“Overview of Service Center Policy and the Rate Study Process”
RATE STUDIES TEAM

- Financial Services Office – Financial Management
- Facilities and Administrative (F&A) Rate
- Employer Relate Expenses (ERE)
- Service/Recharge Center Management
AGENDA

- Rate Study Basics
- Rate Calculation Breakdown
- Performing a Rate Study
- Service Center Policy & Compliance
- Responsibilities
DO YOU NEED A RATE STUDY?

• Do You Bill 3xxxxx and 4xxxxxxx Accounts?
  ▫ **YES!** These are considered “Sponsored” Accounts, and all charges to these accounts must be cost-based

• Do You Use Internal Billing (IB) Documents?
  ▫ **MAYBE!**
WHY ARE RATE STUDIES REQUIRED?!

- **Compliance**
  - **Federal**
    - OMB Circulars (A-21, A-133, A-87, and others)
  - **University**
    - Service Center Policy 18.00
    - ABOR

- **Determine Cost-base Rates**
  - Recover All Costs
  - Overcharging

- **Impact to UA**
  - **Audit & Risk**
    - Fines
  - **Headlines & Reputation**

- **Management Tool**
  - Reveal True Costs of Running the Service Center
HOW OFTEN DO YOU COMPLETE A RATE STUDY?

• Annually

• Possible Exceptions For Early Review
  ▫ New Service Centers
  ▫ New Services
  ▫ Major Operational Changes
RATE CALCULATION ELEMENTS

- Units of Service
- Operational Costs
- Employee Effort
- Equipment Depreciation
- Overhead
- Salary & Wages
- ERE
REQUIRED RATE INFORMATION

• Actual Expenses
  • Represent 1 Full Fiscal Year of Data

• Supporting Documentation
  • UAccess Financials – System of Record
    • Payroll
    • Operational Expenses
  • Employee Effort
  • Subject to Audit
  • 10 Year Data Retention

• Exceptions
  • Projections
    • New Service or New Employee
COMPLETING A RATE STUDY

1. Compile Financial Data
2. Analysis and Allocation of Data
3. Complete Rate Study Template
4. FSO - Rate Studies Review
5. Approval Letter
6. Implement Rates
ALLOWABLE

• Expenses That Directly Benefit the Service Center
• Payroll
  • Direct
  • Indirect
• Operational Expenses
  • Service Contract
  • Supplies
• Travel  *Purpose directly relates to Service Center and provides a benefit to current customers

UNALLOWABLE

• Alcoholic Beverage
• Entertainment
• Bad Debt Expenses
• Marketing
• Internal Interest
• Fines or penalties
• Donations, gifts & contributions
• Comm User FTE Charge
• Travel  *Purpose is to disseminate information and/or does not provide a direct benefit to service center customers
INTERNAL

Individuals/Organizations that have a direct relationship to the UA, such as, University departments, University organizations.

Note: If the entity will be using a UAccess account number to pay for services it is considered an internal customer.

EXTERNAL

Individuals/Organizations that do not have a direct relationship to the UA, such as, Other Universities, Private enterprises, Outside parties, or Public customers.

Note: These entities will not be using a UAccess account number to pay for services.
WHAT CAN DISTORT YOUR RATES?

• Fund Balance
  • Surplus
  • Deficit

• Estimates
  • Sales units
  • Cost
  • Effort

• Imprecise Allocations

• Transfers
  • Expense
OTHER COMMON BLUNDERS

- Charging Market Rates
- Delayed Invoicing
- Misuse of Depreciation
- Unallowable Expenses Included in Rates
- Lower Rates for External Customers
- Varying Rates for Internal Customers
- Adding New Service Without Prior Approval
COMPLIANCE CHECKLIST

- Service Center Policy
- Breakeven Cost-based Rate
- Fund Balance – 60 Day Reserve
- Depreciation
- Discriminate
- Cross-Subsidization
  - Between Service Center Accounts
  - Between Services

**EXAMPLE**

- Annual Operating Expenses: $84,000
- Allowable Fund Balance: $14,000

\[ \frac{84,000}{12} \times 2 = 14,000 \]
DEPARTMENT RESPONSIBILITIES

• Establish and maintain record keeping procedures and systems

  • Financial Records
  • Statistical Records
  • Effort Reporting
  • Background Information
  • Billing Rate Methodology
  • Approved Rate Study Letters
  • Reconcile Accounts
RATE STUDIES RESPONSIBILITIES

• Review and approve new accounts for service centers

• Consult with department to ensure allocable costs, types of services and billing rates are permissible

• Review and approve billing rates to ensure appropriate cost accounting practices

• Consult with department to determine types of record keeping and break-even methodology

• Coordinate communications with governmental agencies (auditors)
WE LOOK FORWARD TO ASSISTING YOU!

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https://list.arizona.edu (search “service centers”)

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