Service/Recharge Center Activities

University of Alaska Anchorage
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Statewide System
Office of Cost Analysis
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What We’ll Cover Today

- Defining recharge activities
- Importance of recharge activities
- UA policy and procedures
- Nuts and bolts
- Your questions
Terminology

- A-21 - Federal OMB Circular “Cost Principles for Educational Institutions”
- F&A - Facilities and administrative costs
  - Overhead
  - Indirect
- CAS - Cost Accounting Standards
- ONR - Office of Naval Research
- DCAA - Defense Contract Audit Agency
- DS-2 - Disclosure Statement
Introduction

- 1979 A-21 introduced concept
- Intent is to charge users of services
- Often focus of federal audits
- SW Accounting Manual Procedures
  - P-112, Service/Recharge Centers
    - Original November 1995
    - Revised May 1996
    - Revised April 1997
    - Draft Revision May 2002 – Never finalized
    - Draft Revision May 2006
  - P-New, Accounting for Recharge Activity in Restricted Funds – Never finalized
What are Recharge Centers used for?

- Assessment, collection, or charge by one department or unit for goods or service furnished to another department, activity, or project.
- Represents a redistribution or transfer of the cost of providing a good or service from the provider to the user.
What Recharge Centers are not used for

- Reallocation
  - Actual charges from one account to another account(s)
    - Dept X buys a ten-pack of software and JV’s 1/10th of actual cost to nine other depts.
    - Campus A agrees to pay up to $500 travel for someone from Campus B to attend training

- If total income less than $5,000 per fiscal year, exempt from policy
Why Do We Care?

- Must comply with federal regulations
  - Continue to receive federal dollars
- CAS
  - Consistent internally
- Applies to all activities
  - Not just those charged to federal government (directly or indirectly)
Federal Rules

- OMB Circular A-21
  - Doesn’t specifically address regular centers, only specialized service facilities
Service Center

- Department, unit or activity which provides goods or services to other departments or units on a regular basis at approved rates
Recharge Center

- Service center with
  - More than $100,000 per year in gross receipts, or
  - Sales to external parties of more than 5% of gross receipts, or
  - An enterprise operating cycle which is other than a 6/30/xx fiscal year, or
  - Inventory in excess of $50,000 or
  - Permission/directive from the CFO to be classified as a recharge center rather than a T&M Center
A-21, Section D.2. Direct Costs

Service center charges may be included as direct costs of sponsored projects if items are

- Treated consistently, in like circumstances, as direct costs
- Use recognized method of computing costs
- Use consistent institutional cost accounting practices
Federal Rules (cont.)

- A-21, Section C.5.b.
  - Direct federal financing of facilities or resources used in service operations
  - Must credit amounts received from federal government to finance resources used in service center activities to determine rates to be charged to sponsored agreements
Federal Rules (cont.)

- A-21, Section J.47, Specialized Service Centers
  - Highly complex or specialized facilities
  - Cost of service includes direct and allocable share of indirect costs
  - Charged as direct charges to users
    - Based on actual use
  - Rates cannot discriminate between federal and non-federal activities or users
    - Including internal users
Federal Rules (cont.)

- A-21, Section J.47, Specialized Service Centers
  - Charges not to exceed actual costs over break-even period
  - Rates must be reviewed periodically for consistency with long-term plan
    - Adjusted, if necessary
Federal Rules (cont.)

- Cannot recover the following costs through service center charges:
  - Equipment
    - Recovered via depreciation
  - Reserves for equipment replacement, etc.
  - Lease-purchase or loan payments
    - True lease costs can be recovered
  - Financing costs of inventory or reserves
  - Deficits from other recharge activities
Federal Audit Scrutiny

- Determine if adequate policies & internal controls are in place
- Review controls over establishment of recharge centers
- Determine central monitoring & annual establishment of billing rates
Federal Audit Scrutiny (cont.)

