



**Leading Excellence in Research
Costing Practices**

**Service Centers:
Standards for Federal
Compliance and the
Road to Real Cost
Recovery**

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Agenda

PART I – Fundamentals

PART II – What is a Subsidy?

PART III – Improvement and Internal Controls

PART IV – The Future of Cost Recovery

Part I

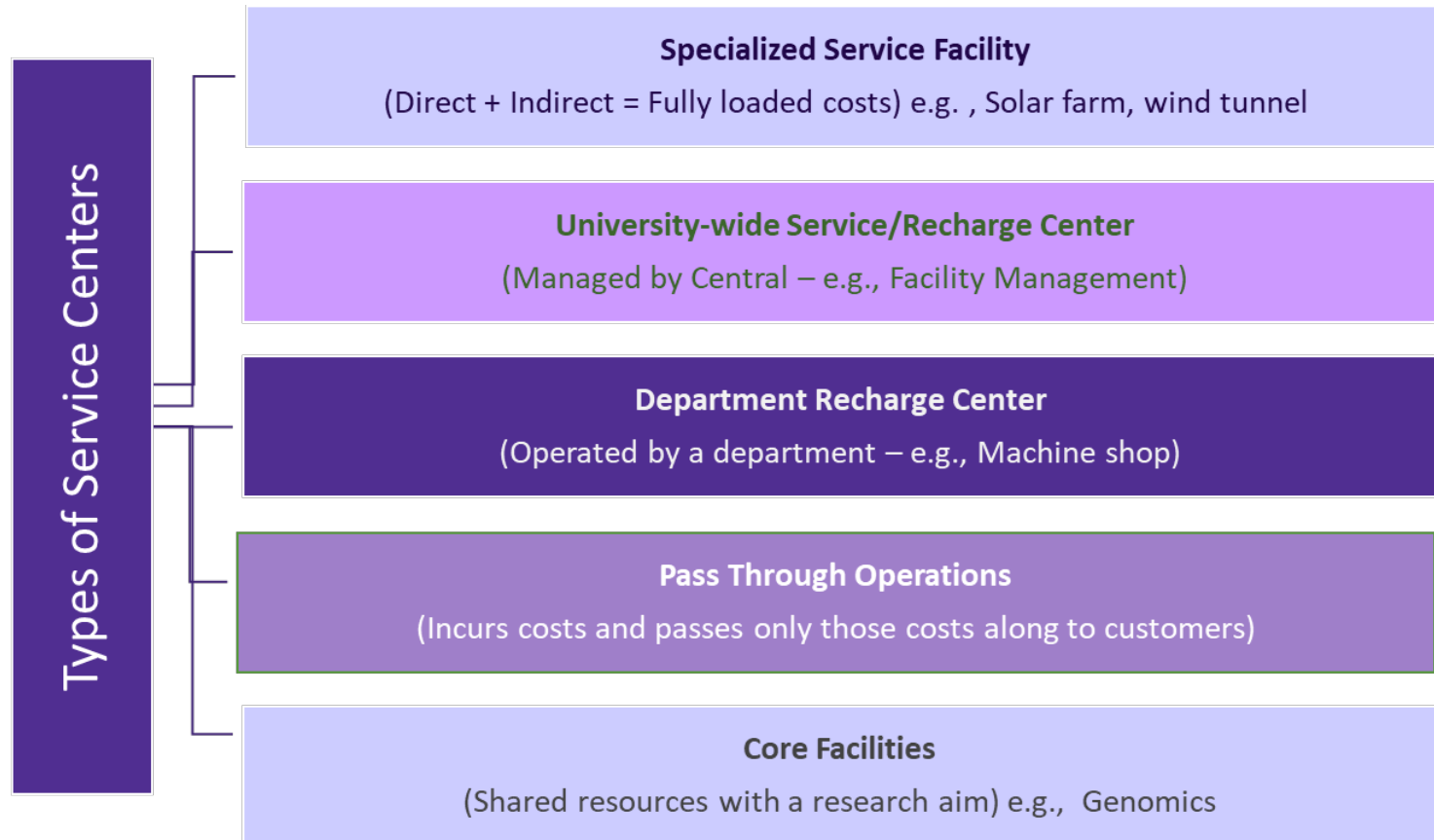
Fundamentals

What is a service center?

