



# UNIVERSITY OF ILLINOIS AT URBANA-CHAMPAIGN



## 2009 BUSINESS LEADERSHIP CONFERENCE

# Service Activities

Developing Rates and Monitoring Balances

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# Workshop Presenters

- Name: Julie Jarvis,  
Title: Director, Government Costing  
Contact Information: [jjarvis@uillinois.edu](mailto:jjarvis@uillinois.edu)
- Name: Mike Rudzinski  
Title: Associate Director of Finance and  
Administration, NCSA  
Contact Information: [mrudzins@illinois.edu](mailto:mrudzins@illinois.edu)
- Name: Ruth Coffey  
Title: Coordinator, Government Costing  
Contact Information: [rcoffey1@uillinois.edu](mailto:rcoffey1@uillinois.edu)

# Please ...

- Turn off cell phones.
- Avoid side conversations.
- Feel free to ask for clarification during the presentation. There will be time at the end for more specific or detailed questions.
- Sign the attendance roster.
- Complete the evaluation at the end of the workshop.

# Workshop Objectives

- Provide contacts and resources for assistance in developing Service Activity rates.
- Explain the rules governing Service Activity operations.
  - It's not just A-21!
- Provide information on how to be prepared for an audit of the Service Center.

# Do I have a Service Activity?

Are you...

- Providing a good/service, on a recurring basis, to U of I users?
- Wanting to recover the costs of providing the good/service through charges to users?
- Adding value through personnel in providing the good/service? (Typically occurs, but not always.)

# Where do I find the Policy?

- Section 13.6.2 Urbana-Champaign Service Activities
  - Under OBFS Business and Financial Policies and Procedures
- Website Address
  - <http://www.obfs.uillinois.edu/manual/Urbana/se13-6-2.html>

# Where are the Rules?

## Guidelines and Requirements

- [OMB Circular A-21, Section J.47](#), federal cost principles outline the federal requirements for calculating Service Center rates.
- State Finance Act restricts expenditures to those necessary to fund the service or storeroom facility.
- [OMB Circular 87, Section G.2](#) states that the working capital reserve should be limited to 60 days cash expenditures.

# Costing Principles

- Rates must be established to recover no more than the allowable costs of providing the service or good. (Break-Even Principle)
- Separate rates must be established for individual services and goods unless the usage basis for a group of related services/good is the same.



# Costing Principles

## (continued)

- The usage basis for the service/good is estimated including all users of the service/good regardless of whether a discounted rate is applied.
- The break-even rate is the maximum rate to be charged to internal users (University Funds including Sponsored Projects).

# What goes into the Rate?

- Operating costs
  - Salaries, supplies, or maintenance, as examples
- Equipment depreciation expense
- Inventory-related costs for storerooms (Cost of Goods Sold)
- Any over- or under-recovery from the previous year's costs

# What goes into the Rate?

Rate Calculation Example					
<u>Step 1</u>					
		<u>Annual Salary</u>	<u>FTE</u>		<u>Salary to Rate</u>
Jan		32,000	1		32,000
Carol		38,000	0.25		8,000
Bill		34,000	0.5		17,500
<b>Total</b>					<b>57,500</b>
<u>Step 2</u>					
	<u>Materials and Supplies</u>				<u>Materials to Rate</u>
	Chemicals	120			120
	Grease	538			538
	Shop Cloths	245			245
<b>Total</b>					<b>903</b>

# What goes into the Rate?

Rate Calculation Example (continued)				
<u>Step 3</u>		<u>Cost</u>	<u>Useful Life</u>	Must match Asset System <u>Depreciation Cost Included</u>
Special Machine 1 - Oils		7,000	5 year	1,400
Special Machine 2 - Tests		6,000	6 Year	1,000
Maintenance		500	Does not extend life	500
<b>Total</b>				<b>2,900</b>
<b>Total All Costs</b>				<b>61,303</b>
Base – 1,400 Rollers				1,400
<b>Rate per Roller</b>				<b>\$44</b>

# Timelines and Requirements

- All new Service Activity Funds (Type 3E) have their initial rate reviewed.
- Units are required to review their rate annually.
- Formal rate must be submitted at least every two years to the Office of Government Costing for review.

