

UNIVERSITY OF OKLAHOMA/NORMAN CAMPUS
OFFICE OF THE VICE PRESIDENT FOR RESEARCH AND PARTNERSHIPS
Procedures Guide

Recharge Center Operations

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Overview

This guide contains procedures and processes that govern recharge centers under the Office of the Vice President for Research and Partnerships (VPRP) to ensure consistency and compliance with applicable OU, Board of Regents, State, and Federal regulations.

Within the campus, departments use a variety of products or services to perform their activities. When these products or services are provided within the university these units function as non-profit businesses and are called recharge centers. A recharge center is an operating unit that provides a service, a group of services, or products to users principally within the university sponsored programs community for a fee—essentially a business operating within the University at break-even. The cost of providing products and services are allocated to users, including federally sponsored agreements, by applying established billing rates to the actual usage of services. The rate is designed to recover costs from those users who benefit from the products or services offered.

To be able to recover costs, the recharge center must have a measurable unit of output that can be readily determined and the ability to easily and accurately measure the amount of a product or service used.

A recharge center can sell to external users, as well as internal University units. External users are defined as those who do not have a University account number, or students, faculty or staff acting in a personal capacity.

Establishing a Recharge Center

The VPRP's office is available to aid you in the process of establishing a recharge center.

Information that Will Need to be Determined

1. What are the products and services to be provided?
2. Who will be the primary users of the products and services?
3. What portion of income will be from federal grants and contracts?
4. How many products and services will be offered?
5. What measurable unit will be used as the basis for charging for the product or service? (For example, a lab that performs test analysis may use either a per hour or per test basis to charge for its services depending on which is the most accurate estimate of costs.)
6. Will equipment costing more than \$5,000 be used in the center?
7. When will the center begin charging for providing products and services?
8. How much in start up funding will be needed, who will provide the start up funds, if needed who will provide resources after the center gets up and running?

Rate Development

All recharge centers must determine what they are going to sell and the related cost of producing those goods and services. These costs are used to establish a price (billing rate) to charge for those products and services. Billing rates should be established in measurable units and a separate rate should be established for each class of good or service provided. A-21, J47.b requires that cost of the services, when material, be charged directly to applicable awards based on actual usage of services and on the basis of a schedule of rates that do not discriminate against federally sponsored activities of the institution including usage by the institution for internal purposes. Rates are designed to recover only the aggregate costs of the services.

A. Components of the Rate - Cost of Operations

The first step in the rate determination is preparation of a budget which includes the allowable costs of providing the products and services. Generally, these costs include salaries and wages, fringe benefits, supplies and materials, subcontractors and other outside services, repairs and maintenance, and for existing centers, the carry-forward surplus or deficit. The cost of operating the center is estimated based either on prior history or expected usage of materials.

General Requirements

1. All costs of providing the service items must be included in the recharge budget.
2. All costs must conform to generally accepted costing principles. Costs must be allowable, reasonable, identifiable, or reasonably allocable to providing the service items or administering of the recharge activity and consistently treated in like circumstances.
3. Except for subsidies the recharge activity must actually pay the costs of providing service items.

Salaries, Wages and Benefit Costs

Total salary, wage and benefit costs for all employees involved in producing the products or services as well as employees involved in the administration of the center (when their time can be accurately measured and they are not already included in the indirect cost rate recovery) are included in the operating costs. The total cost is based on current payroll information including any anticipated raises for employees in the upcoming year and use of the current benefit percentage applied as the calculated benefit amount. For open positions that will be filled in the upcoming year, salaries and benefits can be estimated by using an average salary for the position. All usage should be tracked and factored into the rate calculation, even if the services are provided without charge.

In order to estimate usage, prior year(s) amounts will be used as a starting point and adjusted for anticipated changes. Centers without sufficient usage history can use available units as a starting point and adjust for downtime and other intervening factors.

When charging on an hourly basis, the total maximum hours available for a full-time employee is 2,080 per year. This would be the starting point and adjusted downward for vacation, sick leave, downtime, etc.

Faculty Salaries

If faculty salaries are to be included in user rates they will be budgeted and paid from the recharge center operating account. Salary expenditures must be supported through documented effort reporting.