Essentially a “non-profit business” within the university

- Provides goods or services
- On an on-going basis
- Fees are based on approved charge rates
- Customers are typically other units within the University
- Can be charged occasionally to outside entities

Terminology Varies by Institution



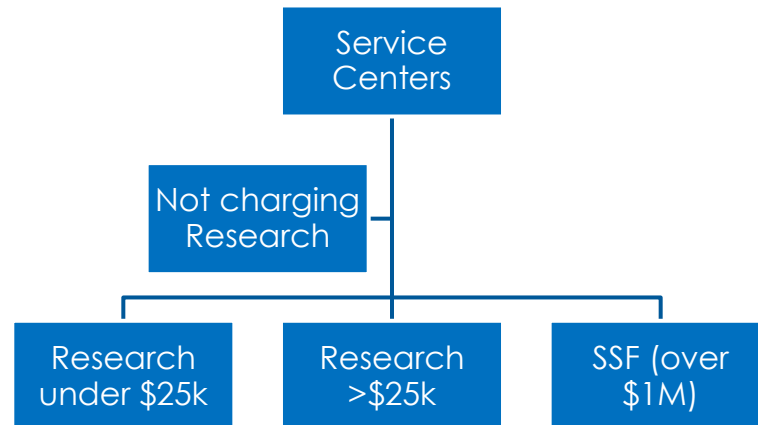
Part I Poll

What does your institution call your “Non-Profit Businesses”? (Select all that apply)

- Service Centers
- Recharge Centers
- Fee-For-Service
- Core Facilities
- Specialized Service Facilities
- Other

Clear and Narrow Definitions

- Make use of thresholds
- Create a flow chart or decision tree
- What are Service Centers vs. Auxiliaries?



Baseline for Internal Documents

- **Policy**

- ✓ Background
- ✓ Definitions
- ✓ Criteria for Establishing/ Closing a Service Center
- ✓ Rate setting in line with Uniform Guidance
- ✓ Periodic Review
- ✓ Record Retention

Baseline for Internal Documents

- Procedures
 - ✓ Roles/Responsibilities
 - ✓ Establishing a Recharge Center
 - ✓ Rate Setting
 - ✓ Budgeting
 - ✓ Tracking Usage
 - ✓ Timely Billing
 - ✓ Periodic Review – at least every two years
 - ✓ Closing a Service Center

Baseline for Internal Documents

- Templates
 - Rate Calculations
 - ✓ Units of service
 - ✓ Estimate usage
 - ✓ Allowable rate components
 - ✓ Surplus/Deficit
 - ✓ Required Routing/ Approvals
 - Application to Establish a service center
 - Others?

What matters to your institution?



Minimizing Administrative Burden



Return on Investment



Benefitting University Users



Compliance

These priorities can change over time and with changes in leadership. Create a baseline for policy, procedures, and templates that can flex with institutional change.

Addressing Priorities – Return on Investment

Policy

- Alignment with University mission/goals
- Define external users

Practice

- Establish measures for success
- Good systems to track and report ROI

Templates

- Invest in qualified staff – budget salaries here
- Partner w/ SPA; develop language for proposals
- Market Analysis

Part II

What is a Subsidy?

Part II Poll

- Which of the following is a subsidy?
 - Amount included in the budget and rate sheet, but paid from another source
 - Paying salaries from a different funding source (not included in budget/rate sheet)
 - Department covering year-end deficit for the center
 - All of the above

Subsidy

- **Why Subsidize:** Support mission-critical services or promote equity
- **When Appropriate:** Strategic priorities, compliance needs, student access
- **Why Not to Subsidize:** Creates inequities, reduces transparency, distorts true cost
- **Accounting:** Must be tracked, justified, and funded from a separate source
- **What Not to Subsidize:** Inefficiencies, unrelated activities, external users
- **Best Practice:** Apply consistently and review periodically

Subsidy

- Covering a deficit
- Charging costs elsewhere
- Waiving charges or providing reduced rates for specific users or usage types
- Ways of accounting for this in your rates
 - Could be included as part of the budget
 - Or amount absorbed as a deficit at year-end
 - Or just not charged to the center (**not** recommended)

Charging External Users

Watch out for:

- Federal use should not subsidize other users
 - Include F&A for all external users
- Avoid unfair competition

Missed opportunities:

- Market analysis
- Surcharge ("Fee in excess of cost")
- Equipment Replacement

Part III

Improvement and Internal Controls

Refresh Policy

- Is the policy being followed?
- Do thresholds need to be updated?
- Are roles and responsibilities still relevant?
- Have University priorities changed?

