



NECA 2012

Specialized Service Facilities,
Service/Recharge Centers

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Agenda

- Why Should We Care?
 - Increasing Federal Scrutiny & Recent Findings
- “The Ground Rules” --- Federal Requirements
 - DS-2
 - A-21
- Case Study – University of Pennsylvania FY2012 Internal Audit Results
- Open Forum

Why Should We Care?

- SSF, SC/RC's direct charge grants (e.g., ARF, microscope lab and other technical centers)
 - Some for Large \$'s on grants
- Treatment in F&A Proposals
 - Some direct
 - Others indirect (e.g., O&M, Plant)

Why Should We Care?

- Increased Federal Oversight - In FY12 HHS-OIG Audit Plan (several universities under current review)
 - "Determine whether SSF have Rates to ensure amounts charged are reasonable and consistent and comply with standards"
- Inclusion in federal guidelines
 - A-21
 - DS-2
 - A-133
 - DCA "Best Practices Manual" (BPM)

Federal Reviews

- July 2012 Federal “Direct Charging” audit at a University
 - Total of \$3M disallowances – part for SSF’s
 - ARF rates based on averages from other schools (not university costs)
 - Telecom center not charging based on actual usage
 - Did not perform biennial deficit/surplus reviews for Billing rates
- \$2.5 million FCA settlement several years ago
 - No billing rates for direct charges to grants

Further Federal Scrutiny

- Current DCA data requests for F&A rate negotiations
- “2) GE-2 – Please furnish a list of all service centers (SC), billed and unbilled. Please identify SC’s where expenditures exceed \$150,000 annually, and if billing rates are fully burdened and frequency of rate adjustment. Please identify how these SC’s Space was coded in the F&A Proposal. Also, please provide a copy of the university SC Policy, if available.”

Federal Regulations over Service Centers

- Described in the DS-2, Part III, item 3.2.0 as “Service Centers”
- Described as “departments or functional units which perform specific technical or administrative services for the benefit of other units within a reporting unit.”
- Service centers include “specialized service facilities” and “recharge centers”.
- Universities must identify large SC’s and “disclose” their costing practices

Specialized Service Facilities

- DS-2 specifically lists
 - Scientific Computer Operations
 - Business Data Processing
 - Animal Care Facility
 - Other Service centers with annual operating budgets >\$1,000,000 **or** that *generate significant charges to federally sponsored agreements as direct or indirect.*
 - Also, see DCA FAQ’s re: *SSF Criteria for “Size, Complexity and Materiality” of direct charges to federal projects*

