Managing Service Centers and Setting Service Rates

April 5, 2018
3:00 pm - 4:00 pm

Conference Sponsors: The Office of the Chancellor, Budget & Financial Administration / Human Resources, the Office of the Provost and Vice Chancellor for Academic Affairs, the Office of the Vice Chancellor for Research, and the Office of Business and Financial Services
Workshop Presenters

• Shelly Benson
  Senior Director
  slbenson@uillinois.edu; 217-333-4882

• Maureen Johnson
  Associate Director
  maureen1@uillinois.edu; 312-996-4045

• Anne Marshall
  Assistant Director
  marshal@uillinois.edu; 217-244-0494
Please ...

- Turn off cell phones
- Avoid side conversations
- Stop us if you have a question
- Sign the attendance roster
- Complete the evaluation at the end of the workshop
Objectives

• Define an internal service activity
• Review service center rules and guidelines
• Recognize key requirements
• Provide an overview of rate calculation
• Describe best practices
• Identify resources for training and templates
• Questions
What is an Internal Service Activity?

- Specialized institutional operation that is established to meet the instructional or research needs of the University
- Service center wants to add value and recover costs of providing a service or good to customers
- Services are provided to internal University units, and federally and non-federally funded sponsored projects
  - Primary users of the service are not typically students, staff, or industry
  - Internal service activities are coded as a Banner fund type 3E
  - Service activity charges often become direct costs of sponsored projects, many of which are federally funded
What is an Internal Service Activity?

Types of Internal (3E) Service Centers

- Department Recharge Center
  (Operated by a department)
  - Storeroom
  - Car pool
  - Machine shop
- Visualization lab
- Chemical analysis lab
- Microscopy facility

Pass Through Operations
Incurs costs and passes only those costs along to customers
Rules and Guidelines

Federal and State Policies

  - Cost Principles found in Subpart E, Sections 200.4xx and in Appendix III for Institutes of Higher Education (IHE)

- Uniform Guidance Code of Federal Regulations Appendix V to Part 200, State/Local Governmentwide Central Service Cost Allocation Plans. Section G.2 states that the working capital reserve should be limited to 60 calendar days cash expenditures

- State Finance Act. Restricts expenditures to those necessary to fund the Service or Storeroom facility
Rules and Guidelines

University Policies

- OBFS Business and Financial Policies and Procedures – Section 22.4 Service and Storeroom Activities (specific to 3E service centers)
  - [https://www.obfs.uillinois.edu/bfpp/section-22-self-supporting-revenue-generating/section-22-4-2](https://www.obfs.uillinois.edu/bfpp/section-22-self-supporting-revenue-generating/section-22-4-2)

- OBFS Business and Financial Policies and Procedures – 22 Section Self-Supporting/Revenue Generating Activities (over-arching self-supporting)

- OBFS Business and Financial Policies and Procedures – 16 Grants and Research Contracts (allowable costs and timely billing)
  - [https://www.obfs.uillinois.edu/bfpp/section-16-grants-research-contracts](https://www.obfs.uillinois.edu/bfpp/section-16-grants-research-contracts)
Key Requirements

• Each unit is responsible for management of its activities, including the establishment and documentation for each service rate
• Rates should be charged based on actual usage and direct costs
• Rates should recover no more than the cost of the good or service provided
• Rates should not discriminate against federally-supported activities of the institution (i.e., federal users cannot subsidize non-federal users)
• Costs, usage bases, revenues, and adjusted fund balances should be segregated and analyzed on a per service basis
• Rates should take into consideration fund over/under recoveries from the previous year(s)
Key Requirements

- No more than two months working capital (60 Day Working Capital Reserve) can be accumulated as a “surplus”
- Over-recoveries cannot be used to fund unrelated services
- Rates must be posted
- Department review MUST be done at least every two years and rates adjusted accordingly
  - Best practice is to review rates annually
  - Rates may also be adjusted at other times if there is a significant change in users or costs
  - Maintain documentation of the rates and supporting calculation
Overview of Rate Calculation

1. Direct Operating Costs (salaries, wages, supplies, maintenance contracts, etc.) + Annual Equipment Depreciation (if utilized) + Prior Year(s) Over / Under Recovery

Direct operating costs CANNOT include these items:
Alcohol, advertising, bad debts, capital equipment purchases (only depreciation is allowed), contingencies, reserves, and unrelated costs

2. \( \div \) Number of Goods or Services Sold

3. \( = \) Calculated Rate per Unit
Best Practices

• Identify services
  – Services with different usage bases are calculated independently, cross-subsidy is not allowed between unrelated services

• Determine usage base
  – For example: machine hour, person hour, per sample, number of units, miles, etc.
    • Existing services must use an actual year’s usage
    • New services estimate usage (recalculating in one year using actual)
  – Track actual usage for base (denominator)
  – All users (internal and external) must be included in the base whether or not charged
Best Practices

- **Expenditures**
  - Only costs that directly relate to the service are charged to the fund
  - Costs should be allowable per university policy, state policy, and Federal Uniform Guidance
    - Review expenditures to verify allowability
    - Unallowable costs shouldn’t be included in the rate calculation (such as bad debts, entertainment/alcoholic beverages, public relations, advertising, etc.)
  - Determine best method for identifying, allocating, and tracking expenditures across multiple related lines of service in c-fop
    - Activity codes and/or program codes recommended for multiple services in one fund
  - Make sure any expenditure allocations are allowable, reasonable, and well documented
Best Practices

• Equipment
  – Annual depreciation may be included in the rate calculation, *not* the purchase price or replacement cost
  – Federally funded purchases are **NEVER** allowable in *internal* rates
  – Equipment purchased using 3E *should* be included in rate calculation
  – Equipment purchased with funds other than 3E (non-3E) *may* be allowable for the rate calculation
    • Contact Government Costing for assistance
  – Make sure to ENTITY CODE equipment used in a 3E service
    • UPAR assists with entity code assignment
Best Practices

