Service Centers
The Not So Simple Basics
NCURA Webinar - November 8, 2018

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Agenda / What you will learn this afternoon

1. Develop an understanding of what a service center includes;
2. Understand when/why a service center should be established;
3. See how service center rates are calculated;
4. Identify common compliance risks associated with service centers;
5. Learn approaches to better cost recovery consistent with established federal and industry standards.
What is a Service Center?

An operating unit within the University that provides:
- a service or group of services
- product or group of products
- to users – principally within the university
- for a fee

Other names:
- Recharge center
- Core facility
- SSF – Specialized service facility/center

Examples:
- Microscopy
- Store room
- Genomic sequencing
- Equipment fabrication
- Neuroimaging
Subpart E – Cost Principles (§200.468 Specialized Service Facilities)

- 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**.

Subpart E – Cost Principles (§200.468), Specialized Service Facilities (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**.
Federal Regulations

**Principles:**
- Services charged on actual usage
- Consistent treatment of rates among users
- Based on costs
- Must include direct and allocable F&A costs
- Rates calculated at least once every two years

See the NIH FAQs

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**Do You Need a Service Center?**

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is this service available elsewhere on campus?</td>
<td>Consider whether duplication of services justifies added investment</td>
</tr>
<tr>
<td>Is the need short or long term?</td>
<td>For short term needs, it may be preferable to apply an allocation of costs methodology versus establishing a new business unit</td>
</tr>
<tr>
<td>Is this service provided for or subsidized by a federal award?</td>
<td>Federal grants may allow or require that collections of fees for grant funded activities be recorded as program income</td>
</tr>
<tr>
<td>Are the charges simply allocation of costs?</td>
<td>Periodic allocation of expenses may be a simpler approach</td>
</tr>
<tr>
<td>What portion of our users will be internal vs. external?</td>
<td>A service center with all external customers may function as an auxiliary operation. <strong>High external user volume may result in tax implications under UBIT (unrelated business income tax)</strong></td>
</tr>
</tbody>
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Do You Need a Service Center?

Establishing a Service Center

<table>
<thead>
<tr>
<th>Policies</th>
<th>Procedures</th>
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</thead>
<tbody>
<tr>
<td>Key definitions</td>
<td>Business plan development</td>
</tr>
<tr>
<td>Roles and responsibilities</td>
<td>Rate calculation</td>
</tr>
<tr>
<td>Basic principles</td>
<td>Billing process</td>
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<td></td>
<td>Documentation requirements</td>
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<td></td>
<td>On-going monitoring process</td>
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</tbody>
</table>

Quiz #1

Question 1.1

The microbiology department buys 4 chemicals in large volume to obtain a significant discount. The chemicals are used by various labs and each takes the amounts they need and notes in the log which chemical and how many liters were taken.

Should you establish a Service Center?
Quiz #1

Question 1.2
What of the following issues does the Uniform Guidance address?:

A. Frequency of rate calculations
B. Allows for federal preference in costs
C. That charges must be based on usage
D. A and C

Guidance for Calculating Service Center Rates

<table>
<thead>
<tr>
<th>Rate setting should consider the proposed cost of operations and be offset by past gains/losses &amp; subsidies</th>
<th>Proposed costs should be based on historical expenses &amp; adjusted for inflation and expected changes in usage</th>
</tr>
</thead>
<tbody>
<tr>
<td>New service centers should build an operating budget based on expected costs and usage of the services</td>
<td>As a rule, rates for internal users should never exceed the identified cost per unit</td>
</tr>
</tbody>
</table>
Guidance for Calculating Service Center Rates

Define Product/Service

Determine the Customer Base

Measure Usage

Determine Operating Costs

Allocate Costs

Calculate the Rate

Calculating Rates

Define Product/Service

Determine the Customer Base

Measure Usage

Determine Operating Costs

Allocate Costs

Calculate the Rate

Determine What Service You Will Provide
• Microscope Lab – Use of Microscope
• Zebra Fish Facility – Fish
• Genome Sequencing - Sequencing Services
• Store Room – Chemicals, Lab Supplies & Purchasing Services
• Machine Shop – Consulting, Prototype Development Services
• IT Services – Rack Space; Computing Time; Technical Labor
Calculating Rates

Determine Who Will Purchase The Service/Product and Estimate Demand/Volume

**Internal Users**
- Research Units
- Students

**External Users**
- No Univ Acct #
- Industry
- Personal Users

Determining Operating Costs

Allocate Costs

Calculate the Rate

**Option 1** – charge per test

**Option 2** – charge per hour

Example: Center performs analysis of samples
Calculating Rates

Examples of billable units

- Labor hours
- Machine hours
- Unit costs
- Test performed

- Number of samples
- Animals
  - Per animal
  - Cage days

Build a budget

- Direct Cost
- Less unallowable costs
- Plus F&A (if SSF or required by policy)
- Plus/minus prior year balance
Calculating Rates

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 or service may NOT subsidize another

Calculating Rates

Define Product/Service
Determine the Customer Base
Measure Usage
Determine Operating Costs
Allocate Costs
Calculate the Rate

Budgeted Expenses +/- Cumulative Carryforward Surplus/Deficit +/- Subsidy
Budgeted Billable Units

Projected cost/projected volume + Surplus/deficit per unit = Subsidy

Rate per unit of service
Quiz 2

Question 2.1
Which of the following are true?

