

Recharge Operations and Approval of Rates

POLICY STATEMENT

A recharge operation is a facility, function, account, or activity whose output is susceptible to measurement based upon a specific workload or other quantitative basis. The costs associated with these activities are accounted for separately and charged to users in proportion to services rendered. The primary purpose of a recharge operation is to provide specific services to the University community, although services may also be provided to external users. This policy pertains only to approved research-related recharge operations. Please refer to the [University Transfer Pricing Guideline](#) for further reference.

Policies have been established to ensure compliance with federal regulations and Cost Accounting Standards. This policy reflects federal regulatory costing principles established by Office of Management and Budget (“OMB”) [2 CFR 200](#), as well as the University’s Accounting Policies and related procedures. Consistency in cost accounting practices and compliance with federal guidelines is critical as University of Notre Dame faculty conduct research and other sponsored activities under federally-funded grants and contracts.

Each recharge operation will be categorized as one of three types of units by the Controller’s Group: 1) Specialized Service Facility; 2) Service Center or 3) Recharge Center.

This policy does not apply to Auxiliary Enterprises. Auxiliary Enterprises exist to furnish goods or services to students, faculty, or staff and they charge a fee directly related to, although not necessarily equal to, the cost of goods or services. The distinguishing characteristic of auxiliary enterprises is that they are managed as essentially self-supporting activities. Examples of auxiliary enterprises are food services and bookstores. Auxiliary enterprises are not subject to this policy.

The following discussion outlines the parameters used to guide the development of auditable rates. Overall responsibility for the implementation of this policy rests with the Controller’s Group. The process for categorization will be based on the activity generating the service or goods sold and the impact this activity has on the University’s budget and Facilities & Administrative (“F&A”) cost rate.

TERMINOLOGY

Recharge Operation

When the term recharge operation or recharge activity is used in this policy it is referring to recharge centers, service centers, and specialized service facilities collectively.

Characteristics of all recharge operations include:

1. The costs of each service must include its direct costs, and when appropriate, its allocable share of indirect costs;
2. The cost of each service should be directly billed to users based on a schedule of rates that does not discriminate between federally and non-federally supported activities;
3. Break even operation rates should not recover more than the total cost of the center over a long-term period.

Specialized Service Facility (“SSF”)

An entity, as specifically defined by the federal government (see 2 CFR 200.468), that provides institutional services involving the use of highly complex or highly specialized facilities, not easily available from an outside vendor. A SSF usually generates annual revenue from user fees of \$1,000,000 or more and incurs annual operating expenses of at least \$1,000,000. Rates must be designed to recover both direct costs and the facility’s allocable share of indirect costs. Services must not be easily available from an outside vendor. User rates for SSF’s are based on the facility’s costs and usage data for each service provided.

Charges from this recharge unit, based on rates and usage data, results in an accounting transaction that charges or debits a specific account in the buyer’s fund and credits the recharge operation’s fund.

There are currently no specialized services facilities at the university.

Service Centers

An operating activity established for the primary purpose of providing goods and services to the University community for a fee. Annual revenue generated from user fees or operating expenses incurred to provide the goods or services should usually be between \$50,000 and \$1,000,000. Such centers will not include facilities and administrative costs in their rates. Examples include charging for use of technical scientific equipment with high repair & maintenance costs, special laboratory tests, sale of special glassware, etc. At Notre Dame, research core service centers fall into this category. Generally, the product or service provided by such a center is intended for University wide consumption and is not department or college based. Pricing of the unit’s products or services may be established according to historical data and future costs and usage projections; however, the unit may recover no more than full cost.

Costs incurred in a service center account include only those directly attributable to the service center activities. Such costs typically include salaries and fringe benefits for individuals performing the service, cost of supplies consumed while providing the service, maintenance contracts and other direct expenses. Accumulating costs directly related to the service activity allows for an effective method to identify total costs of the service center to determine the validity of the current charge rate.

Charges from this recharge unit, based on rates and usage data, results in an accounting transaction that charges or debits a specific account in the buyer's fund and credits the recharge operation's fund.

Recharge Centers

An operating activity established for the primary purpose of providing goods and services to the University community for a fee. Annual revenue generated from fees or operating expenses incurred to provide the goods or services will normally be less than \$50,000. Examples of recharge centers are: departmental charges for use of the copy machines, fax machines, stock rooms, copy centers, etc. Generally, the product or service provided by such a center is intended for department and possibly college consumption, but not consumed by University wide customers or users.