• Over/Under Recovery Identification
  – Service centers must operate on a break-even basis
  – The over/under recovery of the service activity adjusted fund balance must be included in the rate calculation
  – Keep documentation of carryover amount. Make sure to include adjusted fund balance into rate calculation to break-even over time
  – Cumulative fund balance must be used
  – 3 step process to identify the over/under recovery:
    • Step 1: adjusted fund balance
    • Step 2: working capital reserve
    • Step 3: over/under recovery
Best Practices

- **Over/Under Recovery Identification**
  - Step 1: adjusted fund balance
  - Identify the cumulative fund balance (not just last year’s profit/loss)
  - Determine the net asset value (NAV) of equipment purchased with 3E funds
    - Depreciation is booked in the General Ledger at a highly summarized level and fund balance needs to be credited for the value of equipment
  - Calculate the adjusted fund balance

<table>
<thead>
<tr>
<th>Financial Fund Code</th>
<th>Financial Fund Title</th>
<th>End of Year Fund Balance</th>
<th>Fund Type 3E - Equipment Net Asset Value (NAV)</th>
<th>Adjusted Fund Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>123456</td>
<td>Fund Name</td>
<td>50,000.00</td>
<td>35,000.00</td>
<td>15,000.00</td>
</tr>
</tbody>
</table>
Best Practices

- **Over/Under Recovery Identification**
  - Step 2: working capital reserve (over-recoveries only)
  - Service centers can maintain a reserve of up to 60 calendar days "cash expenses" for "normal" operating purposes
  - Identify “cash expenditures” for the year (excludes depreciation and capital asset purchases)
  - Determine working capital reserve
    - \( \frac{\text{cash expenditures}}{12 \text{ months}} \times 2 = \text{60 days working capital reserve} \)

![Table](image)
Best Practices

• Over/Under Recovery Identification
  – Step 3: Over/under recovery
  – Must use cumulative fund balance, compared to the adjusted fund balance (step 1) and working capital reserve (step 2)
Best Practices

• Over/Under Recovery Identification
  
  – Surplus balance example
    
    • Adjusted fund balance - working capital reserve = over-recovery. The difference is included in the rate calculation

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>123456</td>
<td>Fund Name</td>
<td>(50,000.00)</td>
<td>35,000.00</td>
<td>(85,000.00)</td>
<td>30,000.00</td>
<td>5,000.00</td>
<td>80,000.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

  – Deficit balance example
    
    • Adjusted fund balance - working capital reserve = under-recovery. The adjusted fund balance is included in the rate calculation

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>123456</td>
<td>Fund Name</td>
<td>50,000.00</td>
<td>35,000.00</td>
<td>15,000.00</td>
<td>30,000.00</td>
<td>5,000.00</td>
<td>0.00</td>
<td>15,000.00</td>
</tr>
</tbody>
</table>
Best Practices

- Bill on a timely basis
  - Billing is recommended on a monthly basis
    - Monthly billing is REQUIRED for sponsored projects
  - Internal customers charged same rate for same level of service
  - All customers are to be charged
  - JV FOATEXT must list the following:
    - Service provided
    - Date(s) of service/sale
    - Unit cost
    - Total dollars charged to the user
  - Revenue should be recorded using a revenue account code
    - Negative expenditures are not an appropriate way to record revenue
Best Practices

- **Monitor service activity fund**
  - Check for variances that could affect the break-even rate
  - Check estimates used in setting rate and determining usage base for accuracy

- **Review rate annually**
  - Must recalculate at least every two years. Annual review is recommended
  - Adjust next year’s rate for surplus or deficit carryover
    - The over or under recovery balance is the accumulated fund balance, not just from the previous year

- **Maintain documentation of calculation and rates**
  - Publish current rates and maintain historical rates for prior years
Best Practices

• View our Resource Page
• Complete the Service Activity Basics Certification web-based course
• Use tools available from Office of Government Costing for rate calculations
• Meet with Office of Government Costing with questions and for unique situations. Proactive approach can make things easier for all parties involved in the rate setting process.
• Go to Costing Website http://www.obfs.uillinois.edu/government-costing/service-Activities/Urbana-Champaign-service-activity/
Training and Resources

• Self Supporting Funds Training
  – Government Costing provides training for 3E funds
  – OBFS UAFR provides training that covers entire Banner “3” fund group

• Service Activities Resource Page, Job Aids, and Training Materials:
  – [https://www.obfs.uillinois.edu/service-activities-resource-page](https://www.obfs.uillinois.edu/service-activities-resource-page)

• Service Activity Templates and Reports:
Training and Resources

- **OBFS Service Activity Basics Certification – New!**
  - Web-based info and training related to calculating rates for service centers
  - Only takes 3-4 hours to complete the entire program
  - 8 modules address the following topics:
    - Service centers
    - Accounting practices
    - Identify risk
    - Allowable/unallowable expenses
    - Depreciation
    - Internal/external rates
    - Over/under recovery
    - Determine base
  - You’ll have approximately 4 months to complete the course after sign-up
  - Once you complete certification, you’ll always have access to the course materials!
  - Visit the OBFS Certification Program website “Get Started” page: [https://www.obfs.uillinois.edu/certification/get-started/](https://www.obfs.uillinois.edu/certification/get-started/)
Workshop Summary

- Define an internal service activity
- Review service center rules and guidelines
- Recognize key requirements
- Provide an overview of rate calculation
- Describe best practices
- Identify resources for training and templates
- Questions
Questions?