



**Recharge Centers and  
Annual Approval of  
Rates**

**POLICY STATEMENT**

A University unit, acting as a service provider, may at any time determine that for good and legitimate business purposes it is appropriate to charge another unit of the University, procurer, for goods or services obtained from the service provider based upon a pre-approved rate structure. To accomplish this goal within the University's accounting system, the service provider must be categorized as one of three types of units by the Controller's Group: (1) Research Core Center (2) Service Center (3) Recharge Center.

Recharge Center policies have been established to ensure compliance with federal regulations and Cost Accounting Standards related to recharge center activities and to provide consistent operational practices among the various recharge center units. 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.

Recharge center policies must reflect federal regulatory costing principles established by Office of Management and Budget ("OMB") [Circular A-21](#), *COSTING PRINCIPLES FOR EDUCATIONAL INSTITUTIONS*, (A-21), as well as the University's Accounting Policies & related procedures. Compliance with federal regulations is required as recharge center activities often result in charges, either direct or indirect, to federally sponsored grants and contracts

The following discussion outlines the parameters used to guide the development of auditable rate methodologies in each of these three categories. The process for categorization will be based upon the activity generating the service or goods provided and the effect this activity has on the University's budget and FACR. The Controller's Group will determine which approach is advantageous for a particular unit, while considering sound management and consistent application of methodologies. Overall responsibility for the implementation of this policy rests jointly with the Controller's Group and the Office of Budget and Planning.

**TERMINOLOGY**

*Recharge Operation*

A recharge operation is a facility, center, 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.

#### Other Characteristics:

1. The costs of each service must include direct costs, and when appropriate, an allocable share of FACR 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. Operational break-even rates should not recover more than the total cost of the center over a long-term period. A long-period is normally defined as one year.

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.

#### *RECHARGE CENTERS*

A Recharge Center is an operating unit, the activity of which is, established for the primary purpose of providing goods and services to the University community for a fee. Annual revenue generated from fees or expenditures incurred to provide goods or services will normally be less than \$ 50,000. Examples of Recharge Centers are: operating units organized to provide services such as, 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 departmental and possibly college consumption and is not available to University- wide customers or users.

Recharge Center charges are designed to recover actual costs and do not include facilities & administrative costs. There should be no resulting surplus or deficit at year end as a result of a Recharge Center's operations. 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 service provider and are merely a transfer of expense from one budget unit to another

#### *SERVICE CENTERS*

Service Centers, like Recharge Centers, are operating units, the activities of which are established for the primary purpose of providing goods and services to the University community for a fee; however, annual revenue generated from user fees or expenditures incurred to provide the goods or services should usually be between \$ 50,000 and \$ 1,000,000 for Service Centers. Such centers will not include facilities and administrative costs in their rates. Examples include units established for the purpose of charging for use of technical scientific equipment with high repair & maintenance costs, special laboratory tests, sale of special glassware, etc. Generally, the product or service provided by such a center is intended for University wide consumption and is not specific to a particular department or college. Pricing of the unit's products or services may be established according to historical data, market rates, etc.; 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 activity. Such costs typically include salaries and fringe benefits for individuals performing the service, cost of supplies consumed while providing the service, and other direct

expenses. Accumulating costs directly related to the service activity allows for an effective way to identify total costs of the service center to determine the validity of the current charge rate.

Charges from this type of recharge unit, based on prices and usage data, results in an accounting transaction that charges or debits a specific object in the procurer's account and credits revenue in the recharge unit's operation account.

### *RESEARCH CORE CENTERS*

Typically, a Research Core Center provides services to the campus community involving the use of highly complex equipment or use of a specialized facility. These centers provide specialized services to the University community although services may be provided on an incidental basis to external users as well.

Characteristics of Research Core Centers:

1. The Core Center usually generates annual revenue from user fees of \$ 1,000,000 or more, or incurs annual expenses of at least \$ 1,000,000.
2. Its business must materially affect the University's FACR. Materiality is defined as greater than one-tenth of a point on the research component portion of the FACR rate. Those recharge operations which materially affect the University's FACR will be notified by the Controller's Group.
3. Services must not be readily available from an outside vendor.

To the extent that FACR costs are to be included within the Center's rate, the Controller's Group will assist with determining the specific FACR costs that will be included.

Charges from this type of research core center unit, based on prices and usage data for its service or supply, results in an accounting transaction that charges or debits a specific object in the procurer's account and credits revenue in the Research Core Center's account. If the charge rate includes the service center's share of FACR costs, the transaction cannot generate FACR recovery in the procurer's account.

### *AUXILIARY ENTERPRISES*

Auxiliary Enterprises exist to furnish goods or services to students, faculty, or staff and such entities 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 the recharge center policy.

### **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 by the recharge operation. 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 Group, including understanding the requesting department agrees 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 should be based upon full cost recovery and should not discriminate against federally sponsored users.

#### **RECHARGE DIRECTOR**

The requesting department must name a Recharge 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 Operations Policy and related procedures.
2. Preparation of the Rate Development Worksheet (see below) and verification of accuracy of the information.
3. Calculation of the operation's recharge rate at least annually and application of recharge rates uniformly to all users.
4. Ensuring that unallowable costs, as defined in A-21, are not included in the calculation of user fees.
5. Maintain accurate and complete records of operations.

#### **RATE DEVELOPMENT**

The following principles must be adhered to by recharge operations:

*Non-Discriminatory Pricing*

It is allowable for recharge operations to charge different rates to different groups of users. This is acceptable as long as the recharge operation can demonstrate that the federal government is not paying more than the cost of the service it is receiving. In other words, the recharge operation can provide a service for free to a certain user, but cannot pass the cost of the free service on to the federal government by building such costs into its rates. These unbilled costs must be segregated and subsidized from an appropriate source and such source should be determined through discussion with the Controller's Group and the Office of Budget & Planning.

### *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. In other words, surplus fund balances from one service should not subsidize a deficit in another service.

### *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 operation and one that includes the subsidy. Through completion of the Recharge Operation 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 excluded from the development of the University's F&A rate.

### *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 from local businesses.

### *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 University's F&A cost rate. A shortfall represents the University subsidy and must be absorbed by the University from its non-sponsored project funds. 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.

## **ESTABLISHMENT AND REVIEW OF RATES**

After submission of a request for a new recharge account, the request will be reviewed and, if approved, a new restricted budget unit will be established. 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.

There is a **required annual** rate proposal submission due date of **December 1<sup>st</sup>** for each year the activity of the recharge operation continues. Such proposal should be submitted to the Controller's Group. In addition to the annual review, rates should be reviewed periodically by the Recharge Operation Director throughout the course of the year to ensure the proper structure exists.

## **DOCUMENTATION**

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

1. Collect and retain supporting documentation related to actual and accrued costs incurred by the Recharge Operation.
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.
3. Retain working papers demonstrating rate development.
4. Prepare internal sales documents on at least a monthly basis.
5. Daily deposit cash sales in an approved manner.

## **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 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 recommended that Recharge Operations maintain documentation records for a period of seven years.

## **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 department associated with the recharge operation.