Core Facilities - Finance 101
Tuesday, July 19, 2011

Presented by: Department of Financial Compliance & Cost Analysis and the Office of Research

Class Agenda

Background – Bill Lawlor
UNMC Policy 6107, Service Centers – Megan Tracy
Rate Setting – Linda Wilkie
Examples – Megan & Linda
Questions & Answers
Background:

- What do you want to learn today?
- The Mystery of Core Labs (Service Center)
  - What got us here? / OMB A-133 Audit FY09
  - Who does a core lab belong to?
  - What Costs should be allocated to a core lab?
  - Will attempt to offer FAQ during session

Federal Issues:

- Overcharging feds = trouble
- Prepaids and some discounts = NOT allowed
- Core must maintain rate documentation
- Refer to Policy 6107 when you set rates
- Impact of core labs to UNMC’s FY11 F&A rate *Proposal* (current research rate 48.5%)
Service Center Policy 6107
http://www.unmc.edu/policy/index.cfm?CONREF=33

The Service Center Policy 6107 has been revised to eliminate some of the “mumbo jumbo”

Definitions:

- **Service Center** – Provides goods or services to UNMC departments for a calculated fee

- **Auxiliary Enterprise** – Provides goods or services primarily to students, faculty, staff and others for their own personal use.

- **Revolving Center** – Purchases inventory and sells it to other departments without any additional mark-up.
Responsibilities of Core Facilities:

1. Work with Office of Research and FCC to set rates
2. Post approved rates publicly i.e. webpage
3. Maintain documentation on rates
4. Identify a contact person for any auditors

Financial Compliance & Cost Analysis (FCC) will:

- Review rates for all core facilities that have greater than $10,000 in federal charges
- Review rates for all NRI subsidized core facilities
- Consult with department administrators as needed
Rates:

- All internal users should be charged the same rate
  Internal Users – All users within the NU system
- External users may be charged rates higher than internal users
- Rates should be documented each time they are set and signed by those approving the new rates

Discounts and Prepayments

- Discounts
  - Generally not allowed
  - Only allowable if volume discounts are equally available to all users
- Prepayments
  - Prepayments from federal grants are not allowed in service centers
Billing and Documentation

1. Billing
   • Billing should be done on a timely basis (monthly)
   • RA Core Facility Management Billing System

2. Documentation
   • Documentation should be kept to support all billing charges (including the expenses and usage)

Service Center Accounting

• General Ledger Accounts for Revenue
  • Internal revenue:  g/l 481100, Sale Material & Service - Interdepartmental
  • External revenue:  g/l 452100, Sale Material & Service

• Do not run revenue as negative expense and internal/external revenue through the same g/l
Fund Transfers

1. Fund Transfers Out
   • Transferring funds out of service centers is not allowed.

2. Fund Transfer In
   • Transferring funds into a service center is allowed. This can be done to provide additional support to the service center.

Unallowable Costs

• Policy 6103, Unallowable Costs
• OMB Circular A-21, Section J
• SPAct– experts!
• Examples of Unallowable Costs
  Advertising, Memberships, Entertainment, Visas, Bad Debt, etc
Allowable Surplus

- The ending cumulative balance in SAP is equal to or less than 60 days worth of operating expenditures for a fiscal year.

- Example: $120,000 Expenses for the year
  
  $120,000 = 20,000 allowable surplus

Capital Equipment

1. Equipment that costs more than $5,000 and has a useful life greater than 1 year

   - Example - $400,000 revenue in SAP
     $300,000 expense in SAP
     $100,000 equipment purchase in SAP
     $0 carry-forward balance
     $0 balance in SAP

   But 100,000 of equipment = 100,000 surplus per rate setting.

Note: FCC will tell you when you have a surplus
  
  >60 days due to equipment purchases
Equipment Depreciation

1. FCC must **approve** equipment depreciation in order to include it in your rates.
2. If depreciation is approved, then **specialized accounting procedures will apply** and be explained to the service center by FCC.
3. FCC will **calculate** the annual depreciation for service centers to include in their rate calculations.

Rate Setting

Rate setting for service centers involves predictions of the future.
What goes into rates?

