

Service Centers Reinforcing Roles & Responsibilities to Achieve Compliance

By Martin Smith

Introduction

As we begin a new year, many institutions are beginning the budget process to project how fiscal year 2012 (FY12) will finish and plan for fiscal year 2013 (FY13). The budget process typically includes budget analysis of the operating, sponsored programs, discretionary, and other funding sources. This annual process should also include a review of service centers in preparation for the upcoming cost analysis based on actual FY12 activity and rate setting for FY13.

Service Centers for another consecutive year have made the federal Department of Health and Human Services (DHHS) Office of Inspector General (OIG) FY12 Audit Work Plan.ⁱ There is very little concrete guidance as to how to operate service centers making compliance requirements challenging to achieve.

There are many misconceptions about service centers, ranging from understanding the correct terminology, to applying the right compliance requirements, to knowing your institution's position on defining what constitutes a service center. We will review 1) an overview of federal costing compliance requirements, and 2) discuss ideal roles and responsibilities of individuals responsible for oversight and management of service centers.

What is a Service Center?

For purposes of this article, a **Service Center** can be any business unit within an organization that

charges other users for their services.

The Office of Management and Budget (OMB) Circular A-21, Section J.47 introduces the term **Specialized Service Facilities** as meaning "highly complex or specialized facilities operated by the institution, such as computers, wind tunnels, and reactors."ⁱⁱ OMB Circular A-21 also defines an alternative to *specialized service facilities* in Section F.6.b.(1) by the use of **Recharge Center**, interpreted to mean a non-specialized service facility such as a copy center or glass-washing facility. Section F.6.b. of OMB Circular A-21 is also important to note because it has also been a focus topic on recent DHHS OIG audit work plans, particularly for the consistent treatment of direct-charging of departmental administrative costs.ⁱⁱⁱ **Research Core Facilities** typically refer to a highly specialized service center providing a technical service such as genomics, imaging, or cell sorting facilities. Core facilities may also be subsidized by a National Institutes of Health (NIH) core center grant and be advertised by your institution as a competitive strength or focus area of science. Lastly, there are **Animal Research Facilities** which may fall under one or more of the definitions above. Animal research facilities also follow a special rate-setting guide called: *Cost Analysis and Rate Setting Manual for Animal Research Facilities*^{iv}

Compliance Requirements

Service Centers have compliance requirements from the federal government in OMB Circular A-21, Section J.47 and within your own institution depending on how service centers are defined. Some institutions call all budget or business units that charge out for their services a service center, while others have a dollar threshold (e.g. \$5,000 or \$25,000) to determine whether a recharge function is a formal operation. Other institutions are only concerned with specialized service facilities that look at operations charging significant, material amounts to federal awards and/or have a revenue amount greater than a specified dollar amount (e.g. \$1 million). Many institutions require approval from a central office such as the controller/comptroller, finance, or sponsored programs office to get approval to begin a service center operations. The specifics of your institution's policy and procedures regarding service centers will dictate how you should proceed.

i HHS OIG Work Plan FY2012, Part V: Public Health Reviews, page V-10, found online at <http://oig.hhs.gov/reports-and-publications/archives/workplan/2012/WP05-PubHealth.pdf>

ii OMB Circular A-21, Section J.47, can be found online at: http://www.whitehouse.gov/omb/circulars_a021_2004/

iii Archive of DHHS OIG Audit Work Plans, can be found online at: <http://oig.hhs.gov/reports-and-publications/archives/workplan/index.asp>

iv The Cost Analysis and Rate Setting Manual for Animal Research Facilities is published by the NIH National Center for Research Resources (NCRR) and can be found online at: http://www.ncrr.nih.gov/publications/comparative_medicine/CARS.pdf

Here are selected compliance requirements paraphrased from OMB Circular A-21, Section J.47:

1. Service centers are **allowable as a direct-charge** as long as you **apply credits** for portions of the operation the federal government supported;
2. Charge for **actual usage** based on a **schedule of rates**;
3. **Do not discriminate** against federally supported activities;
4. Recover the **aggregate costs** of the services including direct and indirect costs;
5. **Adjust rates biennially** and consider prior period **surpluses or deficits**;

Applying these compliance requirements and those of your institution, while also managing a service center as an internal business unit, will pose challenges to the many people involved in the process.

