Engineering Research Seminar Series
Presents
Fee for Service: Part I

Brought to you by Division of Engineering Research

Tuesday April 30th from 12-1PM

Lunch will be provided!

Location: Engineering Building Seminar Room 3540

Roger Gray, CPA Senior Financial Analyst from Michigan States’ Office of Financial Analysis and Reporting will be presenting our Fee for Service seminar alongside Andy Hazel, Research Administrator from DER to present on service centers and why we need to create billing rates and go through the red tape of getting rates approved. This will be a very beneficial seminar for faculty, staff and graduate students. Please come having questions prepared!
Fee for Service

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Content Covered Today (Andy)

- Fee for Service (FFS) definition
- MSU process for FFS proposals
- Budgeting with rates versus on a cost basis
- Standard versus custom agreements
- DER and Post-award Roles
Service Center Billing Rates *(Roger)*

- What is a Service Center
- Federal Guidelines
- MSU’s Service Center Billing Rate Policy
- Next Steps
- Resources for who to talk to and where to find templates and Billing Rate Policy
- Questions
Fee for Service (FFS) definition - simplified

- Have advanced skills, knowledge, and specialized equipment
- Have capacity beyond your research obligations
- DER helps you administer proposals to provide those services
- Capture net gains from that work to fund additional research
- Any amount of research with FFS is treated as research
- Final decision on what is and is not fee for service is made by Associate Dean for Research and Graduate Studies (John V.)
MSU process for FFS proposals

- Initiate a Proposal Processing Form (PPF)
- If you have rates... develop a budget with DER based on your rates
- If you do not have rates....
  - Develop a ‘cost basis’ budget with DER for your proposal
  - Coordinate with the Office of Financial Analysis and Reporting to establish rates
- Routing and Approvals

<table>
<thead>
<tr>
<th>Sponsor</th>
<th>Final Approver</th>
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<tbody>
<tr>
<td>Non Federal sponsor and under $10,000 total budget</td>
<td>FSAO – Fee for Service Activities Office (John Verboncoeur)</td>
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<td>Industry, other Universities, etc.</td>
<td>Business Connect</td>
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<tr>
<td>Federal (direct or prime)</td>
<td>OSP</td>
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Standard versus custom agreements

- MSU Standard Agreement – simplifies internal review process and shortens the approval timeline
- Sponsor changes around Intellectual Property (IP) will require additional legal review and typically involves several iterations between MSU and Sponsor
- Negotiation of all custom agreements are coordinated by Business Connect or OSP
DER and Post-award Roles

- Account cannot be in the red, i.e. must not have negative balance
- PI should review monthly report produced by the post award person
- PI notifies DER when it is funded
- PI notifies DER when to invoice
SERVICE CENTER BILLING RATES

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Service Center Billing Rates

✓ What is a Service Center
✓ Federal Guidelines
✓ MSU’s Service Center Billing Rate Policy
✓ Next Steps
✓ Resources for who to talk to and where to find templates and Billing Rate Policy
✓ Questions
What is a Service Center?

- “An operating unit within the University that regularly makes stuff or does stuff for $.”

Do I need my rates approved?

- If my service center expects to sell product/services > $5,000 annually, and
- If I plan to offer my services more than once per year, or recurring annually… YES!
§ 200.468 Specialized service facilities.
(a) The costs of services provided by highly complex or specialized facilities operated by the non-Federal entity, such as computing facilities, wind tunnels, and reactors are allowable, provided the charges for the services meet the conditions of either paragraphs (b) or (c) of this section, and, in addition, take into account any items of income or Federal financing that qualify as applicable credits under §200.406 Applicable credits.

(b) The costs of such services, when material, must be charged directly to applicable awards based on actual usage of the services on the basis of a schedule of rates or established methodology that: (1) Does not discriminate between activities under Federal awards and other activities of the non-Federal entity, including usage by the non-Federal entity for internal purposes, and (2) Is designed to recover only the aggregate costs of the services. The costs of each service must consist normally of both its direct costs and its allocable share of all indirect (F&A) costs. Rates must be adjusted at least biennially, and must take into consideration over/under applied costs of the previous period(s).
§ 200.468 Specialized service facilities. (continued)
c) Where the costs incurred for a service are not material, they may be allocated as indirect (F&A) costs.
d) Under some extraordinary circumstances, where it is in the best interest of the Federal government and the non-Federal entity to establish alternative costing arrangements, such arrangements may be worked out with the Federal cognizant agency for indirect costs.
MSU’s Service Center Billing Rate Policy

Based on federal compliance requirements (see ‘Key Federal Compliance Requirements’ table below) the University has developed the policy and guidance below for establishing and monitoring service center recharge or billing rates. All Service Centers that charge federal grants are subject to the cost principles and cost accounting standards outlined in OMB Super Circular-2 CFR Part 200, Uniform Guidance. In general, rates must be based on actual costs, applied consistently, and based on the actual use of the service (i.e. per test, hour, item, class, etc.).

Key Federal Compliance Requirements

- Rates should recover no more than the cost of the good or service.
- Rates must break-even over time, not necessarily each year.
- Rates can’t discriminate between users, especially federal users.
- Surplus from one service center shouldn’t be used to fund unrelated activities.
- Must maintain published price list.
- Equipment use (depreciation) may be included in the rate, so long as the equipment is purchased with funds from the revolving account (not General or Federal).
- Equipment costs must be spread over the useful life (instead of one year) if cost is greater than $5,000.

All billing rates must be reviewed and approved by the Office of Financial Analysis and Reporting every two years, at a minimum if the Service Center as a whole has at least $5,000 annual activity.