- Exclusion of costs from F&A rate calculation
- Evaluation of funds used for unrelated purposes
- Consistency of charging all users equitably
Federal Audits of Recharge Centers

- HHS Office of Inspector General
  - Summary Report on Audits of Recharge Centers at 12 Universities
    - January 1994
Summary of HHS OIG Audit Findings

- Audits at 12 universities to determine whether recharge centers complied with OMB A-21
  - OIG identified $3.2 million in overcharges
    - Surplus balances of $1.3 million
    - Duplicate & unallowable costs of $1.2 million
    - Recharge costs and indirect costs of $0.4 million
    - Funds used for unrelated purposes of $0.2 million
    - Inequitable billing of $0.1 million
Summary of HHS OIG Audit Findings

- Examples of significant issues
  - 6 universities accumulated $6.6 million in surplus funds
  - 5 universities did not analyze & adjust billing rates resulting in overcharges of $1.2 million
  - 2 universities didn’t credit recharge accounts for interest earned on excess fund balances
  - 1 university improperly classified $0.7 million in inventory as expense; inventory that is not consumed in year of purchase is unallowable
Summary of HHS OIG Audit Findings

- Significant issues continued...
  - 1 university improperly included surpluses/deficits of recharges in the calculation of IDC rates, overcharging Federal projects by $0.4 million
  - 4 universities used $3.5 million of surplus funds for unrelated purposes; supplementing an athletic department, developing an accounting system & renovating academic offices
  - 1 university charged inconsistent rates to users of computer services, subsidizing students & staff, overcharging the feds for research
HHS OIG Findings: Reasons for Overcharges

- Universities did not:
  - Establish or adhere to policies & procedures
  - Maintain adequate accounting records
  - Analyze & adjust billing rates, or monitor recharge centers on a regular basis
Recent Example

- Report on Research Compliance (January 2006)

“UCONN Ends False Claims Investigation; Settles with DOJ for $2.5 Million”
Federal Audit Selection

- Animal care facilities
- Telecommunications
- Specialized research facilities
- Research fabrication shops
- University motor pools
- Computing facilities
Typical Audit Findings

- Policy and procedures noncompliant with A-21
- Internal controls not adequate
- Income and expense segregated
- Accumulated surplus
- Inappropriately transferred surplus for unrelated purposes
Typical Audit Findings (cont.)

- Recharge accounts not credited for interest income
- Treated unused inventory and equipment purchases as current expense
- Rates not supported by cost studies
  - Based on historical rates only
  - Not updated or reviewed for several years
  - Set by external market prices rather than incurred costs
Policies and Procedures

Board of Regents and SW Accounting Manual
Applicable Regulations

- Board of Regents Policy 05.15.06
  - www.alaska.edu/bor/policy/5p/p05-15.doc
- SW Accounting Manual Procedure, P-112
- IRS regulations with respect to Unrelated Business Income Taxes (UBIT)
Board of Regents

Policies

www.alaska.edu/bor/policy/5p/p05-15.doc
UA BoR Policy

- P05.15.01 - General Statement
  - Board of Regents recognizes that recharge center activities are needed and reflect the quality of services desired for convenience and necessity of students, faculty, staff, alumni, and community
Recharge Centers

- Furnish goods and services primarily to UA departments
  - These goods and services might be available from commercial sources, but for reasons of convenience, control, efficiency, or necessity UA chooses to provide them
- Supported by internal charges to users
P.05.15.02 - Authorization

- MAU’s CFO must approve all recharge center operations
- University President promulgates regulations to govern the operation of recharge centers
UA BoR Policy (cont.)

- P05.15.03 - Pricing
  - Full cost of activities clearly identified
    - Other financial support clearly identified in conformance with UA regulations & SW Accounting manual procedures
  - Costs allocated and charged to the activity incurring them unless limited by Circular A-21 for federal grants and contracts, UA regulations, or SW Accounting procedures
UA BoR Policy (cont.)