Supply and Material Costs

These costs include all supply, material, service and maintenance costs necessary for the operation of the recharge center. Office supplies are generally considered F&A (indirect) costs; however, to the extent office supplies are consumed solely for the operation of the center in deliverance of its product or service, they may be budgeted and included as allowable costs of the center.

Departmental centers will want to monitor this closely. All supplies and materials charged to the recharge center must be clearly identifiable and be under the control of the center's staff. Supplies and materials not clearly identifiable with the center's product will not be included in the center's budget or charged to its operating account. Actual expenses for items such as travel, equipment service contracts or long-distance telephone calls will be treated as a cost of the center and included in calculating the user rate.

Lease Costs

If the recharge activity uses non-University owned space, lease costs should be included. Any costs for janitorial, building maintenance, and other operations and maintenance costs not covered by the lease costs should also be included.

Surplus/Deficit

For established centers, include any surplus or deficit from the prior year's operations in the center's current year budget.

Any partial subsidy of a center, whether the amount is included as part of the budget and the user rate calculation at the beginning of the year or absorbed as a deficit at the end of the year, needs to be coded or otherwise identified as an unallowable cost for F&A rate calculation purposes.

Equipment

Capital equipment is not purchased from the recharge center operating funds so the cost will not be included in the budget. Costs for the use of equipment in the service center are recovered through a depreciation allocation in the rate provided the equipment is not already included in the campus indirect cost rate. The depreciation is charged to the center's operating account on the same basis as depreciation used for financial reporting. Equipment depreciation should be calculated on a straight-line basis with no salvage value using the same useful life schedule followed by Financial Support Services. The portion of the equipment's purchase costs paid by federal funds or cost shared by the university on a federal program is excluded from recovery.

Working Capital Surplus

In addition to full recovery of actual costs, service centers may establish and maintain through its charges a fund balance for working capital needs. Working capital are funds that are accumulated in excess of actual cost in order to fund future operating expenses. The working capital allowance should not exceed 60 days of annual operating expenditures. Recharge centers can acquire working capital by using an existing surplus, adding approved surcharges to external users, or transferring funds from non-federal sources. To calculate the maximum working capital the recharge center is allowed to retain, take an average of operating expenditures over at least two months.

Example: The financial report shows cumulative expenditures for the fiscal year to be \$12,000. The maximum balance a center can retain in its operating budget is: \$12,000 / 12 months * 2 months equals \$2,000.

Interest

Interest earned on fund balances must be credited to the appropriate center and used in the determination of rates.

Unallowable Costs

Costs for contingency provisions or other reserves and costs relating to other functions of the school or department which are unrelated to the center's operations cannot be included as a cost of the center. Other unallowable costs to a center include items such as entertainment bad debts, alcoholic beverages, and public relations. Federal regulations do not permit start-up costs incurred to establish a new recharge center to be included in the rate.

B. Calculating the Rate

Components of the calculation of the rate are the estimated demand for products and services and the anticipated costs associated with providing those products and services.

The formula used for calculating the rate for each service or product is

$$\text{Annual Rate} = \text{Annual Costs} / \text{Total Annual Usage}$$

Acceptable Bases for User Rates

The usage base is the volume of work expected to be performed, expressed in units such as labor hours, machine hours, CPU time, or any other reasonable measurement. The usage base must be measurable. A recharge center may have different measurable units for each type of product it offers.

Unacceptable Bases for User Rates

User rates consisting of flat fees that charge per range of actual use such as light, moderate or heavy use are not in compliance with the Cost Accounting Standards.

Assignment of Costs to Individual Rates

The estimated annual cost of operations for each budget category explained above is allocated based on input costs needed to produce the product or service. This cost is divided by the projected estimated annual usage of each product or service during a given period to determine the rate to charge.

Personnel Costs

If the center has more than one rate, the FTE assigned to individual rates is determined through sampling employee time spent on each activity. The method used to assign the FTE percentage to each rate should be described and the employee FTE in the payroll system must match the FTE included in the proposal. The methodology used to determine the amount of employee expense charged to the center needs to be documented.

Cost Estimates

Recharge centers have the option of not including all costs in the rates (they should not be included in centers operating account but should be paid from a departmental account). Only costs that will be incurred for recharge center operations may be included in the rates.

Other Issues Influencing Calculation of the User Rate

Volume discounts are acceptable, if it can be documented that costs savings are realized when a large quantity of a product is provided to an individual user.