A. All service center charges must be on the same basis, you cannot mix hourly rates and unit rates in the same facility
B. Service centers must break even every year
C. When setting rates you can use estimated costs
D. It is okay to use a flat rate provided it is below cost and below market
E. You should ignore student usage in your rate calculations

Quiz 2

Question 2.2
A new service center incurs startup costs, including those related to several months of employee onboarding and equipment calibration. Startup significantly increases the expected costs and reduces expected uses, i.e., higher than normal cost-based rates.

Is the service center required to recover startup costs through its first year of operations?
**Case Study – EM Facility**

**Electron Microscopy (EM) Facility**

The facility offers 2 types of services and 2 tiers of service for each.

**Types of services**

1. Scanning electron microscope (SEM), cost ~$1M
2. Transmission electron microscope (TEM), cost ~100K

**Tiers of services**

1. Assisted use of microscope
2. Unassisted use of microscope
Case Study – EM Facility

Estimated units for year
• SEM - 500 (estimated at 2 hours per use)
• TEM - 1,000 (estimated at 2 hours per use)
• Each service will be 50% assisted and unassisted

How should charges be set - what should be the billing unit?

Expenses:
• 3 full time staff
• All other expenses
• Depreciation
Case Study – EM Facility

Expenses – staff ($175K):
- 3 full time staff (including fringe benefits)
  - 1 FTE works with SEM ($60K)*
  - 1 FTE works with TEM ($50K)*
  - 1 FTE provides customer assistance for assisted services, i.e., SEM-A and TEM-A, ($65K)

* Provides technical services for all users but not customer assistance

Expenses – supplies, repairs, maintenance contracts, & all other expenses ($60K):
- $30K for SEM
- $10K for TEM
- $20K for shared
Case Study – EM Facility

Expenses – depreciation (8 years for scientific equipment - $137.5K):

- SEM $125K/year
- TEC $12.5K/year

<table>
<thead>
<tr>
<th></th>
<th>SEM</th>
<th>TEM</th>
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<tbody>
<tr>
<td>Unassisted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assisted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SEM employee</td>
<td>$30,000</td>
<td>$30,000</td>
</tr>
<tr>
<td>TEM employee</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Customer assistant</td>
<td>21,667</td>
<td>43,333</td>
</tr>
<tr>
<td>Total Staff Costs</td>
<td>$30,000</td>
<td>$51,667</td>
</tr>
<tr>
<td></td>
<td>$25,000</td>
<td>$68,333</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$175,000</td>
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## Case Study – EM Facility

<table>
<thead>
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<th>SEM</th>
<th>TEM</th>
<th>TOTAL</th>
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<tbody>
<tr>
<td></td>
<td>Unassisted</td>
<td>Assisted</td>
<td>Unassisted</td>
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<tr>
<td>Budget</td>
<td></td>
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</tr>
<tr>
<td>Supplies</td>
<td></td>
<td></td>
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<tr>
<td>Shared</td>
<td>$3,333</td>
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<td>$6,667</td>
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<tr>
<td>Service specific</td>
<td>15,000</td>
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<td>5,000</td>
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<tr>
<td>Total Supply Costs</td>
<td>$18,333</td>
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<td>$11,667</td>
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<tr>
<td>Depreciation</td>
<td>$62,500</td>
<td>$62,500</td>
<td>$6,250</td>
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</table>

## Case Study – EM Facility

<table>
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<th>TEM</th>
<th>TOTAL</th>
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<tbody>
<tr>
<td></td>
<td>Unassisted</td>
<td>Assisted</td>
<td>Unassisted</td>
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<tr>
<td>Rate Calculation</td>
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<tr>
<td>Total Expenses</td>
<td>$110,833</td>
<td>$132,500</td>
<td>$42,917</td>
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<tr>
<td>Estimated Units</td>
<td>250</td>
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<td>500</td>
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<tr>
<td>Calculation</td>
<td>$110,833/250</td>
<td>$132,500/250</td>
<td>$42,917/500</td>
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<tr>
<td>Price/unit (round to $)</td>
<td>$443</td>
<td>$530</td>
<td>$86</td>
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</table>
Quiz #3

Question 3.1
Which of the following cannot be included in service center rates:
A. Maintenance contracts
B. An allocation of the department administrator salary
C. Costs of a reception for the service center opening
D. Bulk supply order of chemicals used by several of the center services
E. Marketing materials to encourage external use

Compliance Guidelines

- Rates should recover **no more than the cost of the good or service**
- Rates must **break-even over time**, not necessarily each year
- Rates do not **discriminate between users, especially Federal awards**
- **Surplus from service center cannot be used to fund unrelated activities**
Compliance Guidelines

- Must maintain published price list
- Rates may include depreciation expense only, not the full cost of equipment
- **Subsidies for specific or groups of users** must be accounted for as part of the rate calculation
- Depreciation included in rates **cannot also be in the F&A rate**

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
Compliance Challenges

Costing Violations

- Depreciation factor used to adjust rate
- Program Income - developing recharges for outside users when using federally purchased equipment such as testing equipment or samples
- Including unallowable costs in the rate
- Mistreatment of subsidies or discounts

Performance Improvement Strategies

Improve utilization
- Bulk rates
- Off-peak rates
- Rate adjustments for different grade outputs

Cost recovery
- Include F&A changes and increases to pricing for external users
- Establish policies and procedures to promote tracking and billing of usage
- Collect account code in advance of service provision
- Amortizing startup costs

Cost reduction
- Identify and seek to reduce duplication of equipment across campuses
- Evaluate and sunset underperforming facilities
- Pursue consortiums arrangements for specialized strategic pursuits

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Summary & Conclusion

Service centers should be developed wherever an institution believes it is appropriate based on clear and concise institutional written policies and procedures.

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?

Other Sources of Guidance - Reference

- 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)