# Audit Considerations

- Documentation
- Record Retention
- Important Considerations
  - Costs cannot be included in both the F& A Rate and a Service Activity Rate.
  - Rate must be calculated on actual costs.
  - Surplus or deficit funds must be adjusted through future rate calculations.

# Key Compliance Issues

- Rates should recover no more than the cost of the good or service.
- Rates must not discriminate between users, especially the Feds.
- Surplus from service center shouldn't be used to fund unrelated activities.
- Analyze and adjust billing rates on a regular basis.

# Key Compliance Issues

## What could our consequences be?

- Negative Audit Findings
- Refunds to the Federal Government
- Adverse Publicity for the Institution



# Training Available

- Service Activity Training
  - Website Address  
<http://training.obfs.uillinois.edu/index.cfm?campus=U>
- Self Supporting Training I & II
  - Coming Soon!

# Resources Available

- Business Objects Reports on the Data Warehouse
  - “Service Activity Cash Expenditures.rep” (*report from the University’s Data Warehouse*)
  - “Service Activity Fixed Assets.rep” (*report from the University’s Data Warehouse*)
  - “Service Activity Fund Balance.rep” (*report from the University’s Data Warehouse*)
- “SA Calculation of Adjusted Fund Balance Over Under Recoveries.xls” (Excel spreadsheet available from Government Costing)

# Where can I find help?

- Government Costing Office
  - Mailbox
    - [gcocostuiuc@uillinois.edu](mailto:gcocostuiuc@uillinois.edu)
- Staff
  - Ruth Coffey
    - 217-333-6791
  - Jennifer Otto
    - 217-244-4764

# Best Practices - NCSA

- Our service activities include fees for:
  - HPC Services
  - Integrated IT Services
  - AV/Mobile Classroom
  - Access Grid
  - Off-site office and services
- Working on service activity fees for:
  - Building usage

# Best Practices - NCSA

- Identify Services
  - Services with different usage base are calculated independently. No cross-subsidization is allowed.
- Estimate Usage Base
  - May be machine hour, person hour or whatever most accurately reflects the usage.
- Calculate Break-Even Rate
  - Ensure that all allowable, direct costs are captured to calculate the rate.

# Best Practices - NCSA

- Monitor Service Activity Fund for variances that could affect the break-even rate.
  - Check estimates used in setting rate and determining usage base for accuracy.
- Review Rate Annually
  - Adjust next rate for surplus or deficit carryover.
- Formally Submit Rate Biennially
  - Submission to Government Costing for review.

# Best Practices - NCSA

- Maintain Proper Documentation on Rate Calculation and Carryover.
- Monitor Center's Compliance with Federal and University Regulations including Break-Even Rate.
- Bill on a Timely Basis
  - Billing must be done at least monthly after the service is performed.

# Best Practices - NCSA

- Attend Training Session.
- Meet with Government Costing Office on questions and unique situations.
  - Proactive approach can make things easier for all.
- Use tools available from Government Costing Office for rate calculations.



## Best Practices – Tips for Departments

- Understand your activity. If you can't explain what your department is trying to do, you will get in over your head.
- Talk with all of the stakeholders to get a good understanding. Identify hidden agendas.
- Let your process managers help you with the costing process, but don't let them do it.
- You don't have to be unique-reuse a good idea.

# Best Practices – Tips for Departments

- Collect the documentation as you identify the costs.
- Simplicity trumps precision.
- Remember the 90/10 rule.
- Write up a policy for the service activity and the implementation of the rate.
- Train staff in the implementation.
- Ask questions of everybody.

# Workshop Summary

- Rules and Regulations Governing Service Activities including Policies
- Documentation Retention Guidelines
- Audit and Compliance Issues
- Tips for Departments
- Contacts and Resources to Assist in Rate Preparation

Questions / Concerns?