These services are designed to recover actual costs and do not include F&A costs. There should not be a surplus or deficit at year end. No internal fee, however characterized, may be included in the price charged to any user. Transactions of this type do not generate revenue for the selling unit and are merely a transfer of expense from one budget unit to another. To properly account for this activity, the department incurring the total expense should distribute the charge to the appropriate budget unit by crediting Distributed Charges and debiting the appropriate expense in the buyer's budget unit.

DETERMINING THE NEED FOR A RECHARGE OPERATION

Before a recharge operation is established, a determination must be made demonstrating a valid need exists for such an operation by documenting the following criteria:

1. The activity complies with the definition of a recharge operation.
2. A demand exists for the products and/or services to be provided. This demand should be by more than one other department/unit/user.
3. A significant volume of recharging, both in dollar amount and number of transactions, will occur.
4. The product or service is provided on a regular and continuing basis.
5. The service is measurable.

All requests to establish a recharge operation must be documented and reviewed by the Controller's Office. The requesting department must agree to operate in a manner consistent with the stipulations set forth by the University in this policy.

It is important to note that these recharge operations must have the ability to recover full facility costs (either through recharge activity or departmental subsidy) and should not discriminate against federally sponsored users.

Recharge operations must be approved by the responsible unit, the Controller's Office, and the Office of the Vice President for Research, when appropriate. The mission and purpose of the facility, the resources needed for its operation, its proposed operating policies, its proposed allowable direct cost budget and its income forecasts must all be reviewed and approved.

Any questions regarding Unrelated Business Income Tax (“UBIT”), sales tax, or other transactions and relationships with outside users should be discussed and resolved prior to final approval with appropriate personnel in the Controller’s Office.

The requesting unit must name a Facility Director for the recharge operation. This person is ultimately responsible for the operation of the recharge activity. This individual’s duties include:

1. Compliance with the Recharge Operation Policy and related procedures.
2. Assisting Research and Sponsored Programs Accounting (“RSPA”) in preparation of the rate calculation worksheet and verification of accuracy of the information.
3. Assisting RSPA with at least a biennial review of the recharge rates.
4. Application of recharge rates uniformly to all users.
5. Ensuring that unallowable costs, as defined in 2 CFR Part 200, Subpart E, are not included in the calculation of user fees.
6. Maintain accurate and complete records of operations.
7. Notifying RSPA of any significant change to the business model on which the rate was based.

ESTABLISHMENT AND REVIEW OF RATES

After submission of a request for a new recharge account, the request will be reviewed and, if approved, the rate(s) and a new restricted fund will be established.

There is a required biennial rate approval memorandum for as long as the activity of the recharge center continues. Such approval memorandums should be submitted to the Controller’s Office prior to the beginning of a new fiscal year. In addition to the biennial review, rates should be reviewed periodically by the Recharge Operation Director throughout the course of the year to ensure the proper structure exists. It should be understood the billing rate should be revised as often as necessary to avoid accumulating either a surplus in excess of three months working capital reserves or a deficit in the recharge account. The recharge rate should be based on the University’s fiscal year, unless another time period can be justified. While it is only required for recharge rates to be adjusted biennially, it is strongly encouraged to have rates reviewed and modified annually, especially if the operation is in a significant deficit/surplus position.

RATE DEVELOPMENT

The following principles must be adhered to by recharge operations:

Non-Discriminatory Pricing

All University users should be charged equitably according to measures of actual usage with no internal user subsidizing another University user. If a reduced rate is offered to one group of users through a subsidy, the subsidy must be identified in advance. If reduced rates are offered, the recharge operations must demonstrate that the federal government is not paying more than the cost of the service it is receiving. All usage must be recorded through a recharge transaction, even if the

rate is subsidized for a specific user group. There should be no user rate discrimination among internal users. Rates should be calculated consistently amongst all internal users.

Multiple Services

Frequently a recharge operation provides more than one service, and may accumulate a surplus on some services, while recognizing a loss on others. Combining the results of various services should be acceptable, as long as the users of each service are not substantially different, such that higher prices charged to one set of users is subsidizing losses that might otherwise be passed to another group.

Subsidies

A subsidy occurs when a user of a recharge operation is not charged the full cost for a product or service. When a subsidy exists, two rates should be developed: one for actual costs which includes all costs of the recharge center and one that includes the subsidy. Through completion of the rate calculation worksheet, the billing rate for the unsubsidized total cost and the subsidized rate can be determined. The source of this subsidy must be disclosed so it can be treated as an unallowable cost for the University's F&A calculation.

External User

An external user is an entity or person with whom the University has no direct affiliation and for which the University has no fiduciary responsibility. The person or entity is external to the University's mission, but wishes to purchase the services of the recharge operation because of its unique equipment and/or its faculty/staff expertise.