Roles and Responsibilities

A service center requires different functions ranging from advertising, order entry, order fulfillment, managing day-to-day operations, to invoicing, collection (if external accounts), performing an annual cost analysis to setting rates for the next fiscal year.

The types of information needed can range from questions about costs, volume, rates, the market, assumptions, and constraints. Typical questions include: how many orders have been delivered and ready to charge or invoice; what supplies are needed to deliver services; how many people will be working in the service center; which users make up a majority of the volume; what rates will the market pay; are there competing service centers using better technology; and did you document assumptions and consider constraints?

This information can come from different people involved in different aspects of a service center operation. Everyone involved in the process has important compliance and management functions that contribute to the successful operation of the service center. Below is a list of typical

roles and responsibilities within an institution:

- Central Office—an institution typically has someone in the Finance or Sponsored Programs Office responsible for oversight of service centers. Duties include establishing accounts, setting policies, and establishing biennial review procedures to ensure compliance. Oftentimes the institutions Cost Analysis/F&A person is responsible for providing federal costing interpretation.
- Central or Departmental Sponsored Programs Post-Award—this function ensures costs charged to sponsored awards match the time of the charges, appear reasonably based on the type of award, and follow institutional allowability requirements. They may also be the final approval before a service center charge (via journal entry or feeder system) is charged to a sponsored award.
- Internal Audit/Compliance Official—this function is responsible for monitoring the institution's compliance requirements and efficacy of internal controls in relation to the transaction processing.
- School-level Finance, Administrative or Budget Office—may provide limited or expanded oversight depending on the centralization model employed by the institution. Ultimately this office would be concerned with ongoing surpluses or deficits.
- Department Administrator—could have a variety of functions to processing journal entries for service center charges, adjusting payroll allocations for service center staff, to mediating budget or rate-setting issues between the service center and oversight offices.
- Scientific Director—the scientific faculty member in charge of the service center, who determines the scope of services offered and advertises the center within the department, school, university, or larger market.
- Service Center Administrator—the financial and administrative manager of the service center responsible for ordering supplies and billing out for services rendered as well as rate setting. This role may be combined with a Lab Manager.
- Lab Manager—person managing the order fulfillment of the service center and managing the technicians performing the work in the service center. This is the person likely responsible for conveying to the financial administrator that the technical work has been completed or other billing milestones. This person has a very important role because without them, the administrators have no way of knowing (without a vendor-offered solution) that services have been rendered.

- Service Center Technical Staff—the individuals doing the technical work of the service center.
- Senior leadership—any senior role supporting the strategic direction of service centers, ranging from a dean, provost, controller, and others.

As this list demonstrates, there are numerous individuals in an institution responsible for service centers where there does not appear to be one person with complete responsibility. This separation of duties is good for internal controls; however, poses more challenging when compliance requirements and cost analysis requires input from all of them. Ultimate accountability is on the institution. Coordination and communication between them is essential for success. My experience at the University of Pennsylvania worked so well because we had support from senior leadership and cooperation throughout all of the roles and responsibilities outlined here. When underperforming services centers are faced with the equivalent of bankruptcy, it requires input from the scientific side to know whether the service centers were worth saving. Determining whether departmental recharge centers are compliant with OMB Circular A-21 requires justifications from the department administrator, guidance from the compliance office, and a final determination from the cost analysis official. Internal audit including service centers in its work plan is also beneficial in testing the efficacy of your institution's service center policies and procedures.

Conclusion

My favorite motto is *"working in a University, you cannot achieve anything by yourself."* Managing service centers is a difficult process because of the competing demands to achieve compliance, meet solvency requirements, and providing services to the users of the facility. Reinforcing roles and responsibilities is important to running a compliant, break-even, and solvent service center operation. ■



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