



Office of Sponsored Research

Cost Analysis and Compliance Office

AOB, CB #1350, 104 Airport Dr. Suite 2200

Chapel Hill, NC 27599-1350

Operating Guidelines for Institutional Research Service Centers (RSC)

These guidelines have been developed to support research at the University of North Carolina at Chapel Hill by providing information relevant to financial management and accountability for the operations of research service centers, as required by applicable federal, state, and local laws.

A Research Service Center (RSC) is a recharge operation with a primary purpose to provide research related services to the university community. The costs associated with these activities are separately accounted for and charged to users through fees established to recover costs in proportion to services rendered.

Areas of Responsibilities

Fee Oversight for all campus recharge activities is determined based upon the Interdepartmental Fees & Charges (IF&C) policies and procedures decision diagram located at https://www.med.unc.edu/corefacilities/files/interdept_fees_chgs5.pdf. Accordingly, oversight of RSCs is provided by the cost analysis and compliance section of the Office of Sponsored Research.

Cost Analysis and Compliance Section of the Office of Sponsored Research (CA&C) reviews and approves proposals for new research service center accounts and fees, as well as requests for rate additions and changes for existing RSCs. CA&C periodically reviews the financial compliance of RSCs and provides consulting guidance to departments with their monitoring and administrative oversight responsibilities. Questions relating to applicable service center rules, un-allowed costs, and institutional policy and procedures should be addressed to CA&C.

Departmental Management is responsible for monitoring operational and administrative activities of the research service center. This oversight responsibility remains with the department regardless of any personnel changes within the RSC management. Departmental management should review the IF&C oversight requirements at least annually to ensure association with the proper fee review authority.

The Department is responsible for establishing a billing and receivables system to ensure all service center output is charged to the appropriate user, fees are in accord with the approved rate schedule, timely and accurate invoicing, revenue recognition, and collections.

Controls should be in place to ensure that only expenses incurred by the RSC are charged to the RSC account, and that these expenses relate exclusively to RSC operations as direct costs. These controls should include a timely review of financial activities on a monthly basis. In addition, management reports related to monthly account activity and financial status should be provided to the RSC Director on a timely basis.

Research Service Center Management manages the facility on a daily basis and is charged with adherence to all policies and procedures required of research service centers. In consultation with departmental management and CA&C, RSC management develops the rates charged to internal and external users. RSC management is responsible for maintaining accurate and complete records of operations, and following University requirements for record retention.

Conflict of Interest and External Professional Activities for Pay policies and procedures must be observed by all employees performing activities associated with the research service center. Questions should be directed to the Research Compliance Program at 843-9953.

Rates

All costs recovered by the fees charged to users must be allowable as direct costs under federal and University guidelines. Rates charged should be designed to achieve a break-even operation over a long term period, usually one year.

Charges included in the rates must be:

- reasonable (based on good judgment under the circumstances; not excessive)
- necessary to perform the objectives of the facility
- allowable as direct costs under federal regulations and university policies

Direct costs: Are recovered through the fees charged to users. Directs costs can be identified by a prudent observer as directly attributable and beneficial to the RSC. Direct costs are easily and readily attached to the RSC and can be measured with a high degree of accuracy. Direct costs include both personnel (e.g., salaries and fringe benefits of RSC personnel commensurate with effort expended) and non-personnel (e.g., lab supplies, RSC maintenance, and RSC equipment service contracts) costs.

Indirect costs: Indirect costs are incurred for common or joint objectives that cannot be readily or specifically identified with the RSC. Examples include clerical and administrative salaries, and office supplies. Indirect costs are also referred to as Facilities and Administrative (F&A) costs. Under most circumstances these costs should not be budgeted in determining RSC rates, nor should these costs be charged to the RSC account.

The RSC **Operating Plan** lists key personnel, describes the nature of operations, and documents the resources used in RSC operations. The **Rate Development Worksheets** and supporting documents are used to calculate rates for each service or product. An updated operating plan and related rate calculations and support schedules must be submitted to CA&C for review with each fee proposal.

Federal and state supported activities may not be charged a higher rate than those supported by other sources.

Volume discounts or other special pricing mechanisms may be allowable; however, they must be equally available to all users who meet the criteria and must not be subsidized by other users of RSC services. The RSC must be able to demonstrate that the federal government is not paying more than the cost of the service it is receiving. The amount of any fee discount to a user must be based upon the value of subsidies provided by that user. The sources and nature of RSC subsidies must be fully disclosed in the operating plan, and how the equitable discounted rates are calculated must be presented on the rate development schedules.