- UA may subsidize recharge operations in the form of space, utilities, maintenance, student service programs, financial accounting, auditing, and administrative costs to
  - Minimize cost of good or service
  - Maintain a competitive position with state, local, and national markets
P05.15.06 - Competition with Private Sector

Activities must be directly related to meeting the university’s instructional, research, and public service missions

Conducted for the convenience and necessity of UA community
UA BoR Policy (cont.)

- UA has a responsibility to carefully consider decision to provide product or service when product or service might compete with similar products or services offered by the private sector
  - Some degree of competition unavoidable
  - When potential competitive situation exists
    - UA should consider concerns of affected private businesses and the community as a whole
    - Act with sensitivity and good faith
UA BoR Policy (cont.)

- Chancellor shall consider obtaining services available through UA department from private sector when
  - Equivalent or better quality service
  - At a lower price than the full costs of providing services internally
Statewide Accounting Manual

Procedure, P-112
UA Procedure

- Current version dated April 1997
- Draft version included in handouts for training
  - SW Cost Analysis considering major rewrite
  - What would make it better?
    - Comments to SW Cost Analysis by May 31st
UA Procedure (cont.)

- Recharge
  - An assessment, collection, or charge by one department or unit for goods or service furnished to another department, activity, or project
  - Represents a redistribution or transfer of the cost of providing a good or service from the provider to the user
UA Procedure (cont.)

- Rates based on actual costs and quantities
- Adjust to achieve break-even over normal operating cycle
- Charge all users, regardless of funding
UA Procedure (cont.)

- Service/Recharge Center
  - Department, unit or activity
  - Provides goods or services to other departments or units on a regular basis
  - Charges approved rates
UA Classification Levels

- Excluded if distributed charges are less than $5,000 per fiscal year
- Three classifications
  - Time and Materials (T&M) Center
  - Recharge Center
  - Specialized Service Center
Time & Materials (T&M) Center

- Must meet all four criteria
  - Gross receipts of less than $100,000 per year and
  - Sales to external parties less than 5% of gross receipts and
  - Inventory less than $50,000 and
  - June 30 FY operating cycle
Recharge Center

- Meets one of four criteria
  - More than $100,000 annual gross receipts, or
  - Sales to external parties are more than 5% of gross receipts, or
  - Operating cycle other than June 30 FY, or
  - Inventory greater than $50,000, or
- Permission/directive from CFO to be classified as recharge rather than T&M
Recharge Center

- Examples
  - Communications
  - Copy Services
  - FP & C Maintenance
  - Document Services
  - Facilities Custodial
  - IT Desktop
Specialized Service Facility

- Special facility
  - Internal recharge rate includes provision for recovery of institutional indirect costs
  - Separate negotiated indirect cost rate

- Example
  - UAF Alpha Helix Ship
  - UAA – N/A
Specialized Service Facility

- Meets one of three criteria
  - Highly complex facilities, or
  - Large recharge operations with more than $500,000 annual gross sales, or
  - Operations has significant external sales
- Requires approval of VP Finance
Approvals

- All service centers approved by regional campus CFO
  - Associate Vice Chancellor, UAA, Budget and Finance
  - Submit updated pricing proposals to CFO, at least annually
  - Usually in spring to set rates for next fiscal year
Approvals (cont.)

- Sales to for-profit entities and private individuals without UA affiliation
  - Generally not appropriate
  - Require advance approval of CFO
    - Recharge must be able to document that the particular good or services provided were not available in-state from commercial sources
      - Certification from customer
Liaison

- Liaison with all governmental agencies concerning service centers
  - SW Cost Analysis Manager
  - SW Controller
Definitions

- Direct costs
- Departmental indirect costs
- Enterprise funds
- External user
- Goods
- Institutional indirect costs
Definitions (cont.)