Accurate Information

- Standard reports for monthly/annual monitoring
 - To be used by both Central oversight and Center management
 - To track expenses, recoveries and revenues
 - Check the surplus or deficit position throughout the year, not just year-end
- Are charge codes verified before service or goods are delivered?

Failure to Update

- Stagnant rates create resistance to future increases and fail to keep pace with rising costs
- Locks in outdated cost assumptions (labor, supplies, equipment)
- Several audit findings cite failure to revise rates
- Encourages informal workarounds instead of transparent rate updates
- Can cause one rate to unintentionally subsidize another

Closing a Service Center

Evaluate and sunset underperforming service centers:

- How much subsidy is being provided?
 - Is it worth it?
- Consider the risk of allowing non-compliant service centers to continue operating
- Can the service center be “rehabilitated” to become a sustainable activity?

Training and Re-training



Increased
Productivity

Fosters Confidence

As the individuals involved gain a better, overall understanding of the fundamental procedures and process, the less hesitant they are to start, communicate, and complete reviews.



Improved
Quality

Improves Balances

With better understanding, communication, and confidence, the reviews are likely to be more accurate in aiming to breakeven or appropriately mitigating it. Thus, resulting in less account surplus/deficits.



Less Risk

Ensures Audit Readiness

In the event of an audit, your institution will be well informed on recharge processes, ready to address questions and concerns, provide supportive documentation, and staying up to date with best practices.

Part IV

The Future of Cost Recovery

Part IV Poll

- What level of preparation have you put into the FAIR model?
 - We are actively starting to implement the FAIR model.
 - We are monitoring the situation but not doing work beyond monitoring.
 - Leadership has been tasking us with additional work related to questions about the FAIR model.

Part IV Poll

- Is your institution considering more direct charging even if FAIR isn't implemented?
 - Yes
 - No
 - I don't know

Direct Charging

**"Mo' Money
Mo' Problems"
-The Notorious
B.I.G**

Be
Informed

- Is your institution aware of the proposed changes surrounding F&A?

Be
Prepared

- Are your service center policies and procedures up to date?

Adapt

- Is your institution ready to do more Direct Charging?

FAIR Model

- More direct charging
 - Salaries
 - Other expenses
- Service Centers are essential
- Direct allocation methodologies beyond service centers
- ERPS – Essential Research Performance Support

OMB Updates

- TBD

More Service Centers...Today

- Direct charge now if you can allocate to the project and the sponsor will allow it
- Fringe benefits that aren't being direct charged
- PI time that is not being direct charged
- Service Centers that could be established now
- Does the recovery justify the expense of creating a service center? (next slide)

Does the Recovery Justify the Expense?

	Salaries & Wages	Other Expenses	Total Expense
Projected Annual Operating Expense	\$290,000	\$105,000	<u>\$395,000</u> ^a

Projected Usage	Hours	Rate	Projected Revenue/ Recovery
Federal Sponsored Users	3,400	\$60	\$204,000 ^b
Internal Users	1,300	\$60	\$78,000 ^c
External Users	1,000	\$132	\$132,000 ^d
Total Projected Recovery + Revenue			<u>\$414,000</u>

Currently the VPR budgets pays for all expenses	\$395,000 ^a
Currently External Users are being billed	-\$132,000 ^d
Current expense borne by the University	<u>\$263,000</u>

Service Center budget pays for all expenses	\$395,000 ^a
Federal Sponsored Users are billed for usage	-\$204,000 ^b
External Users are billed for usage	-\$132,000 ^d
Additional expense to hire administrative support	\$50,000 ^{estimated}
Expense borne by the University with a Service Center	<u>\$109,000</u>

Q&A

Thank you!

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