While RSC's are established primarily to meet the needs of the University community, services may be provided to external entities. **External entities** are those whose operations and administration are governed independently from UNC Chapel Hill. This includes UNC Hospitals, UNC General Administration, other institutions of higher learning, state and local governments, non-profit and commercial organizations. Minimum fees for rates charged to external entities should be based on the direct cost plus the negotiated on-campus federal F&A organized research rate effective at the time services are provided. The current negotiated organized research rate can be found on the OSR website.

Approved external rates may also be based on the market, provided market rates exceed the cost plus the F&A minimum requirement.

Sales to external customers fall under special scrutiny due to the State Umstead Act which addresses government agencies conducting business operations, and also the IRS Unrelated Business Income regulations which deal with non profit organizations (including schools and universities) realizing gross income from regularly conducted business that is not substantially related to its educational and other exempt purpose. CA&C can help the RSC determine whether they are in compliance as to its external sales.

Rates should be formally reviewed at least annually at the department level and every two years by the CA&C office.

Written approval by CA&C is required whenever a new rate or fee is added, revised or deleted. Requests for such changes should include an updated business plan and rate development worksheet.

Unallowable Costs

The following types of expenditures are explicitly forbidden to be paid from a recharge service center account:

- * Entertainment Costs
- * Bad Debts
- * Advertising
- * Public Relations
- * Donations and Contributions
- * Alcoholic Beverages
- * Goods or services for personal use
- * Fines and penalties resulting from violations of (or non-compliance with Federal, state or local laws and regulations)

Cost Sharing using RSC accounts as the support source on behalf of another project is not allowable.

Billing

RSCs should invoice for all of its output to internal and external users on a regular and timely basis, preferably on a monthly schedule. Invoices should contain enough data to identify each charge and there should be adequate records to support the number of hours or other measure of services and/or materials which form the basis for customer billings.

To expedite the processing of payments, best practices for internal billings include requesting account numbers to be charged at the time the order is placed. Sales to internal customers should be credited to account 441845: Sales Intra University. Internal customers include sponsored agreements administered by the Office of Sponsored Research.

Sales to external customers should be credited to account 441911: 'Other outside sales'.

Invoices should always specify a "due date" no more than 30 days from invoice date.

RSCs may NOT charge federal or government sponsored agreements in advance of actual service performance (advance charges or pre-billings). Advance charges to any user are generally not allowable without documented written approval from that user.

Accounting Services Policy 20 specifies that accounts receivables should be billed monthly and a "concerted effort should be made to collect all accounts". The policy also states "unpaid billings due the University should be turned over to the Attorney General for collection no more than 60 days after the date of the billing". If you need help with collections from external entities, please contact Accounting Services Cash Management Office.

Fund Balance Requirements

Actual Fund Balance is defined as the FRS account fund balance adjusted for capitalized equipment reserves and timing differences such as unbilled sales, outstanding invoices, and expenditures incurred but not recorded. Periodic oversight should include a review of billing rates and fund balances to avoid the accumulation of unallowable surpluses and deficits.

Fund balance ratio is defined as actual fund balance divided by annual operating expenditures.

The fund balance ratio should not exceed 25% surplus or deficit. Rate adjustments should be implemented before the fund balance reaches the 25% ratio threshold. Any excess surplus in actual fund balance will be eliminated in future periods by reducing current rates. Similarly, any deficit will be eliminated in future periods by an increase in rates. When making rate adjustments to liquidate an excessive actual fund balance, the targeted fund balance ratio for the new rate may not exceed 10% surplus.

An excessive surplus actual fund balance may not be reduced by purchasing equipment, or incurring other expenditures which would not be reasonably expensed in normal operations. Please see the Capitalized Equipment section for more information on the relationship between equipment reserves and fund balance.

CA&C can assist in calculating the actual fund balance and advise as to the most appropriate actions to resolve any fund balance ratio problems.

Capitalized Equipment

Capitalized equipment (equipment) is non-expendable and non-consumable equipment that has a useful life of more than one year, and an acquisition cost of \$5000 or more.

Research service centers may acquire equipment in several ways. Equipment may be acquired by a department using non-sponsored funds, including state funds, gifts or overhead receipts (facilities and administrative funds), and turned over to the RSC by the responsible officer to be used in operations. Equipment may be purchased directly by the RSC using allowable equipment reserves or allowable actual fund balance surplus.

There are a number of restrictions and qualifications which determine whether or not the cost of capitalized equipment may be recovered through the rate development process. The issues involved generally have to do with federal guidelines concerning double billing and direct costing. For example, if the equipment was purchased with grant funds and then the equipment depreciation is built into the rates, the funding source is in effect paying for the equipment twice. In addition, the cost of equipment recovered through fees must be proportional to the percentage of equipment use by the RSC.