Non-university users may be charged a higher user rate than University users if they are purchasing the service or product with non-federal funds. The billing rates cannot discriminate between federal and non-federally supported activities of the institution.

Considerations for Following Year's Rate

Rates are reviewed annually. The center should determine the costs and usage from the prior year for each rate or service and should ensure that an adequate description of the rate methodology is retained. Additionally, the center should evaluate if any new products or services are needed or if any current products or services should be eliminated.

Billing and Receivables

Recharge centers should bill their users in a timely manner (generally monthly) based on actual usage. The billing process may vary slightly between internal and external users.

Documentation of Service Usage

Service Authorization Request Form

One way that the department requests products and services is by forwarding a Service Authorization Request form to the recharge center. The signature of the account sponsor at the time of request serves as the approval for billing purposes.

Usage Logs

As an alternative to using a Service Authorization Request form, the recharge center may use a log sheet to record products and services used by the departments. Usage logs are used to track the services performed or products provided, the department that used the services or product and the number of units used such as hours or quantity. The recharge centers that have a large volume of daily activity, such as a Stores facility, should keep a monthly log sheet by account number. The smaller labs and microscope facilities may only want to keep one log sheet for all of the activity.

Documentation Retained by Recharge Center

The work order or log sheet documentation is retained in the recharge center's records along with a copy of the detailed invoices.

If you use a rate which charges an hourly fee for a service, the employee who performed the work must keep a written accounting of the time worked on each project. This documentation is retained in the recharge center records as the basis for the billing.

Billing Period

Recharge centers generally bill their users for products and services on a monthly basis based on actual usage incurred during the month. The billing period will run from the 1st to the end of the month.

Grants and Other Accounts

Cost Transfer Forms or electronic files are sent directly to Research Financial Services or FSS via PeopleSoft.

The center is responsible for internal and external billing and receivables. Centers must provide all customers with a detailed billing which includes services performed or quantity of product sold and the rate charged for each.

Internal Billing Process

Internal customers receive a summary showing the product or service used, the quantity used and cost by product or service for the month. A cost transfer is used to transfer funds from the user to the recharge center. The transfer debits the requesting department's (user's) account and credits the recharge center revenue account.

External Billing Process

A detailed invoice is sent to external customers. External customers issue a check for services. The center is responsible for ensuring that outside users are paying their invoices in a timely manner.

Receivables

The recharge center prepares deposits for the payment of its services. Cash handling procedures of the University must be followed. Any receivables not collected are considered to be bad debt and are not an allowable cost to the center and must be absorbed by the department's or school's unrestricted funds and classified as an unallowable expense. Bad debts should be referred to the Office of Legal Counsel for collection.

Billing Procedures

A service should not be billed until the service has been rendered. Each recharge center must operate in accordance with the University's fiscal year. Recharge centers should handle each year-end billing consistently, to ensure that twelve months of cost recovery are associated with twelve months of incurred cost, and thereby provide an accurate break-even calculation at year end.

Recharge Center Administration

Operating Principles

Recharge centers must use the greater of the fully loaded rate or market rate for external customers. Recharge centers may charge an additional rate to market and the "profit" will be retained by the center. This additional income will not be used in the carry forward balances but will be recovered in a separate reserve account that can be used to replenish equipment. This amount must be reported to the controller's office for Unrelated Business Income Tax, UBIT, review.

Section J44.c OMB Circular A-21 requires the cost of each service be charged directly to users based on actual use of the service and that rates do not discriminate between federally and non-federally supported activities, including university internal activities. Recharge centers providing multiple services may not subsidize the cost of certain services by charging excessive rates for other services. Consideration should be given to size, complexity and equity in setting multiple rates for a recharge center.

The use of market prices to establish billing rates for internal customers would not be appropriate to the extent that market prices include a profit.

Account Structure and Budgeting

The allowable costs of a center that will be used in establishing user rates will be budgeted in and expended through one SUAUX account. Most recharge centers, except those heavily subsidized by the department, will establish separate operating accounts to record revenues and expenses related to the services provided.

A reserve budget may also be established to hold balances and record transactions that do not directly affect the rate charged to recharge center customers including depreciation recapture and surcharges to external customers.