- Internal User
- Operating cycle
- Services
- Useful life
T&M Accounting

- All budget, expense, and revenue recorded in one account (org) using general unrestricted fund
- Unique recharge org with program code ending in “_Y”, in unrestricted fund
- Use specifically assigned revenue account codes
- Excess recoveries refunded to users through rate adjustments or some other equitable method
Deficits eliminated through future price adjustment or subsidy
Price charged limited to direct cost
Documentation must substantiate all direct costs and relationship of fee or price charged to such costs
All users charged at same rates and in same manner
All rates approved in advance by CFO
Recharge Center Accounting

- Unique recharge org (with program code ending in “_Y”)
  - AY, OY, GY, RY

- Unique enterprise fund
  - SW – 171XXXX
  - UAF – 173XXXX
  - UAA – 174XXXX
  - UAS – 175XXXX

- Costs include allowable direct costs, equipment depreciation, and departmental indirect costs
Recharge Center Acctg (cont.)

- Unallowable (i.e. bad debts) and directly unrecoverable costs (i.e. Equipment, inventory financing costs)
  - Recharge org but fund 10XX00
- Physical inventory and adjustment at least at June 30
  - Perpetual inventory preferred
  - Recorded at net realizable value at year end
- Labor recorded directly on time report
  - Work order system, if approved
    - Requires additional entry
Use recharge org for responsible org on property system

Depreciation is straight line using UA lives
  - Half-year convention

All revenue must be recorded in specifically assigned account codes
  - Interdepartmental revenue

Fund balance carries forward from year to year
Recharge Center Acctg (cont.)

- All recoverable expenses must be charged to the recharge center fund
- Any subsidy approved in advance by CFO
- Price adjusted to eliminate carry-forward
- F&A costs and any profit from external users is used to reduce cost to internal users
  - Profit from non-federal sources can be moved with approval of MAU CFO
Recharge Center Pricing

- All internal users charged at same rate and in same manner
- Sales to external parties must include the UA F&A cost rate and may include profit
- Documentation must substantiate all costs and relationship of fee or price charged to such costs
- All rates approved in advance by CFO
Specialized Service
Facilities Accounting

- In general, same accounting procedures as Recharge Centers
- Provision for institutional indirect costs must be recorded as an intra-agency expense to the 17XXXX and as intra-agency receipt in unrestricted fund
  - Recovery distributed to F&A operations in proportion to actual costs
    - Distribution determined by Controller
    - Over and under recoveries reversed in subsequent period
Service Center Equipment

- Follow capitalization criteria in P-114
- Equipment useful lives reevaluated by SW Cost Analysis at least every three years
  - F&A proposal cycle
- Equipment Useful Lives table, effective FY05-FY07
  - No change from FY02-FY04
Service Center Equip. (cont.)

- Gain/losses on equipment dispositions
  - Internal transfers
    - No loss recorded
  - External sales
    - Record loss to recover remaining book value
      - DR  Recharge org-8807-17XXXX
      - CR  Recharge org-8807-179XXX
    - Net proceeds of sales must be credited back to recharge reserve
Common Accounting Entries

- New section
  - Formerly was Attachment 1 in procedure
  - Same entries with addition of gain/loss entry
Let’s take a break!
Unrelated Business Income (UBI)
Unrelated Business Income (UBI)

- An activity regularly carried on
  - As a trade or business
  - Not substantially related to the university’s purpose of instruction, research or public service.

- Purpose of the UBI tax
  - Put tax-exempt organizations on a level playing field with for-profit entities that engage in the same business activities and pay tax on the income they earn.
Unrelated Business Income

- Analyze new sources of revenue for the campus/unit
- If you suspect UBI, contact
  - Joan Harings, General Accounting in the Budget & Finance Dept.
  - Analyzing for UBI sometimes takes a good deal of judgment
  - Ask questions, especially when the activity is material
Nuts & Bolts
Rate Proposal Foundation

- Cost calculation
- Income Sources
- Who are your customers
- Rate development
- Where does your operation fit into mission of UA
Rate Proposal Building Blocks

