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
- Prepays 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%)

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.

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

<table>
<thead>
<tr>
<th>Dr. X (($10,000*10%)*12)</th>
<th>$12,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lab Director Y (($4,000*40%)*12)</td>
<td>$19,200</td>
</tr>
<tr>
<td>Total Salaries &amp; Wages</td>
<td>$31,200</td>
</tr>
<tr>
<td>Benefits ($31,200 * 28%)</td>
<td>$ 8,736</td>
</tr>
<tr>
<td>Supplies</td>
<td>$12,000</td>
</tr>
<tr>
<td>Total Budgeted Expenses</td>
<td>$51,936</td>
</tr>
</tbody>
</table>

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

Total Budgeted Expenses $ 51,936
Less Service A @ $73.87/hr. * 2 hours * 250 Services = ($36,936)
Less Previous Year Carry Forward Surplus ($ 5,000)
Less Subsidy from NRI ($10,000)
Net Surplus $ 0

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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