The cost of equipment used in the course of providing services by the RSC may be recovered through the service fees if all of the following apply:

- Equipment was purchased with non-sponsored funds. The cost of equipment purchased under federal or non-federal sponsored agreements cannot be included in RSC rates.
- The amount and the time frame of cost recovery are limited to the item's original depreciation schedule in accordance with institutional asset management policy.
- Departmental management accepts responsibility to set up, account for, and monitor the equipment reserve portion of the fund balance. CA&C can assist departments in calculating and documenting an equipment reserve schedule.

There are four important issues to stress regarding equipment:

1. If an equipment item is subject to the University's asset management policies and procedures, cost recovery is based upon the asset's annual depreciation. CA&C can assist departments in determining how to include depreciation in the rate calculation and the appropriate useful lives to use.
2. Excess fund balances generated from internal fees cannot be used to purchase equipment. Equipment purchased from fund balance is limited to: 1) allowable surplus fund balance, provided the recharge service center is fiscally sound with respect to actual fund balance, or 2) the amount of equipment reserve in actual fund balance; equipment reserve in fund balance is comprised of the depreciation cost recovered from charging fees in accordance with the asset's depreciation schedule; in this case the equipment reserve must be tracked as a separate portion or reconciling item of the fund balance. CA&C can assist in determining if there is sufficient allowable fund balance surplus available to purchase equipment.
3. The equipment depreciation component of the recharge operation's rates may not include any factor to accumulate balances to provide for the upgrading of equipment or for inflationary increases in replacement costs.
4. Generally, only equipment used 100% by the RSC can be included in the RSC rates. In some cases, however, equipment may be shared by the RSC and another activity, referred to as partial use equipment. In order for partial use equipment to be included in an approved recharge rate, the usage must be documented by a log identifying and verifying the partial use percentage.

RSC management is responsible for maintaining records to identify and track the accumulated equipment reserve in fund balance.

When planning to use equipment reserve to purchase equipment, please contact CA&C office to review and verify the equipment reserve amount available, and obtain approval for the purchase.

University Asset Management Office must be contacted concerning any changes in the status of capitalized equipment.

Department Financial Support and Assistance

Planned Support: A department may intentionally provide financial assistance that in effect subsidizes the direct cost of operating the RSC. Some examples of departmental subsidies include core grants, specific purpose sponsored agreements, start-up funds, and bridge funding. Planned subsidies should be included in the Operating Plan and the Rate Development worksheet, and should be updated in the event of any changes.

Unplanned Support: Situations may arise when department funds must be used to correct a non-compliant fiscal situation. If there is an ongoing operating deficit which cannot be eliminated over a reasonable period of time by increasing rates, then the deficit must be covered using department funds. If there is a situation where a surplus cannot be eliminated over a reasonable period of time by decreasing rates, then the surplus should be refunded to its customers. Please contact the CA&C office in advance of making any unplanned adjustments so that they can assist in determining the proper disposition.

Exemptions Requests to these Guidelines

Any exemptions requests to the standards set forth in these guidelines should be made in writing to the Director, CA&C, and should include an explanation of the circumstances and justification for why the exemption is warranted and not inconsistent with governing regulations and policies.

Resources

Office of Research Technologies: Consultation and assistance with establishment of new recharge facilities, revisions to existing recharges, accounting and invoicing, other issues affecting core facilities, marketing, advocacy.

<http://www.med.unc.edu/corefacilities>

Annabelle Stein, Assistant Director, Office of Research Technologies

Email: abelle@med.unc.edu

919.843.9554

Christopher W Gregory, Director, Office of Research Technologies

Email: Christopher_gregory@med.unc.edu

Office of Sponsored Research Cost Analysis and Compliance Office: guidance and interpretation of state, federal and other applicable regulations as they apply to research service centers.

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Office of Sponsored Research

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Telephone: (919) (919) 843-4891

email address: bertlsbj@email.unc.edu

Asset Management Office: notify Asset management whenever there is a change in status of equipment

<http://finance.unc.edu/procurement/asset-management/>

Campus Box 1070

104 Airport Drive, Suite 2500

Chapel Hill, NC 27599-1100

Phone: 919.962.1382 Fax: 919.962.6271

Email: assets_team@unc.edu

Accounting Services Cash Management Office: Reporting and assistance with collections of past due invoices

CB # 1210

Telephone: 962-0036

Email: accounting@unc.edu

Office of Sponsored Research: Detailed information about Recharge Service Center policies and procedures

<http://research.unc.edu/offices/sponsored-research/policies-procedures/section-900/policy-1/procedure-1/>

Umstead Act Article 11

http://www.ncga.state.nc.us/EnactedLegislation/Statutes/HTML/BySection/Chapter_66/GS_66-58.html