The rates charged to internal and federal grant and on-campus users may not exceed the cost-based rate (no profit/markup). The billings for external users can include markups. In some cases, work for external users may be subject to Unrelated Business Income Tax (UBIT). More information on UBIT is available on the UBIT FAQ website. The University Administrative Fee will be charged on revenue derived from external services. This charge and UBIT (if applicable) should be built into the rates for external users.

Where consistent rates are to be charged for external users, they should be reviewed and approved by the Office of Financial Analysis and Reporting on a recurring basis at a minimum of every two years. For “one time” work or non-recurring, the terms and fees should be determined on a case by case basis and need not be reviewed by the Office of Financial Analysis and Reporting.
Next Steps

- **Five Step Process for Calculating Rates**
  1. Identify all of the services provided or products produced
  2. Identify your user groups (customers)
  3. Determine how much it costs to produce the goods or provide the services
  4. Determine price points for external customers (i.e. markups)
  5. Send rates and cost calculations to Financial and Cost Analysis for renewal every 2 years (minimum) or annually if rates change annually

*Pretty simple, right?*
Understanding Services

1. Differentiate your services (these are summaries of the comprehensive definitions in MBP § 315 that should be referenced when considering the specific activities of your service center)

- **Research and Other Sponsored Project Activities** — investigative work where pathway to discovery is controlled by University and effort is aimed at the discovery and interpretation of facts, revision of accepted theories in light of new facts, development of new analytical and experimental protocols or practical applications of such new theories, analysis, data gathering and experiments. *(Note: these are charged the full University F&A indirect fee)*

- **Service Center Fee-for-Service Activities** — non-research work where the deliverable requested is generated using known practical applications of standard procedures and established theories, methods and standard experiments. *(Note: these are charged a 26% University indirect fee when there is an external user)*

In addition, fee-for-service activities for credit and non-credit training/instruction and certain self-supporting enterprise activities outside the academic research realm also fall, by default, under the Service Center Billing Rate Policy. *(Note: these are charged a 2% Administrative Fee when there is an external user)*
Potential Customers of a Service Center?

2. Identify your user groups (customers)

- **Off-campus/External** (ex: individuals, businesses, external entities)
  - This includes students, other universities, industry etc.

- **On-campus/Internal** (ex: departmental billings)

- **Grants** (ex: federal/state grants administered by Contract and Grant Administration in RC accounts)

*Why does it matter?*

Campus and Grant rates are held to more restrictive rules. You can’t make a profit on these rates but you can profit from Off Campus/External customers!
Calculating Billing Rates

3. Determine how much it costs to produce the goods or provide the service

- Typically, costs for all services are charged to one revolving account. In order to determine how much it costs to produce each good or service, you need to know which services or goods are provided so you can allocate total costs accordingly. Only costs incurred on revolving accounts (starting with D or X) may be included in the calculation of costs of providing a service. Costs incurred on grant accounts or general fund accounts cannot.

Tip: Sub accounting or setting up new accounts for various service lines is suggested to more accurately track costs by service center.
Calculating Billing Rates

3. Determine how much it costs to produce the goods or provide the service

Key Federal Compliance Requirements

- Rates should recover no more than the cost of the good or service.
- Rates must break-even over time (2 year review cycle), not necessarily each year.
- Rates cannot discriminate between users, especially federal users.
- Surplus from one service center cannot be used to fund unrelated activities, including another service center.
- Must maintain a published price list.
- Equipment use (depreciation) may be included in the rate, so long as the equipment is purchased from the revolving account (not General or Federal).
- Equipment costs must be spread over the useful life (instead of one year) if cost is greater than $5,000.

Common Examples of Unallowable Costs

- Alcoholic Beverage (2 CFR 200.423)
- Bad Debt (2 CFR 200.426)
- Contingency Provisions (Reserves) (2 CFR 200.433) greater than 10% working capital (MSU Billing Rate Policy)
- Entertainment (2 CFR 200.438)
- Fines and Penalties (2 CFR 200.441)
- Interest (2 CFR 200.449)

Note: Transfers should not be used in calculating rate unless actual costs can be easily verified.
Calculating Billing Rates

3. Determine how much it costs to produce the goods or provide the service

- **Direct Costs** – Specifically identifiable with relative ease and high degree of accuracy.

- **Indirect Costs** – Department level costs that are incurred for providing multiple goods or services that need to be allocated between the goods or services being provided. Allocations should be based on a causal and beneficial relationship i.e. percentage of effort, time usage, costs, space (sq. footage), etc. These are typically administrative in nature. NOTE: we are not talking about including in our rates the F&A Indirect Costs intended to cover MSU’s heat, electricity, water, buildings, roads etc.
Calculating Billing Rates

3. Determine how much it costs to produce the goods or provide the service

- Quantify or estimate usage (number of units) for each service that you anticipate being able to bill in a given year.
  - What pricing structure will you use to charge customers? (What is your “per”?)
    - Time (per hour, per minute, per day, per week)
    - Units (per credit, per attendee or attendee-hour, per test)
    - Price (similar to units, except consists of a product list with a markup rate applied to cost of goods)
3. Determine how much it costs to produce the goods or provide the service

- Calculate the rate for each service:

  Annual Estimated Costs (Direct and Indirect) + or - Prior Period Cumulative Carry Forward (Deficit) = Expected Units of Activity (“per”)

- When renewing a rate, calculate the prior period cumulative carryforward (the time since the last rate was reviewed) or deficit, and factor that into your upcoming rates. Subtract a surplus from total costs, and add a deficit. A 10% Working Capital (sum of annual operating expenses and cost of goods sold) balance may be maintained as a reserve or contingency (Cumulative Carry Forward) without adjusting rates.
QUESTIONS?

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