- Direct Operating Expenses
- Projected Number of Services Sold
- Any subsidies
- Carry Forward Balances

Example – The Data

1. 2 Employees work in the lab
   - Dr. X spends 10% of her time & is salaried at $10,000 a month
   - Dr. Y Spends 40% of his time & is salaried at $4,000 a month
2. Employee benefits are 28% of salaries for this lab
3. Supplies cost approx $12,000 annually for this lab
4. Lab receives $10,000 annually from the Nebraska Research Initiative (NRI) as a subsidy
5. The lab has a prior year surplus carry-forward of $5,000
### Example – Budgeted Expense

Yearly Budgeted Expenses:

- **Dr. X** ($10,000 \times 10\% \times 12) $12,000
- **Lab Director Y** ($4,000 \times 40\% \times 12) $19,200

Total Salaries & Wages $31,200

Benefits ($31,200 * 28\%) $8,736

Supplies $12,000

Total Budgeted Expenses $51,936

### Example – Carry Forward & Subsidies

Total Budgeted Expenses (from prior slide) $51,936

- Less Prior Year Carry Forward ($5,000)
- Less Subsidy from NRI ($10,000)

Amount Used for Rate Configuration $36,936
Example – Lab assumptions

1. Assume the lab performs a service charged on an hourly basis and takes an average of 2 hours to complete.

2. The lab director can make a fairly accurate prediction about the demand of the service.

3. The lab expects to perform 250 tests of “Service A”

Example – Rate Configuration Calculation

(2hrs x 250 Services) * (Unknown Rate) = $36,936
(500hrs) * (Unknown Rate) = $36,936
Unknown Rate = $36,936 / 500hrs
Unknown Rate = $73.87 per hour
Total cost per service = $73.87 x 2 Hours = $147.74

Is this a real world example.............
### Example – Budgeted Revenue vs. Budgeted Expense

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Budgeted Expenses</td>
<td>$ 51,936</td>
</tr>
<tr>
<td>Less Service A @ $73.87/hr. * 2 hours * 250 Services =</td>
<td>($36,936)</td>
</tr>
<tr>
<td>Less Previous Year Carry Forward Surplus</td>
<td>($ 5,000)</td>
</tr>
<tr>
<td>Less Subsidy from NRI</td>
<td>($10,000)</td>
</tr>
<tr>
<td>Net Surplus</td>
<td>$ 0</td>
</tr>
</tbody>
</table>

The expectation is a zero balance for the fiscal year

### Example – Allowable Surplus

- Total expenses: $51,936
- Divided by 12 months: $4,328
- Times 2 months (approx 60 days): $8,656

$8,656 is the allowable surplus for the lab
Research Core Facility Examples

In these examples we will see what may seem logical is not always compliant

Example 1

Lab X asks some of their regular customers to prepay for upcoming services and also offers them a discounted rate. They plan to use the prepaid funds to purchase a piece of equipment.

What is wrong in this example?
Example 2

Lab B was created as part of a program project. They have decided to charge program investigators $20 an hour and $30 an hour to users from the rest of campus.

What is wrong in this example?

Example 3

Core Facility M runs DNA sequences for campus researchers. The direct cost is a $1.00 per sample, the core uses their NRI subsidy to reduce their rates and charges $.50 per sample to all users. A local business asks to use their services.

What should the local business be charged?
Example 4

Core Facility C is going to need an instrument service contract next year. If they purchase a three year contract they will save 40% over the life of the contract. The service contract purchase is $126,000 which is twice the amount of their annual expenses. At the end of the fiscal year, service center C has a deficit of $84,000.

What is wrong in this example?

Example 5

Lab Z performs a service where extensive set-up/configuration is needed per customer and then very little time is needed per service after the initial set-up has occurred. As such, the lab director has decided to price services with a 25% discount given when multiple tests are run using the same initial set up.

What is wrong in this example?
Take Away Points

• Financial Compliance & Cost Analysis and the Office of Research are resources available to help you
• Rates should be set using the break even model
• There are always exceptions to the rule

Questions?

Thank you for attending

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