- Identify the cost of goods and/or services provided
  - Direct and indirect
  - Projected units of output
  - Calculate cost per good/service
Subsidies

- Departments may choose to subsidize the operation of a recharge/service center in either or both of the following ways:
  - Rate subsidy
    - All users are charged less than the total cost of the goods or services
  - User subsidy
    - Responsible unit pays the established rate for a certain class of users
Establishing a Service Center

Dean or Director of unit submits documentation to regional CFO:

- Service center questionnaire
- Proforma income statements for next 3 years
- Schedule of proposed rates and a calculation of projected income
- Schedule of equipment
- Summary of significant assumptions
- Best/worst case and how will be handled
Annual Rate Change Proposals

- Dean or Director of unit submits documentation to regional CFO:
  - Service center questionnaire
  - Brief narrative to cover rates and any change
  - Income statement for last FY and proforma statements for current and next year
  - Schedule of proposed rates & projected income
  - Schedule of equipment
  - Summary of significant assumptions
  - Best/worst case and how will be handled
Costs

- Direct
  - Salaries and benefits
  - Materials
  - Maintenance agreements
  - Supplies

- Institutional Indirect (F&A) Costs
  - Costs of general administration
  - Facilities operations and maintenance expenses

- Total Cost = Direct Cost + Indirect Cost
Cost Adjustments

- Subsidies
- Adjustments from prior year surpluses or losses
- Unallowable costs
Unallowable Costs
Recoverable through Other Means

- Costs that must not be in rates because they are recoverable through other means, such as the F&A cost recovery mechanism, include:
  - Building depreciation
  - Facilities expense (utilities, maintenance, and custodial cost) paid by the university and recorded in the recharge/service operation
  - Purchase price or value of capital equipment (this should be depreciated)
Unallowable Costs
Non-recoverable

- Costs that must not be in rates because they are non-recoverable, (i.e., not eligible for reimbursement from federal government) and must not be recorded in recharge/service operation include, but limited to:
  - Entertainment
  - Bad debt
  - Advertising
  - Advertising & public relations
  - Alcoholic beverages
  - Contributions and donations
  - Reserves for future expenditures
Basic Rate

- Adjusted Total Cost DIVIDED by usage (hours, units, etc.)
- Rates must be based on and designed to recover no more than operating cost, for the goods or services being provided
External Rate

- Basic Rate PLUS
  - Full Facilities & Administration (F&A) cost as reflected in negotiated agreement
  - May include excess over 26% of federal administration cap
  - May include any voluntary excess over negotiated rate
  - Subsidy may be excluded
Equipment Reserve

- Banner Form
  - FGITBAL - General Ledger Trial Balance Form
    - Enter
      - Fiscal Year
      - Recharge reserve fund number
  - Fund balance account - 0901
    - Reflects your current depreciation reserve
    - Normal balance - credit
Documentation and Record Retention

- Departments responsible to retain:
  - Work papers supporting rate calculations
  - Pricing decisions
  - Documentation of rate approvals
  - Billing and usage records
  - Effort reports, if applicable

- Must retain for minimum of ten years, three years if duplicated centrally
Importance

- Important to capture all recharge activity for
  - Management purposes
  - Costing methodology
  - Ensure compliance with federal requirements
Summary

- In general, these are not new rules.
- UA must follow our recharge policy and procedures to retain federal funding.
Information Sources

- SW Office of Cost Analysis Web Site
  - [http://www.alaska.edu/controller/cost-analysis/](http://www.alaska.edu/controller/cost-analysis/)

- SW Accounting Manual Procedures

- Check website regularly
  - Hard copies no longer being distributed
Contacts

- SW Office of Cost Analysis
  - Staff e-mail addresses and phone numbers
    - Manager: Virginia.Baker@alaska.edu
      450-8077
    - Assistant Manager: Tanya.Hollis@alaska.edu
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    - Accountant: Dawn.Wall@alaska.edu
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Please complete your evaluation sheets before you leave!

Thanks for coming!