowable, unless law or agreement prohibits recovery. Based on the COFAR's recommendation, OMB will issue a technical correction to the Uniform Guidance to clarify.

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University funded equipment (continued)

- If the equipment was funded with university funds or state funds or private funds, then the depreciation can be included in the rates
- If funding for the equipment is considered voluntary committed cost share on a federal grant, then the depreciation cannot be included in the rates

Accounting for F&A Recovery

- How do we break out the F&A recovery from the revenue received when the fees have more than just hours built into them? We don't have a sophisticated way of tracking what's used in each test and don't really want to try to create one.
- For each rate, for each service, you should have identified how much of the rate was F&A. In each invoice you send, you should identify the number of units of each service and the billing rate. Perhaps you could identify the F&A amount for each invoice using your billing system at the time of billing.
- Alternatively, if you used a consistent F&A percentage in each and all of your billing rates, you could back into the F&A recovery amount. Total Billed times (F&A rate divided by (100% plus F&A rate)) equals F&A recovery. For example, if the F&A rate is 55%, then multiple Total Billed times 55/155

Surplus Balance

- Among the set asides that could be allowed for surplus balances are:

  1. Up to 60 days of working capital for normal cash expenses
  2. Equipment replacement based on depreciation contained in recharge rates
  3. Difference between higher rates charged for external users as opposed to internal users

- Are there are any other legitimate reasons for retaining a large surplus balance?
- No, that's it.

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60 Days Operating Cash Citation

- Do you know where the location of the 60 day allowance is located in the document? Is there an allowable balance mentioned in the Uniform Guidance?
- In 2 CFR Part 200 Uniform Guidance it is mentioned in Appendix V for State and Local Government

G. OTHER POLICIES

2. Working Capital Reserves

Internal service funds are dependent upon a reasonable level of working capital reserve to operate from one billing cycle to the next. Charges by an internal service activity to provide for the establishment and maintenance of a reasonable level of working capital reserve, in addition to the full recovery of costs, are allowable. A working capital reserve as part of retained earnings of up to 60 calendar days cash expenses for normal operating purposes is considered reasonable. A working capital reserve exceeding 60 calendar days may be approved by the cognizant agency for indirect costs in exceptional cases.

- And…

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60 Days Operating Cash Citation

- In the A-133 Audit Supplement

Under the section for 2 CFR Part 220 (A21), where heading of page is "June 2015 Compliance Requirements 2 CFR part 220/A-21)" on page 3.1 B-44.

Allowable Costs – Special Requirements – Internal Service, Central Service, Pension, or Similar Activities or Funds

4. Suggested Compliance Audit Procedures

The auditor should consider procedures such as the following:

a. For activities accounted for in separate funds, ascertain if (1) retained earnings/fund balances (including reserves) were computed in accordance with A-21; (2) working capital reserves were not excessive in amount (generally not greater than 60 days for cash expenses for normal operations incurred for the period exclusive of depreciation, capital costs and debt principal costs); and (3) refunds were made to the Federal Government for its share of any amounts transferred or borrowed from internal service, central service, pension, insurance, or other similar activities or funds for purposes other than to meet the operating liabilities, including interest on debt, of the fund.

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Refunding Surplus Balances

- For recharge centers that charge federal grants and contracts, should excess surplus balances be refunded to the US Treasury or back to the individual grants?
- My preference would be to incorporate the surplus into a reduction of the subsequent rates
- Paraphrased from Mitzi Singleton:
  - Refund back to each individual grant
  - Any interest earned on these surplus balances should be refunded back to the US Treasury
- If grant is closed then to US Treasury

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May Surplus from One Service Subsidize Another?

- We have a service center which offers 3 different services – the billing rates are calculated separately. At the end of the fiscal year, one service has a surplus and the other two are in deficit. Can the surplus offset the deficits?
- If you want to be 100% compliant - absolutely not.
- If the costs of all three services were accounted for under one charge code then you would have just one surplus/deficit. You wouldn't know if one had a surplus and the others had deficits.
- If you know the surplus or deficit amount for each service you must apply them only to the specific service

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May Surplus from One Service Subsidize Another?

- We have calculated rates for each of our species, and have reviewed the rates annually. What happens when we find that we are overcharging in one species, and under-recovering in others?
- The potential could be for an investigator who only uses one species in her grant, and that species was overcharged. Would we have to repay funds to sponsor?
- Your safest route would be to refund the sponsor. If you can see that the grant was over-charged for their animals, then an auditor will be able to see that.
- Refunding the overcharge would demonstrate a high degree of oversight and ethics that can only enhance the university's reputation with auditors

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Deficit Balance

- Should we be increasing the rates and showing the loss as occurring each year?
- The prescribed method is to increase the rates in the subsequent year.
- One of the problems with that is we may get a rate such that people may not use the service at all, compounding the problem
- Another option is to find some other source of funding to subsidize the center by covering the year-end deficit.

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Deficit Balance

- Is there a way to recoup the under-recovery, aside from revising the future rates?
- Get a subsidy
- Handle it as either an increase in rates or a subsidy. If ignored it can get out of hand.