Specialized Service Facilities

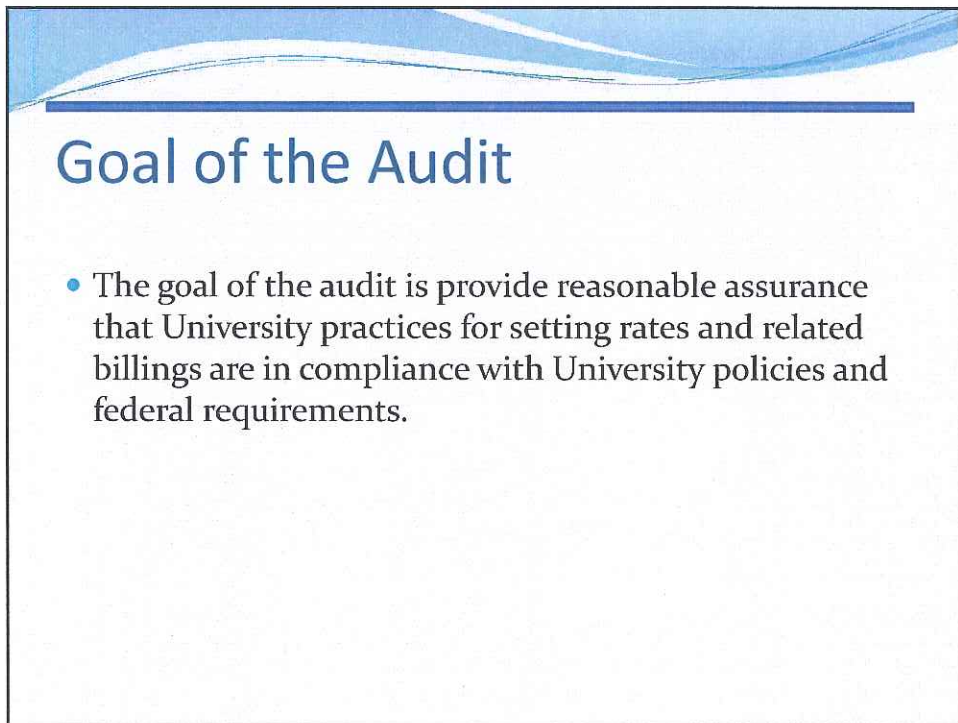
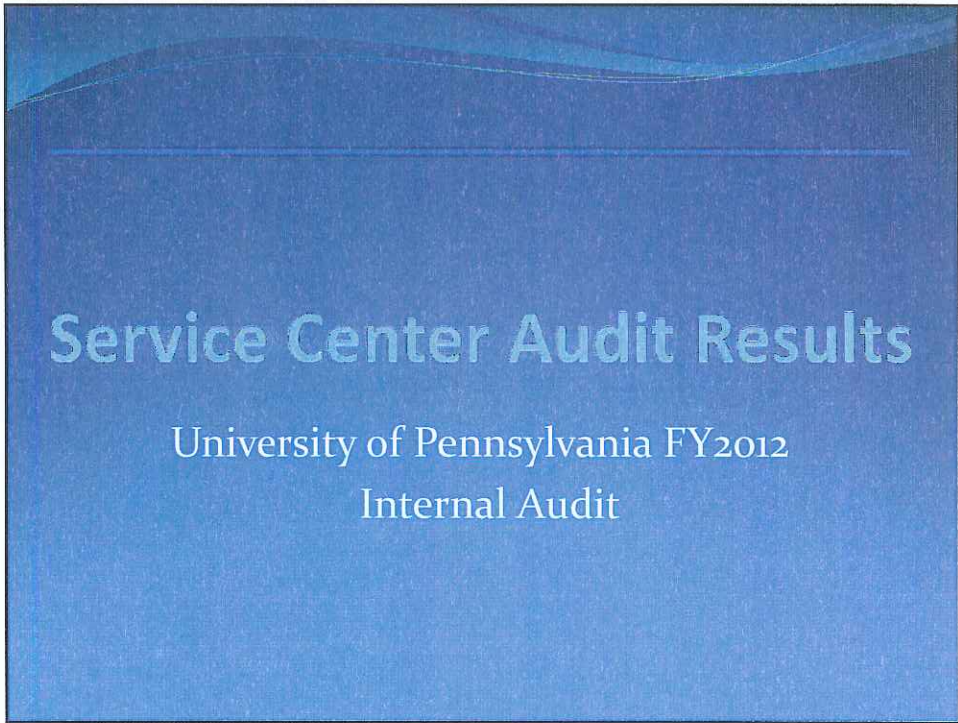
- OMB A-21, Section J.47 addresses Specialized Service Facilities (SSF)
 - The costs of services provided by **highly complex or specialized facilities** operated by the institution, such as computers, wind-tunnels, and reactors are **allowable**, provided the charges...meet the conditions of subsections b. or c....and include applicable credits.