Subsidized Users

All users must be billed for services received. If the University chooses to provide a service to a particular internal group of users at no charge or at a lower rate than other users (e.g., audio visual services as part of an instructional program), the recharge center billing rate must be calculated for all internal users based on total service center expenses and total units of output. The services used by the subsidized user group must be billed out at this rate, but to an account representing the appropriate activity (e.g., the instructional budget). The recharge center must ensure that the rate charged to this user group is consistent with that charged to others, including accounts ultimately charged to federal awards.

Transfers

Recharge centers which have accumulated surplus funds through billings to internal users may not transfer these funds out of the service center operating account. The balance must be carried forward and used to adjust subsequent billing rates.

Pricing of Multiple Services

A recharge center providing more than one service may sometimes make a surplus on some services and a loss on others. Recharge centers must ensure that there is no cross-subsidization between user groups. Combining the results of various services is not acceptable if the mix of users of each service is different; that is, if higher prices charged to one set of users are subsidizing losses charged to a different group of users.

Rates for External Users

Rate for external users do not have to be cost-based like the internal rates; however, external user rates need to be set to recover at least the cost of providing the goods or services being sold. There are additional charges that may apply to external users including institutional overhead (required), surcharges and sales tax. At no time will an external customer be charged less than the federal government and internal users for the same service. The federal government will always be treated as the most favored customer. If the center sells to external users, the center could be subject to Unrelated Business Income Tax (UBIT) if the exemption criteria are not met.

Credits to Expenditure Accounts

Credits to expenditure accounts are normally used to record amounts received for returned goods and other expense-related adjustments. Recharge center revenues should not be recorded as credits to expenditure accounts. Such treatment would misstate both revenues and expenses and affect calculation of service center rates in the following periods.

Unallowable Costs

Costs such as entertainment, interest, and bad debt expense should not be charged to federal users.

Surpluses and Deficits

Each center operates independently, and the surpluses and deficits accrue to users through either adjusted rates or individual adjustments to all Federal users. Surpluses and deficits to one center may not offset against charges to another center. Recharge centers are required to maintain adequate records to allow for the development of billing rates based on actual costs and the identification of surpluses or deficit fund balances.

Documentation that Should be Maintained

Costs, rate calculations, depreciation schedules, requests for service, and documentation for billings should be retained by the recharge center and are subject to audit.

Effort reporting records which identify employee work-time in hour or percentage of time to products or services with the cost center should also be maintained.

Billing documentation should consist of:

1. The quantity of product ordered,
2. The quantity of products provided,
3. The total charge to the users by product type, and
4. The individual accounts charged.

The University's record retention policy should be followed.

Program Income

A recharge center would not normally have program income. Program income is the gross income received which has been generated by a grant supported activity or earned only as a result of a grant agreement during the grant period, subject to sponsoring agency additional constraints. Program income includes income resulting from fees for services performed or the sale of commodities or items produced as part of project activities; income earned from the use or rental of property acquired under a grant; and license fees and royalties on patents and copyrights.

Space

Space occupied by all recharge centers must be identified and designated as such during the annual space survey. Space which is occupied by the center equipment must be assigned as center space, rather than department space.

Review

At least annually, the recharge center's management in conjunction with the Office of the Vice President for Research and Partnerships will review the center's user rates to assure a significant surplus or deficit will not exist at year end. If a significant surplus or deficit is projected, the user rates will be adjusted to reduce the projected variance. The recharge center costs paid from non- recharge center budgets but not included in the rates should be provided to the Office of the Vice President for Research and Partnerships.

Tips from the Association of College and University Auditors

Over the years a pattern of audit finding at Universities has emerged that highlights potential accounting problems encountered by Recharge Centers. These problems pose the risk of financial loss to both individual Departments and Universities. The most significant exposure to financial losses is Federal audit disallowance. This can arise from any number of rule violations when charging cost reimbursable grants or contracts for services.

The most common disallowances have been for:

Inadequate rate documentation

This typically results from user rates being set arbitrarily without regard to the actual costs of providing the product or service. User rates must be supported by cost calculations based on historical costs and service levels. An adjustment for known or anticipated changes in service levels or services should be clearly documented. Estimated rates may only be used in the first year of operation.

Failing to maintain current equipment depreciation schedules

Problems have also arisen when the University did not ensure the items recovered in the user rate are removed from the indirect cost pool used to calculate the equipment use charge.