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Caps are not allowed

- Would you pls provide citation for the specific fed regs that states that caps are not allowed?
- From the NIH FAQ on Cores, **NOT-OD-13-053**.
  - 3.g. Can fee schedules cap the amount charged to a user in a particular time period?
  - Generally, no. Fee schedules that cap charges at a certain dollar amount per month if more than a certain number of hours or units are used are not consistent with applicable cost principles unless the institution or some other non-Federal funding supports the difference between the allocable cost and the amount charged to a heavy user. If appropriate for a particular facility, it may be possible to create fee schedules that have different charges depending on timing and level of usage as long as the charges are determined and consistently applied in accord with applicable Federal cost principles.

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Caps are not allowed (continued)

- If the users insist on keeping the cap, then you can protect your school by treating the amounts over the cap as subsidies.
  - My suggestion for how to do this is to track all usage, both under and over the cap.
  - Calculate the rate using the total usage.
  - Project an estimate for the over the cap usage, for the upcoming year.
  - Multiply the over the cap usage times the rate, in order to calculate the subsidy for the upcoming year.
  - Identify the source of the subsidy and charge that source for over the cap units each month.

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Too small to be a service center

- Say a research lab is not a service center, and doesn't really bring in enough money to justify creating a service center. The lab is providing services to internal and external entities, and has federal grants. Can they still develop rates for internal and external users as long as they don't unfairly compete with the market or ever charge the federal government more?
- Technically, it would be inconsistent costing to charge everyone except the feds.
- You could create an “inventory clearing" project where supplies and materials are charged to each user (including the research lab) and credited to the “inventory clearing” project.

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Service Center Impact on F&A Rate Calculation

- If a service center operates as a deficit, how should that deficit be handled in the F&A rate agreement?
- Paraphrased from Steve Bradley:
- Some Service Centers are “subsidized” for deficits (e.g., by the Dean or Dept Head)
- In most cases, we do not know about these when doing the F&A Proposal so theoretically (and, erroneously) those $’s could go into a Coll / Dept Admin pool within the F&A Proposal or the Instruction pool, rather than OIA (Other Institutional Activities)
- Most of these erroneous cases would embody “technical non-compliance” since they would not impact F&A rate calculations

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Service Center Impact on F&A Rate Calculation

- Is it not still acceptable to functionalize recharge center space based on the functions of the revenue generated from the users of the service?
- Service center space should be treated as “Other Institutional Activities” (OIA) for F&A rate calculation
- However, in practice many institutions functionalize service center space based on the functions of the revenue and recoveries received from the users of the service center.
- Acceptance of this practice varies

Closing Comments

- For a handout of today’s slides use the link that is on the evaluation page when you exit the webinar
- A CPE credit certificate (for 1 hour CPE) is available for a small administrative fee of $20
- Please submit any questions through the evaluation and we will email you with a response

Upcoming Training

Webinar Schedule

- F&A Rate Extensions: How, Why, and What it May Cost You – June 13, 2:00 p.m. EDT
- Moving from Short Form to Long Form Considerations– August 15, 2:00 p.m. EDT
- Re-budgeting & Cost Transfers – September 12, 2:00 p.m. EDT
- F&A Trend Analysis Using CRIS®– September 19, 2:00 p.m. EDT
- The Utility Cost Adjustment (UCA) – October 17, 2:00 p.m. EDT

In-person Workshop! F&A Long Form Training Sept. 12 – 14, 2017

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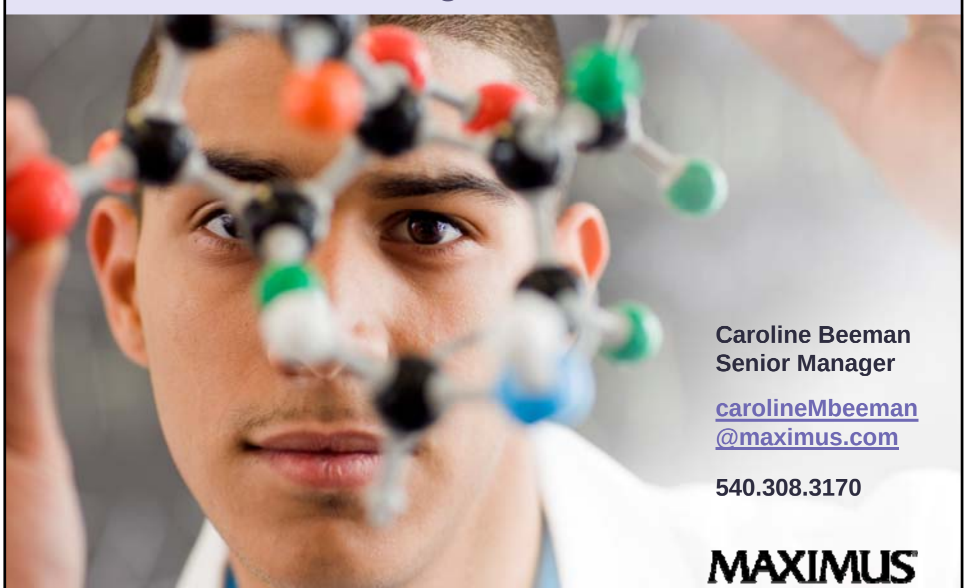
Thank You for Attending



Caroline Beeman
Senior Manager

carolineMbeeman@maximus.com

540.308.3170

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