Rates charged to non-federal external users are not governed by federal cost recovery restrictions. A recharge operation may charge a non-federal external user a premium rate above that charged to internal users for the same type of service. In fact, the operation should charge non-federal external users a market rate to prevent potential claims of unfair competition. Rates charged to external users who identify themselves as federally funded and provide documentation should be set to recover direct costs plus institutional overhead. Appropriate documentation includes a copy of the federal award approval or similar documentation.

Surplus/Deficit

Any annual shortfall in revenue, as a result of the adopted pricing policy, must be measured and accounted for so that it is not included in the F&A rate. A shortfall represents the University subsidy and must be absorbed by the University from the non-sponsored project fund(s) identified during the annual rate calculation and approval process. Likewise, any surplus resulting from the pricing policy must be measured and accounted for so that it is not included in future F&A rates and any surplus must be carried forward and considered in future pricing decisions.

Allowable Costs

All allowable costs of a recharge operation that will be used in establishing user rates should be expended through one individual fund. Allowable costs include:

1. Salaries and Wages
2. Fringe Benefits
3. Supplies and Materials (consumables)
4. Depreciation expense on capital equipment

5. Purchase costs for non-capital equipment
6. Equipment Service Contracts
7. Repairs and Maintenance
8. Communication Fees, Mailings, Other Support Costs
9. Prior Year Surpluses or Deficits
10. F&A Costs (for Specialized Service Facilities only)

Salaries and wages include faculty and staff who provide services, produce products, direct the recharge operation, supervise the staff and provide other administration and support functions. Effort Reports, where required, should agree with salary expenditures charged to a recharge operation's fund. If salaries are included in user rates they should be paid from the center's fund. This will require timely preparation of a labor redistribution form or budgeting directly to recharge funds.

Fringe benefits related to salaries and wages charged to the center's fund must also be charged, in direct proportion to the amount of salary charged to the recharge operation's unique fund.

Supplies and materials include the supplies that are necessary for the operation of the recharge activities. Office supplies are generally considered indirect costs and treated as unallowable. However, to the extent office supplies/materials are consumed solely for the operation of the recharge operation in deliverance of its products or services, they may be included as allowable costs of the center.

If capital equipment is involved in producing the product or service, depreciation associated with that equipment may be included in the rates. Depreciation must be calculated based on the information in the University's asset system, including purchase date, purchase cost, any federal contribution (which must be subtracted from the purchase costs) and useful life. The straight-line depreciation method should be used. The full purchase cost or the replacement cost of an asset cannot be the basis for the depreciation cost.

Actual expenses for items such as travel, equipment service contracts, or long distance telephone charges incurred specifically for the operation of the center should be treated as a cost of the center and included in the rate calculation.

Recharge operations involving the use of highly complex or specialized equipment or processes may be considered Specialized Service Facilities. The costs of these facilities include allowable direct costs and may include an allocable share of F&A costs. The F&A costs to be included in the rates will be determined by RSPA. Expenditures for a Specialized Service Facility's products or services to a sponsored project fund will not be included in the Modified Total Direct Cost ("MTDC") base and are therefore not subject to the University's F&A rate.

DOCUMENTATION

It is essential that the recharge operation's costs and usage base be adequately documented to support the billings. Accordingly, each center must observe the following practices:

1. Collect and retain supporting documentation related to actual and accrued costs incurred by the center. Historical cost data is stored in the University's finance and procurement systems. Cost projection data must be maintained by the center.
2. Maintain adequate records to support the number of hours or other measure of services and/or materials which form the basis for customer billings. Usage data compiled by the Core Ordering and Reporting Enterprise System ("CORES") system provides adequate documentation.
3. Retain working papers demonstrating rate development.
4. Prepare internal and external invoicing documents on at least a monthly basis. The CORES system will prepare both internal and external invoices.

Receipt of any external payments, not submitted directly to the Controller's Office, must be directed to RSPA upon receipt.

RECORD RETENTION

Recharge operations are subject to audit as long as the grants and contracts which they charge remain subject to audit requirements. Recharge operations are also subject to periodic review by the University's Audit & Advisory Services ("AAS") department and by external auditors (both federal and non-federal), to evaluate compliance with established University policies and related procedures and federal regulations. It is required that recharge operations maintain records for a period of seven years. None of these records should be disposed of or destroyed without the approval of RSPA.

CONSEQUENCES OF NONCOMPLIANCE

Recharge operations are subject to review by external auditors as such operations provide services to recipients of federal grants and contracts. Federal auditors can recommend the disallowance of charges to federal grants and contracts if, upon review, the documentation provided to support the rate is deemed inadequate. Amounts disallowed due to failure to comply with this policy will be the responsibility of the unit associated with the recharge operation.