Specialized Service Facilities

- Subsection b. – When costs of the SSF are material, they must be directly **charged based on actual usage** of the services based on established rates that:
 - ***Don't discriminate*** against Federal activity
 - Are designed to ***recover only the costs*** of service including direct and indirect costs
 - ***Rates to be adjusted*** at least every two years (surplus/deficit carryforward)





Audit Scope

- Service Center activity for:
 - Establishing billing rates
 - Charging/billing practices
 - Financial management
- Internal control structure and environment
- Effectiveness and efficiency of business processes and operations

Centers Audited

1. Chemical Stock Room
2. Genetics Cell Center
3. Computer Information Science (CIS)
4. Canine Retinal Disease Study Facility (CRDSF)
5. Environmental Health and Radiation Safety (EHRS)
6. Pennsylvania Animal Diagnostic Laboratory System (PADLS)
7. Molecular Profiling

Chemical Stock Room

- No issues noted
 - Center outsourced to Fisher Scientific in 2003
 - Performed limited contract review

Genetic Cell Center

- Inventory Management
 1. Improvement opportunity on implementing an inventory management system
- Bad Debt Aging
 1. 27% of aged receivables are greater than 180 days old
- Billing and Service Center Rates
 1. Lack of process documentation

CIS Results

- Service Center Rates
 1. Rates are not established at the beginning of year
- Billing
 1. Revenue is not billed monthly
 2. Manual and cumbersome billing process which relies upon personnel judgment/knowledge
 3. Errors identified in the billing journal entry support
 4. Control and access to personal identified information on UMIS payroll reports
 5. Lack of process documentation

Canine Retinal Disease Study Facility

- Service Center Rates
 1. Actual rates are not developed, instead the costs accumulated from the previous month are billed based upon the funds available
 2. The "Other OH Recovery" account is used to transfer in a portion of the F&A rate that was recouped by the Vet School from other Federally Sponsored Projects. This transfer in results in a surplus to the service center which is not in accordance with OMB A-21: *Cost Principles for Educational Institutions*.
 3. As the end of fiscal year 2011, RDSF has a \$66,030 cumulative surplus.
 4. Annual budgets and proposed rates for services are not submitted to the Office of Research Services.
- Billing
 1. Sponsored agreements are not based upon actual use of service, but based upon available funds and grant end dates.
 2. Our testing identified that charges for services provided are not billed monthly for both internal and external customers as required by Financial Policy #2115 *University Service Centers*.
 3. A segregation of duties conflict exists in the billing process; the same person, who creates the invoices, also receives payments and records the transaction in BEN.

EHRS Results

- Service Center Rates
 1. During our review we noted several issues relating to establishing and monitoring rates. We identified that all the expenses required to run the service center are not accounted for in the service center; other ORGS and funds are being utilized to subsidize the cost of running the service center.
 - Excluded charges include salary and benefits, third party waste removal invoices, supplies and computer software.
 - Prior year surpluses/deficits are not reflected in the current year rates and
 - There is limited monthly monitoring of activities as true expenses are not recorded in the service center and billings are not completed monthly.
- Billing
 1. Billings and cash collections for external customers are accounted for on a cash basis and not the accrual basis.
 2. Charges for services provided are not billed monthly for both internal and external customers as required by Financial Policy #2115 University Service Centers.
 3. A segregation of duties conflict exists in the billing process; specifically for external customers. The same person, who creates the invoices, also receives payments and records the transaction in BEN.

PADLS Results

- Service Center Rates
 1. The service center is subsidized by the commonwealth who also defines the billing rates. Running a cumulative surplus of \$570K
 - Is this OK as funds that create the surplus are from the Commonwealth
- Billing
 1. During our review it was noted that billings and cash collections for external customers are accounted for on a cash basis and not the accrual basis
 - Revenues account for approximately 75% of total service center revenues of \$910K for FY2011.
 2. During our review it was noted that a segregation of duties conflict exists in the billing process. The same person creates the invoices, receives payments and records the transaction in Laboratory Information Management System.

Molecular Profiling

- Service Center Rates
 1. \$200K subsidy provided to cancer center members, but only \$75K of subsidy utilized
 2. Center running deficit for more than 3 years
 - Deficit will increase again in FY'12

- Billing
 1. Credits due to grants (prepaid inventory) of \$221K

QUESTIONS ??