Failing to separately identify the expenses included in the calculated user rates from normal departmental expenses

If you cannot demonstrate the cost was incurred, you cannot include it in the user rates. Additionally, if you include costs in the user rates, you must be able to show they were paid by the Recharge Center and not included in one of the indirect cost pools or from other Federal extramural funds.

Failing to document clearly the products/services provided

User bills that do not carry sufficient detail to identify the services provided are subject to disallowance. Thus, it is important the customer gets a detailed bill for services provided. The type of "bill" would depend on the service. Users must be provided with a detailed bill in a timely fashion.

Failing to identify the user's source of funds at the point of purchase

It is important from the standpoint of the Federal auditors that a customer identify what project(s) are to be charged at the time of purchase.

Definitions

- 1. Auxiliary/Agency Departments:** Those departments that receive and disburse revenues collected by certain self-supporting entities that charge fees directly related, though not necessarily equal, to the cost of products and services supplied.
- 2. Break-even analysis:** Determination of the billing rate to charge based upon projected use/activity, in order to recover costs equal to the amount of operating expenses.
- 3. Direct Operating Costs:** Outflows or charges relating to the rendering of services and related administrative activities that can be identified specifically with the recharge center. Direct operating expenses include salaries and wages, employee benefits, supplies and non-capital equipment, and equipment depreciation and interest expenses. This does not include institutional overhead costs such as building depreciation and general administration.
- 4. Equipment reserve fund:** A separate department established for accumulating depreciation expense cost recovery. The purpose of the cost center is to accumulate funds, recovered through the application of approved use allowance/depreciation methods, for replacing equipment used in center operations.
- 5. Facilities and Administrative (F&A) Costs:** These costs consist of general administration and general expenses. Examples of facilities costs include utilities, building maintenance, custodial services, depreciation, and external interest associated with the financing of building construction. Examples of administrative costs include general administration and general expenses, such as executive management, payroll, accounting and personnel administration; maintenance and operating expenses, such as office supplies, paper, copier rental expenses; administrative and supporting services provided by academic departments; libraries; and special administrative services provided to sponsored agreements.
- 6. Non-discriminatory rates:** For this document, rates that are the same for all internal university users for the same level of services or products.
- 7. OMB Circular A-21 Cost Principles for Educational Institutions:**
This Circular provides the principles for determining the costs applicable to research development, training, and other sponsored work performed by colleges and universities under grants, contracts, and other agreements with the Federal Government.
- 8. Operating Costs.** Outflows or charges relating to the rendering of services and related administrative activities. Operating expenses include salaries and wages, employee benefits, supplies and non-capital equipment, external interest expenses, space and occupancy, and depreciation. Note that principal payments and the cost of capital items are not expenses.

- 9. Operating fund:** The primary budget cost center in which all recovered costs must be recorded and all direct, non-subsidized expenses should be recorded.
- 10. Standard cost accounting methods:** Defined by the Cost Accounting Standards and applied according to the Federal Register Office of Federal Procurement Policy, Cost Accounting Standards Board of the Office of Management and Budget.
- 11. State records retention policies:** The regulations, issued by the State of Oklahoma, which define the minimum and maximum length of time that agencies are required to retain official documents and materials.
- 12. Start-up costs:** The costs incurred to establish a new service center. Federal regulations do not permit these costs to be recovered.
- 13. Subsidy:** Additional funding provided by sources other than the recovery of costs from users. Subsidies may be in the form of actual fund transfers into the service center operating cost center or the paying of service center expenses from non-service center cost centers. The most common forms of subsidy will usually include the payment of service center employees' salaries, the payment of maintenance and operating expenses, or the purchase of capital equipment from other funding sources. While specialized service center operations may be subsidized by authorized university allocations, to the extent that specialized service center expenses are paid for from non-service center sources, they cannot be included in the university's facilities and administrative cost recovery pool.
- 14. Unallowable Costs:** The federal Cost Principles for Educational Institutions, OMB Circular A-21, establishes guidelines for the allow ability of costs in Section J. Costs that are "unallowable" may not be recovered in the service center rates. Examples of unallowable costs include alcohol, internal interest, lobbying, and advertising.
- 15. Working capital:** Funds accumulated in excess of actual cost in order to fund future operating or capital expenses.